



ANOTHER SIDE TO THE STORY

A market assessment of Syrian SMEs in Turkey



Keep building.



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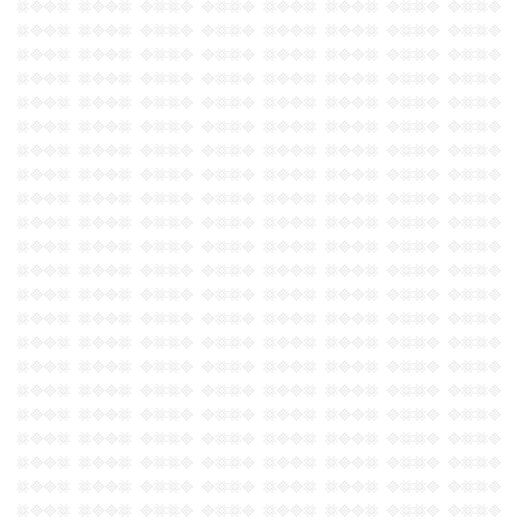
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list of acronyms

AFAD	Republic of Turkey Prime Ministry Disaster and Emergency Management Presidency
DEIK	Foreign Economic Relations Board of Turkey
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
FDI	Foreign Direct Investment
FTE	Full-time Equivalent
GAC	Global Affairs Canada
GDP	Gross Domestic Product
HR	Human Resources
HUGO	Hacettepe University Migration and Politics Research Center
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
INGO	International Non-Governmental Organization
ISPAT	The Republic of Turkey Prime Ministry Investment Support and Promotion Agency
KAGIDER	Women's Entrepreneurship Association of Turkey
KOSGEB	Small and Medium Business Development and Support Administration
NGO	Non-Governmental Organization
OECD	Organisation for Economic Co-operation and Development
R&D	Research and Development
SEF	Syrian Economic Forum
SME	Small and Medium-Sized Enterprise
TEPAV	The Economic Policy Research Foundation of Turkey
TİM	Turkish Exporters Assembly
TİSK	Turkish Confederation of Employer Associations
TOBB	Federation of Chambers of Commerce
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees



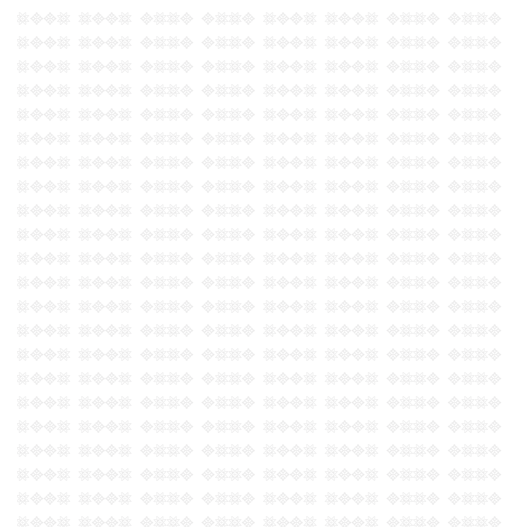
This report was written and produced by Selen Ucak (lead author/researcher and Consultant to Building Markets), Jennifer P. Holt (CEO, Building Markets) and Kavya Raman (Project Director, Building Markets). Building Markets' partner, Syrian Economic Forum, led field research and data collection. Questions and comments about the report can be directed to newyork@buildingmarkets.org

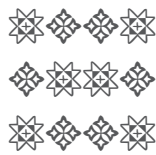
Building Markets, headquartered in New York City, United States, is a nonprofit organization that creates jobs and encourages economic growth in crisis-affected countries by connecting local micro, small and medium-sized enterprises (SMEs) to new business opportunities. Through its approach, the organization has profiled and built a network of more than 23,000 local SMEs, assisted those businesses in winning \$1.3 billion in contracts, and helped create over 69,000 jobs. For more information: www.buildingmarkets.org

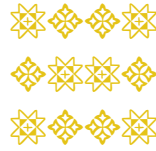
Syrian Economic Forum (SEF), established in 2013 and based in Gaziantep, Turkey, is an innovative think and do tank dedicated to building a free, pluralistic, and independent Syria that rests on a strong economy, to ensure a life of freedom and dignity for all Syrians. SEF was a direct local partner to Building Markets on this project and played a lead role developing the survey methodology and administering the in-person interviews and roundtable discussions with Syrian entrepreneurs in Turkey. For more information: www.syrianef.org/En

“Clearly there are significant costs and risks shouldered by host countries, but there is another side to the story—the contributions made by refugees as they bring new businesses, markets, and skills to their host communities. To the extent that countries focus on an enabling business environment and a modicum of protection for refugees working illegally, the positive side of the ledger can only grow.”¹¹

Omer M. Karasapan, World Bank







preface and acknowledgments

The research and writing of this report was funded by Global Affairs Canada (GAC) and carried out by Building Markets. Building Markets wishes to thank GAC for making this project possible through its generous support.

The report offers a snapshot of Syrian-owned micro, small and medium-sized enterprises (SMEs)¹ operating in Turkey. Through research, interviews, and analysis of data from 230 Syrian businesses, it highlights trends and challenges associated with doing business in the country as well as findings and recommendations intended to inform policies, strategies, and programs that will maximize the positive social and economic impact of Syrian SMEs on the Turkish economy, society, and refugee crisis. This report is also meant to be used as a resource for business support providers, research practitioners, and local businesses. Importantly, while this research did survey Syrian SMEs on numbers of current employees and their hiring projections for the coming year, it did not broadly assess the impact Syrian SMEs are having on job creation in Turkey nor is it an assessment of the impact Syrian SMEs are having on the Turkish economy.

Field research for this project was conducted in Gaziantep and Istanbul, Turkey by Building Markets' local partner, Syrian Economic Forum (SEF), and began on January 25, 2017 and concluded on April 8, 2017.

The results presented are based on information provided to Building Markets through surveys and informal consultations with 230 Syrian-owned firms (including four roundtable discussions with 63 entrepreneurs), a focus group with 18 Syrian women entrepreneurs, and interviews with 28 stakeholders representing public/semi-public, private, and

international organizations operating in Turkey. In preparing the analysis and recommendations for this report, Building Markets has relied on the accuracy of the data reported, and has not undertaken any independent verification of data.

Building Markets wishes to thank Joshua Newell, Class of 2017, Columbia Business School, who undertook invaluable data analysis. Additional support provided by the Building Markets team included research and data analysis by Glynnis McIntyre and Chelsea McKeivitt; and copy editing by Jaime Mikush.

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executive summary

Syria is experiencing one of the gravest humanitarian crises in modern history. Since 2011, the war has claimed an estimated 400,000 lives,² displaced six million Syrians internally, forced five million to seek refuge in neighboring countries, and more than one million have sought asylum in Europe.³ Together, half of Syria's pre-war population has been left dependent on life-saving assistance, either inside or outside the country.

Alongside this, countries that have welcomed Syrians are now facing the reality of long-term displacement and grappling with their own set of challenges. For Turkey, now home to three million refugees, this includes overburdened infrastructure and social services, income disparity, and labor market distortions.

However, there's another side to the story.

In Turkey, as in the rest of the region, Syrians are starting businesses that are creating jobs, livelihoods, and independence for themselves and for other refugees. From restaurants and bakeries to small shops selling daily

necessities, Syrian entrepreneurs “offer refugees tastes of home [or] cater to those who cannot speak Turkish or cannot afford to shop in Turkish stores.”⁴

In addition to first-time refugee business owners, there are seasoned Syrian entrepreneurs who moved, along with their business expertise and capital, from Syria to other countries in the region, including Turkey.⁵ In the words of a Syrian business owner in Istanbul, “We are international businessmen. We have also been to Dubai and Riyadh. Syrians in Turkey are not just poor refugees.”⁶

The benefits Syrian entrepreneurs are generating are also critical for local communities affected by the refugee influx, which tend to suffer from long-standing economic problems such as unemployment. A better understanding of these entrepreneurs and their success factors will allow for targeted support and investment that will not only create value for refugees and their host countries, but will also play a critical role in preparing Syrians for the reconstruction and development of Syria.



highlights and key findings

SYRIAN ENTREPRENEURS AND SMEs

✚ Taken together with informal, unregistered businesses, the total number of Syrian-owned companies in Turkey is estimated to be over 10,000.⁷

✚ Since 2011, Syrians have invested nearly \$334 million into 6,033 new formal companies, ranking number one among foreign founders of new companies each year since 2013.⁸

✚ In 2017, Syrians are poised to establish over 2,000 additional new companies in Turkey, with around \$90 million of Syrian capital.⁹

✚ Seventy-four per cent of Syrian SMEs in this sample fall under the “micro” category (less than 10 employees), 24 per cent fall under the “small” category (between 10 and 50 employees), two per cent fall under the “medium” category (between 50 and 250 employees).

✚ On average, Syrian SMEs have been operating in Turkey for 2.5 years, with average annual revenues of \$463,201. Wholesale and retail trade (39 per cent) dominates the sector breakdown of Syrian SMEs, followed by manufacturing (19 per cent), and accommodation and food service (10 per cent).

✚ Syrian business owners are well educated: 67 per cent have a university degree or higher, compared to 10 per cent of the overall Syrian population in Turkey.¹⁰

CONTRIBUTIONS AND OPPORTUNITIES

✚ Syrian entrepreneurs are creating jobs. On average, they employ 9.4 people and report that most of their employees were previously working in the informal sector. Over half (55 per cent) of SMEs state they will hire additional employees over the coming year (8.2 on average).

✚ Syrian SMEs are optimistic about the future and their business performance. Fifty-five per cent indicated they are stable and another 34 per cent are expanding. Forty-seven per cent plan to make fixed asset purchases in the coming year.

✚ Thirty-nine per cent of Syrian SMEs report regional trade as the primary opportunity in Turkey, followed by serving the Syrian refugee market and the Turkish market, at 23 per cent each.

✚ Syrian entrepreneurs are committed to Turkey: 39 per cent plan to start another business in Turkey, and even after the war ends, 76 per cent intend to keep their businesses in Turkey while also expanding to Syria.

CHALLENGES AND NEEDS

- ⚙️ Forty per cent of Syrian SMEs cite language as the single greatest challenge facing their business.
- ⚙️ Seventy-three per cent report they do not currently bid on procurement opportunities. However, 43 per cent say they are currently looking or interested in looking for procurement opportunities to expand their businesses.
- ⚙️ Syrian SMEs anticipate needing approximately \$300,000 of capital on average within the next 12 months. Twenty-two SMEs reported needing investments of \$500,000 to \$7 million.
- ⚙️ Syrian business owners overwhelmingly identified the need for training in the areas of marketing, customer service, import-export laws, and management.

Building Markets plans to play a key role in assisting SMEs in Turkey and across the region, especially those founded by and employing Syrians. This includes expanding and bringing visibility to its Syrian SME network in Turkey and connecting them to structured business support, working capital, supply chains, and investment.

RECOMMENDATIONS

Based on these findings, Building Markets recommends the following actions be taken by public, private, and development partners:

- ⚙️ Ease regulatory burdens, improve the operating environment, and reduce uncertainties for Syrian SMEs in order to encourage formalization, boost exports and job creation, and enable Syrian entrepreneurs to deploy and retain their capital in Turkey.
- ⚙️ Promote integration of Syrian businesses in the Turkish economy by reducing language barriers and encouraging dialogue, mentorship, and partnership. Communicate Syrian SMEs' success stories and contributions.
- ⚙️ Develop and offer business training that is aligned with Syrian SME growth constraints and offered in Arabic and Turkish.
- ⚙️ Facilitate relationships between Syrian SMEs and buyers by translating and making tenders easily accessible and developing inclusive procurement policies.
- ⚙️ Increase access to working capital and investment through access to better SME data, tailoring products to Syrian SME needs, and by attracting Syrian capital from the region through investment support activities.





“Rarely have economists thought about refugees. The dominant assumption has been that they are a humanitarian matter, and so studies have been led by lawyers and anthropologists. However, the truth is that refugees around the world lead complex and diverse economic lives. They are consumers, producers, buyers, sellers, borrowers, lenders and entrepreneurs. Faced with new markets, regulatory contexts and social networks, they are often highly innovative, coming up with creative ways to support themselves.”¹²

Alexander Betts and Paul Collier, authors
of *Refuge: Transforming a Broken
Refugee System*



Samer

describes himself as a born tradesman. “I’ve been doing this for 25 years”, he says with a cheerful grin. Having sold electronics in Syria before moving to Turkey, and dabbling in food manufacturing for a few years upon his arrival, it was only a matter of time before Samer saw what he describes as an opportunity in the Turkish food distribution market, following which his company was born.

Dealing primarily with the export of non-perishable foods to countries in the region including Egypt, Iraq, and Jordan, Samer could barely contain the secret to his competitive advantage. He shows us an innocuous can of tinned halal meat and starts to talk animatedly. Our translator can barely keep up as Samer tells us about how he now works with Turkish food producers to ensure their product labels are dually branded in Turkish and Arabic. This seemingly simple change to product labelling, Samer describes, was the key to unlocking distribution channels to new markets across the region.

When asked what he would do differently, if he had to do it all over again, Samer does not second-guess his decision to start a business. Rather, he pauses to reflect on some of the challenges he has faced, and the lessons he has learned. “One [challenge] has been to understand the rules and regulations of the Turkish government, and the banking system here in Turkey because [back in Syria] we rarely used banks. We used cash [for business transactions] and personal relationships, so this was completely new territory for us..I feel like we wasted a lot of money because we did not know what we were doing, and because we did not have the right information on accounting and legal procedures.”

While Samer is keen to expand his distribution network to other countries in the region, he notes two key constraints, which have hampered his ability to grow his business. The first is mobility outside Turkey. “Although the Turkish authorities have treated me very well, because I am on a Syrian passport, I am unable to obtain visas to travel outside Turkey to attend conferences and meet with international clients.” The other, he explains, is continued difficulty with the banking system, which treats Syrian clients differently and includes different layers of verification and rules for transferring money outside Turkey, limiting his ability to conduct business with international clients.





“

We were able to survive initially because of our own personal assets, and now because we are well established and have good accounting and legal support. Other small businesses are not as fortunate.”



introduction and context

QUICK FACTS / SYRIAN REFUGEES IN TURKEY

Temporary Protection: 3,000,000

Syrians who enter Turkey without a valid passport can be registered under Temporary Protection by the Turkish Authorities. As of January 2016, Syrians under Temporary Protection are eligible for work permits if an application is filed by their employer in the province where they have been registered for at least 6 months. Under this status, Syrians can start a business and open a bank account, but approval to travel outside the province of registration is required.

Foreigners: 80,000¹³

Syrians who enter Turkey with a valid passport are treated as foreigners. However, they may also apply for Temporary Protection. Foreigners are eligible for work permits and residency if they can meet requirements. In 2016, 48,738 Syrians had residence permits. Foreigners can also start businesses and travel throughout the country. Their legal status in Turkey is restricted by the validity of their passports, which are difficult to renew.

While Turkey was unprepared for the magnitude of the Syrian crisis, it has now taken in 3 million Syrians and is host to the largest refugee population in the world. Over 90 per cent of these refugees live outside of camps in urban areas across the country, but they are concentrated in Istanbul and southern provinces. Approximately 1.8 million are of working age.¹⁴

Turkey's initial response to the crisis was to focus on short-term humanitarian assistance, but over time, this has shifted to offering free healthcare, education, and work permits,¹⁵ creating both benefits and consequences. While consumer demand has risen, infrastructure and social services are now over-burdened, and perhaps most importantly, the labor market does not have the capacity to absorb all the workers needing jobs.

Turkish public perception of Syrian refugees ranges from compassion and empathy, as well as “a source of national pride” about the country's generous response to the crisis,¹⁶

BOX 1: Migration and Entrepreneurship – Syrian Businesses Find Success Around the World

Studies show economic benefits of migration, including by refugees, for countries around the world. These are realized through “innovation and entrepreneurship or through freeing up natives for higher-value work. In fact, migrants make up just 3.4% of the world’s population, but research finds that they contribute nearly 10% of global GDP,” according to a McKinsey report.²⁰

Entrepreneurship appears to be a good fit with immigrants’ competencies. There are countless examples of immigrant entrepreneurs’ success stories in developed economies. According to a recent article in the Harvard Business Review,²¹ “in the U.S., immigrants are almost twice as likely to become entrepreneurs as native-born U.S. citizens. Immigrants represent 27.5% of the countries’ entrepreneurs but only around 13% of the population.”

Part of the explanation offered by economists for the higher rate of entrepreneurship among immigrants – a phenomenon observed not only in the United States but around the world – is self-selection: “entrepreneurial individuals are more likely to migrate.” Another explanation is that difficulties in accessing labor markets as immigrants force them to start businesses. The same Harvard Business Review article adds that “cross-cultural experiences may increase individuals’ capabilities to identify promising business ideas”

as well as boost creativity. Additionally, qualities such as resilience and persistence that help immigrants thrive in a new country are also conducive to entrepreneurship.

Syrians around the world demonstrate these positive links between immigration and entrepreneurship, especially with a historical and cultural propensity for entrepreneurship.²² A study conducted by the Center for American Progress found that, “Syrian immigrants [in the United States] have extremely high rates of business ownership...11% are business owners more than double the rate of immigrants overall and more than triple the rate of U.S. citizens by birth.”²³ Not only strong in numbers, these businesses tend to be successful, providing jobs and stimulus to local economies.

The success stories of Syrian refugee entrepreneurs in economies such as the United Kingdom, Germany, Canada, and United States demonstrate that, given the opportunity and an enabling environment, there is great potential for refugees to create value and contribute to their new countries. Furthermore, this growing, successful Syrian diaspora community will be crucial to Syria’s future reconstruction through direct investments, skills transfers, remittances, and philanthropy, as a new World Bank initiative recognizes and hopes to facilitate.²⁴

to concern and displeasure about the pressures Syrians are placing on public services, employment opportunities, and housing. A continued lack of available jobs could have severe implications, as poverty and competition for scarce resources give way to social and economic unrest.

Creating jobs is one of the most powerful ways to boost economic, political, and social stability. SMEs are essential to achieving this, as they are responsible for generating over 86 per cent of new jobs globally.¹⁷ In Turkey, it is estimated that SMEs represent over 90 per cent of the total businesses in the country. This means when the sector thrives, it can draw in new investment and have a significant positive impact on Turkey’s high rates of unemployment. The good news is that Syrians are playing their part. They are demonstrating their potential to contribute to job creation and economic

growth as entrepreneurs and business owners. Since the war started in 2011, Syrians have founded over 6,000 new formal companies in Turkey¹⁸ and some estimates put total Syrian capital invested at \$1–1.5 billion.¹⁹

Accelerating the growth of these businesses could produce significant benefits for both refugees and the Turkish economy, including helping to offset the cost of the crisis. However, very little is known about the unique challenges and needs of Syrian SMEs operating in Turkey, which limits opportunities to enable their growth. This research is meant to fill that critical gap in knowledge and to provide practitioners, policymakers, investors, financial institutions, and buyers with information that can help them more effectively engage and support Syrian SMEs.

QUICK FACTS / TURKISH ECONOMY

Population: 79.8 million

Labor Force: 30.5 million

GDP (current \$):

\$856 billion

\$10,807 per capita

2.9% annual growth

Services (65%), Industry (27%),

Agriculture (9%) of GDP

Unemployment: 10.8%

Inflation (CPI): 7.8%

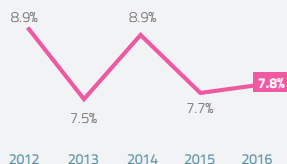
FDI Inflow: \$12.3 billion

Exports:

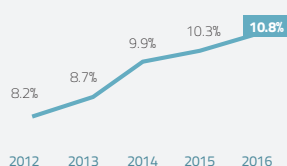
28% of GDP (goods & services, 2015)

Key Export Sectors: Automotive, machinery, gold and jewelry, electronics, textiles, apparel.

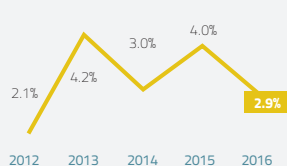
INFLATION (CPI)



UNEMPLOYMENT



GDP GROWTH



1.1 ECONOMIC IMPACT OF THE SYRIAN WAR

Economic Overview²⁵

Turkey is currently the world's 18th largest economy. The country has a developed financial sector and industry, a vibrant consumer base, and a young and well-educated labor force. Turkey has experienced significant economic growth in the past fifteen years, along with greater urbanization, decreases in poverty, rising and more diversified foreign trade, and expanded access to public services. However, these economic gains have diminished since 2013. Growth slowed to 2.9 per cent in 2016, partly due to external factors such as slow growth in Europe and a deteriorating geopolitical environment, which have affected exports and investment. Recent domestic uncertainties and security concerns have also destabilized the economy, revealing chronic vulnerabilities to fluctuations in investor confidence, foreign capital inflows, and cost of energy imports.

Unemployment, already high, has increased further. The current account deficit has widened, worsening with the recent drop in tourism revenues, and inflation has risen with increases in transport and food prices and a depreciating currency. With these trends continuing, Turkish economic growth is expected to remain below its potential, albeit with a somewhat faster pace of 3.5 per cent in 2017 helped by an uptick in exports and recovered domestic consumption. The long-term resilience of the economy will depend on increasing firm productivity, integrating further with global supply chains, boosting net exports, and creating jobs to address unemployment. For more information about the Turkish economic environment for Syrian businesses in the country, in particular exports, foreign investments, and the SME sector, refer to Annex I.

Impact on the Turkish Economy

Turkey's public spending on refugees represents less than one per cent of GDP per year. While this is not insignificant and has largely been funded internally, according to economists, this spending has not jeopardized the country's fiscal sustainability.²⁶ The net economic impact of the Syrian crisis and refugee influx in Turkey has not been measured precisely, but economists have attributed part of Turkey's



economic growth since the start of the Syrian war to increased consumption associated with the country's new refugees.

Public spending has injected cash into goods and services, such as clothing, nutrition, and sheltering needs, mostly in the camps, which has possibly boosted local economies.²⁷ In addition, aid spending by the international community may have provided new business opportunities for Turkish and Syrian firms, particularly in the food and textile sectors.²⁸ Other research suggests that there have been additional benefits, such as “the strengthening of infrastructure (e.g. renovation/upgrading of public schools, improved technology in health services, better waste water management etc.)” which have resulted from the Syrian crisis response.²⁹

While the war initially disrupted Turkey's previously expanding cross-border business and tourism volume with Syria, recovery has come quickly thanks to commerce by Syrian business people.³⁰ Syria is not among the top twenty countries buying Turkish exports, but increased cross-border trade related to the humanitarian assistance delivered inside Syria from Turkey has stimulated local markets, especially in border cities such as Gaziantep. According to research by The Economic Policy Research Foundation of Turkey (TEPAV), “Gaziantep's exports to Syria quadrupled from \$96 million in 2011 to \$405 million in 2015,” making the city one of the top exporters to Syria nationally. However, the war has changed the composition of exports to Syria from building materials and cars to food, generators, and pick-up trucks.³¹

The surge of Syrians has driven up the costs of housing, transportation, and consumer goods in regions with large Syrian communities, with official figures registering higher inflation than the national average.³² On the other hand, economists also find that the “general level of consumer prices has declined by approximately 2.5 per cent due to [Syrian] immigration,” because of an increased supply of inexpensive informal labor.³³

The World Bank reports that, “Syrian refugees are overwhelmingly employed informally, making their arrival a well-defined supply shock to informal labor,” with calculations suggesting “large scale displacement of natives in the

informal sector”.³⁵ According to a survey investigating the economic impacts of Syrians in Turkey, “40 per cent to 100 per cent of the people who lost their jobs in border cities believe they lost their jobs because of the Syrians”;³⁶ a response that can exacerbate existing tensions associated with increasing unemployment due to macroeconomic pressures.

As noted earlier, Turkish public perception of the Syrian refugee influx ranges from compassion and empathy, as well as “a source of national pride” about the country's generous response to the crisis,³⁷ to concern and displeasure about the pressures Syrians are placing on public services and the perceived and real competition they pose for jobs and housing in areas with higher concentrations of Syrians. For the Turkish business community, perceived negative impacts include expansion of the informal economy, unfair competition, and higher rates of unemployment. According to an assessment by TISK (Turkish Confederation of Employer Associations), Turkish business people emphasize the need for greater education, language and vocational training, and necessary regulations for greater integration and avoidance of negative impacts on the economy.”³⁸ On the other hand, in cities like Gaziantep, where investments by Syrians are generally encouraged, the business community understands that “their impact on the economy should be viewed from a cost-opportunity perspective,” and they should not simply be considered as dependents.³⁹

BOX 2: Turkey's Informal Economy

One of the ongoing structural challenges in the Turkish economy is “informality.” Turkey has one of the largest informal economies among OECD member countries, ranging between 27 and 29 per cent of GDP since the 1990s. Furthermore, in 2014, nearly 34 per cent of paid employees in the private sector were employed informally, i.e. not registered with the social security authority. Informal economic activities and employment lead to unfair competition among firms, poor working conditions, especially for the most vulnerable employees, and diminished tax revenues. Economists suggest that the following factors are needed to reduce the informal economy: solid growth in the recorded economy to promote registered employment; political stability and low inflation rates to increase predictability; and a concerted effort to tackle corruption.³⁴

BOX 3: Regional Economics – Istanbul vs. Gaziantep

This assessment focuses on Syrian SMEs based in Istanbul and Gaziantep, which host 16 per cent and 11 per cent of Syrians under temporary protection in Turkey, respectively. Istanbul is the commercial, industrial, and financial heart of the country, with the highest population, contributing 30.5 per cent of Turkey's GDP, with Gaziantep ranking 10th with a share of 1.7 per cent of GDP.⁴⁰ While Gaziantep offers a smaller economy, lower GDP per capita, and regional challenges such as historically higher unemployment and a higher security risk profile, it remains one of the most dynamic economies in the country, especially with an exports-focused manufacturing industry. Companies based in Istanbul constitute 50 per cent of the exporters, a dominating figure nationally, followed by Izmir in second place with only 7 per cent of the share of exporters. Despite its relatively small economy, Gaziantep follows in 5th place with three per cent.⁴¹

TABLE 1: Comparison of Istanbul and Gaziantep Economies

	Istanbul	Gaziantep	Turkey
Population (2016) ⁴²	14,804,116	1,974,244	79,814,871
Syrians under Temporary Protection ⁴³	480,384	329,622	2,984,633
Syrian Refugees as % of Population	3%	17%	4%
GDP Per Capita (\$) (2014)	\$19,957	\$7,923 (Gaziantep, Adiyaman, Killis)	\$10,304
Unemployment (%) (2016) ⁴⁴	13.5 %	14.3 % (Gaziantep, Adiyaman, Killis)	10.9 %

Syrian Economy and Syria-Turkey Economic Relations

The Syrian economy prior to the conflict was growing, spurred on by economic liberalization reforms in the early 2000s, with the oil industry and manufacturing of textiles and chemicals as key contributors.⁴⁵ Turkey-Syria economic ties were gaining strength in the decade prior to the war, in tandem with improvements in political relations, which had historically been contentious. In 2007, a free trade agreement went into effect between Syria and Turkey. In 2009, the first train between the Syrian province of Aleppo and the Turkish province of Mersin went into operation, and at the time, there were hopes to raise the trade volume between the two countries to \$10 billion from its level of \$2 billion.⁴⁶ DEIK (Foreign Economic Relations Board of Turkey) established the Syria-Turkey Business Council in 2010 that brought together the business community interested in investing in Syria and boosting trade ties. With the war, the Council has shifted that mission to solve the problems of the Syrian business community in Turkey.⁴⁷

According to the International Monetary Fund (IMF), "Syria's GDP today is less than half of what it was before the war started and it could take two decades or more for Syria to return to its pre-conflict GDP levels."⁴⁸ Small businesses, representing the core of the Syrian business sector, have been hit the worst. The ones that continue to try to operate in Syria are often engaged in the black market or war economy, and have seen their productivity decline as "their markets, supply chain[s], houses and labor sources have been destroyed, and they have no cash in hand to sit through it."⁴⁹ Thinking about the reconstruction process, the IMF recommends focusing on the "energy sector and agriculture, as well as in labor-intensive industries such as textile or food processing, which could become drivers of growth."⁵⁰

Syrian SMEs will play an important role in the reconstruction of Syria, as well as in the lives of Syrian refugees and host communities affected by the war, which makes additional information and insights about these firms an important aspect of development efforts.

1.2 ECONOMIC INTEGRATION OF SYRIAN REFUGEES

Comparing the three countries hosting the largest share of Syrian refugees, Turkey boasts a larger economy than Jordan and Lebanon, with a higher GDP per capita. Turkey also ranks better on the World Bank's "ease of doing business" and "ease of starting business measures" (see Table below). When it comes to entrepreneurship, Turkey ranks higher (36 out of 137) than Jordan (56) and Lebanon (63), according to the GEDI Entrepreneurship Index.⁵¹ In another measure, the 2016-17 Global Entrepreneurship Monitor,⁵² Turkey seems to fare better than Jordan but somewhat worse than Lebanon in most indicators, but ranking higher, overall, in job creation expectation, performance in business services, commercial and professional infrastructure, internal market dynamics and readiness, and government support and policies.

These comparisons have implications for the Syrian business community in Turkey. Unlike Jordan and Lebanon, Syrians in Turkey, including business owners and employees, are faced with a language barrier. On the other hand, operating in Turkey has the advantages of a bigger and more developed economy, with a generally enabling environment for business and entrepreneurship.

While Turkey is the largest economy among the top refugee-hosting nations in the region, it falls short in terms of the institutional and labor market preparedness offered by a more advanced economy.⁵³ As a result, the economic integration of its vast Syrian refugee population has been fraught with challenges.

Despite legislation that offers work authorization to Syrians under temporary protection, in effect since January 2016, only 13,298 of the total 73,584 work permits issued to foreigners for the year went to Syrians⁵⁴ representing a small percentage of the 500,000 to one million Syrian workers estimated to be in the informal labor market.⁵⁵ Each work permit is tied to a single place of employment, and refugees cannot exceed 10 per cent of a company's Turkish workforce.⁵⁶ Lack of awareness and willingness on the part of employers, who prefer avoiding higher wages and taxes associated with registering their Syrian employees, is partially to blame for these low rates. In addition, language barriers, restrictions on movement within the country, and difficulty verifying qualifications are cited among barriers to employment for Syrian refugees in Turkey. All of this leaves Syrian workers, especially those who are unskilled, vulnerable to exploitation in low-paying, informal jobs.

TABLE 2: Comparison of Top Syrian Refugee Hosting Countries

Ease of Doing Business Report (World Bank, 2017) Rank out of 190 countries (lower number better)	Turkey	Jordan	Lebanon
Ease of Doing Business	69	118	126
Starting a Business	79	106	139
Trade Across Borders	70	50	118
Getting Credit	82	185	118
Economy and Refugees	Turkey	Jordan	Lebanon
Population (World Bank, 2015)	78.6 mm	7.6 mm	5.9 mm
Syrian Refugee Population (UNHCR)	2,992,567 (Apr 2017)	660,315 (Jun 2017)	1,011,366 (Dec 2016)
Syrian Refugees as % of total population, est.	4%	9%	17%
GDP (World Bank, 2015)	\$ 717.9 bn	\$ 37.5 bn	\$ 47.1 bn
GDP per capita (World Bank, 2015)	\$ 9,126	\$ 4,940	\$ 8,048

Syrians themselves are increasingly playing their part in creating jobs and participating in the Turkish economy by establishing businesses. From 2011 to early 2017, Syrians started 6,033 new formal companies with initial investments of \$334 million.⁵⁷ Other estimates put total Syrian capital invested in Turkey at \$1–1.5 billion.⁵⁸ In the first four months of 2017 alone, new Syrian-owned companies numbered 677, which could mean over 2,000 additional new companies for the year with around \$90 million of Syrian capital.⁵⁹ The share of new Syrian-owned firms among all new foreign-owned firms in Turkey has also steadily increased, reaching 39 per cent in 2016, and they have ranked first each year since 2013.

According to TEPAV,⁶⁰ “southeast Turkey and western metropolitan cities in particular [have] increasingly become hubs for Syrian entrepreneurs.” Their absolute numbers are highest in Istanbul, the country’s economic center, but greatest as a percentage of all new firms in the local economies in southeastern cities, such as Gaziantep.

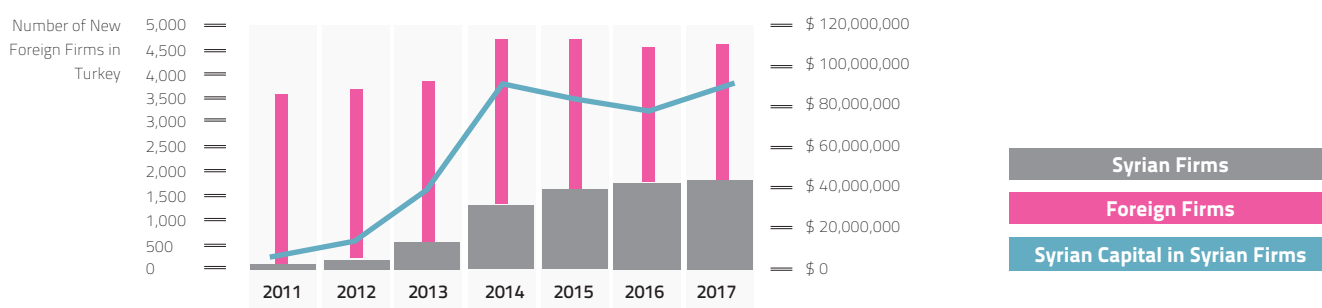
The total number of Syrian-owned companies in Turkey, including informal, unregistered businesses, is estimated to be over 10,000.⁶¹ There are several efforts to formalize these firms to make them more sustainable economically and less vulnerable to fines, closures by authorities, and complaints by local communities.⁶²

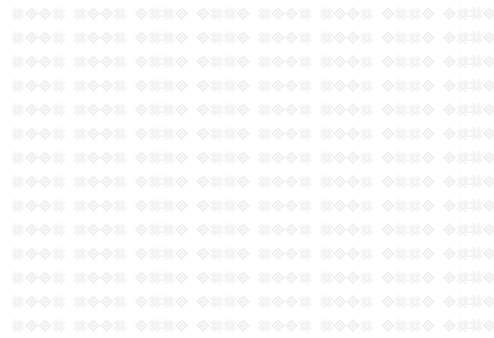
While Syrians have demonstrated their ability and willingness to invest in Turkey, barriers often prevent engagement.

For example, during stakeholder meetings held by the International Labour Organization (ILO) and Syrian Friendship Association,⁶³ Syrian entrepreneurs and business owners voiced a wide range of challenges. This included, “problems in securing visas; insufficient information about relevant legislation and regulations; a lack of guidance services in establishing companies and possibilities of benefiting from support/incentives; and problems in communication and business development stemming from poor command in Turkish language,” among others.

The current capacity to respond to these challenges is limited. As a recent report by the International Crisis Group articulates, “uncertainties with regards to the Syria war delayed long-term planning by both authorities and Syrians in Turkey,”⁶⁴ although the shift to consider Syrians as “permanent,” and respond to their economic needs, is beginning to take place. There are Syrian organizations that offer advocacy, information sharing, and networking to the Syrian business community. There are also a small number of international and local entrepreneurship training and support activities targeting Syrians.⁶⁵ Stakeholders in provinces where the Syrian population is densest, including Gaziantep, have done more to respond to the needs of Syrian firms, such as the establishment of a Syria desk at the Chamber of Commerce to respond to questions and offer guidance. Turkey’s development agencies and other public entities are also open to working with Syrians firms, albeit often without formal, structured programs, resources in Arabic, or targeted, evidence-based outreach in place.

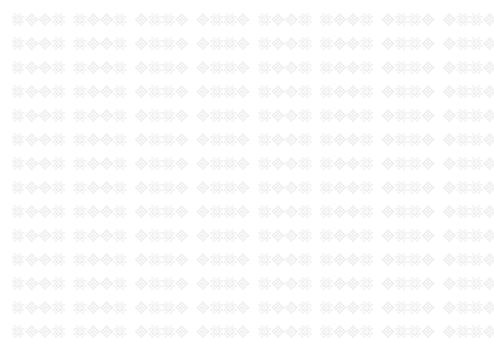
FIGURE 1: Syrian-owned and Other Foreign Firms in Turkey





“Syrian businesspeople and individuals are prepared to invest significant private capital in their host nations, creating opportunities for both host nationals and Syrian refugees, if the conditions are appropriate... Few countries have made concerted attempts to attract, retain, and support Syrians who would like to relocate their businesses. Helping Syrian businesses would be a boon to all host countries.”⁶⁶

Jobs Make the Difference
(UNDP, ILO, WFP)





Mehmet

is one of three Syrian brothers. After

the war began, Mehmet's family moved their 200-employee business to Southern Turkey from Syria. Each brother currently manages a different division of the company, with Mehmet in charge of manufacturing leather shoes and accessories for women. His shoe factory is in the heart of the industrial district and spans four floors, each packed to the ceiling with rolls of leather, rubber, and other raw materials. Upon entering the factory, one is struck by the rhythmic hum of machinery, set against the muffled voices of employees at work.

In moving their operations to Turkey, Mehmet recalls the challenges of re-establishing the family business in a foreign land. He describes the heavy toll it took on their family's personal finances, because of the huge capital investment of purchasing new equipment, being unable to bring their machinery with them. "We were only able to bring one or two machines with us from Syria. You will not find anything

like this anywhere else in the world," he says, patting a life-sized contraption with knobs and levers, his expression lost somewhere between pride and forlorn.

You can tell he runs a tight ship from his office, which boasts a large flat screen display with a live feed of 24 CCTV cameras in a grid, allowing Mehmet to monitor the assembly line while closing deals with his clients.

When asked about his plans, Mehmet is ambitious. He hopes to expand operations by trading with other countries in the region, which he sees as an opportunity for growing his client base. His expansion plans also include opening additional factories in Turkey over the next 12 months. His current workforce includes 10 women, whom he employs full-time. These women, Mehmet tells us, are now the sole breadwinners for their households, having lost or been separated from their families in Syria. In contrast to the shrewd businessman, Mehmet shows a glimmer of his compassionate side, saying he feels it is his duty to do whatever he can to help these women support their families.



data analysis

This section provides an analysis of the data collected from surveys with Syrian businesses, located in Istanbul and Gaziantep. It provides detailed information and insights about these firms, their owners, challenges, capabilities, and aspirations in a foreign business environment. The findings on the constraints for these businesses, such as access to markets and finance, present opportunities to cooperate and introduce new strategies and resources that can maximize their positive impact, including job creation for refugees and host communities.

2.1 METHODOLOGY OVERVIEW

Building Markets conducted this assessment with its local partner and research collaborator, Syrian Economic Forum (SEF). The methodology consisted of in-person surveys administered with business owners of 230 Syrian-owned SMEs in Istanbul and Gaziantep between January and April 2017. One-hundred-eighty qualitative and quantitative questions across ten categories of inquiry were covered, including basic firm data, labor and hiring, finance, tender bidding practices, support and technical assistance needs, perceptions about external factors, constraints to business operations, and business outlook. This was supplemented by in-depth roundtable discussions with entrepreneurs, stakeholder interviews, and desk research.

The following was required of SMEs to participate in the survey: 1) registered as a formal business in Gaziantep or Istanbul; 2) ability to conduct interview with the business owner; and, 3) an “active” business with employee(s). The study relied on the SME definition adopted by Turkish law and generally used by actors serving SMEs in Turkey. For more detailed information on this study’s methodological approach, please see Annex II.

BOX 4: Building Markets’ Methodology

Using a methodology that has been tested across seven diverse countries, with input from industry pioneers and leading academics, Building Markets has cultivated one of the largest independent data sets on SMEs in crisis-affected countries. Building Markets uses data to pinpoint needs and to connect SMEs to growth, finance, and investment opportunities. Given the protracted nature of the Syrian conflict and the requirement for durable solutions that integrate refugees into formal sector jobs and enable them to establish businesses, Building Markets’ data-driven approach will lead to smarter and larger injections of capital, accelerating the growth of Syrian and local SMEs, creating jobs, tax revenue, and contributing to economic expansion and stability.

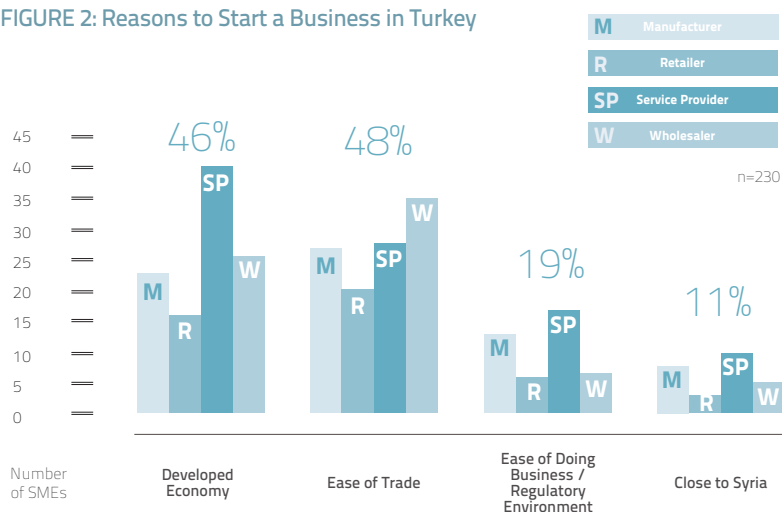
2.2 STARTING AND OPERATING A SYRIAN BUSINESS IN TURKEY

Syrian entrepreneurs in this survey explained their choice of Turkey as the host country to start their businesses largely because of ease of trade (48 per cent) and the country’s developed economy (46 per cent). In addition, when asked about the greatest opportunities for their business in Turkey, both experienced and first-time owners reported seeing trading with the region (39 per cent) as the primary opportunity, followed by serving the Syrian refugee market (23 per cent) and introducing a new product to the Turkish market (23 per cent).

While starting a business in Turkey has challenges, overall, 76 per cent of Syrian business owners cited the experience as “easy” or “very easy.” Similarly, 95 per cent considered registering a business to be “easy” or “very easy.” Forty-five per cent of the entrepreneurs used legal and accounting services to complete the process, and 39 per cent relied informally on other Syrians, demonstrating the need for both reliable professional services and business networks to assist and formalize Syrian SMEs. All of the companies in the sample are registered with the Chamber of Commerce, either in Istanbul or Gaziantep. In addition, 22 are registered with a Chamber of Industry (19 are manufacturers) and 27 Syrian SMEs have a Municipality License to operate.

Among the entrepreneurs that found starting a business in Turkey “difficult” or “very difficult,” the top three challenges cited were regulatory environment, cost, and perceptions of host community. Conversations with stakeholders, as well as roundtable discussions with Syrian entrepreneurs, suggest that challenges with the Turkish regulatory environment are exacerbated by a lack of familiarity with laws and a lack of access to necessary information in Arabic, and that additional support in this area is necessary. Lack of familiarity with the Turkish law can leave Syrian entrepreneurs vulnerable to discrimination and reduce their access to opportunities. During roundtable discussions, the owner of a real-estate brokerage and architectural construction company in Istanbul shared his experience of being denied participation in a real estate exhibition in 2012 because he was a Syrian.⁶⁷

FIGURE 2: Reasons to Start a Business in Turkey



The majority of owners cited a developed economy and ease of trade as the primary reason they chose to start a business in Turkey.

In terms of difficulties experienced by Syrians operating a business in Turkey, when asked about the single greatest challenge faced by their businesses, language barriers topped the list for 40 per cent of owners in the sample, followed by unfavorable government regulations (19 per cent). Other challenges, from security conditions and competition to access to markets and finance, were mentioned by much smaller percentages of business owners, with language constraints likely permeating some of these additional operational constraints as well. See section “2.4 on Key Constraints to Growth” for more details.

Syrian entrepreneurs were also asked how the war in Syria has impacted their businesses in Turkey. While 27 per cent stated no impact, the rest reported registering as formal businesses in response to the protracted crisis in Syria, demonstrating an effort to make their enterprises more sustainable in Turkey.

There are two ways in which Syrian entrepreneurs in Turkey can achieve greater integration into the Turkish economy and business sector: having a Turkish co-owner or a strategic

partner. Looking at these two measures together, only 11% of Syrian SMEs in the sample reported currently having a “Turkish partner.” Having a Turkish partner seems to have a positive effect on business performance: a greater percentage of businesses with Turkish partners reported their status as expanding (48 per cent) versus those without Turkish partners (32 per cent). In addition, having a Turkish partner seems to increase the average number of employees (19 versus 9 employees on average for the overall sample). Furthermore, partnership with a Turkish business helps to alleviate the language and access to information challenges that Syrian firms reported. During a roundtable discussion, one Syrian entrepreneur shared that he chose to partner with a Turkish company “to facilitate entry into the Turkish market as well as to access better banking services and more facilities.” On the other hand, stakeholder conversations indicated that Turkish businesses were not sufficiently familiar with Syrian SMEs or the possible mutual benefits of partnership, which can change with greater interaction between the two business communities.

2.3 AT A GLANCE: SYRIAN SMEs AND THEIR OWNERS

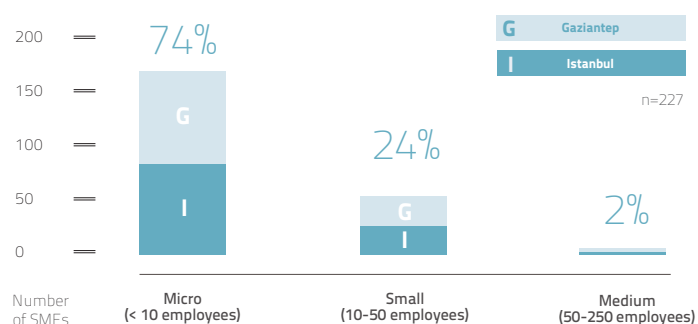
The following findings offer a detailed overview of Syrian-owned SMEs, including size, sectors, revenues, and customers, and the capabilities of their owners, including experience with business ownership, education levels, and status in Turkey.

Based on the current number of employees reported by 227 businesses,⁶⁸ the majority fall under the “micro” category of SMEs (74 per cent), with fewer than 10 total employees. This is followed by “small” enterprises (24 per cent), with up to 50 employees. Four “medium” enterprises were surveyed, with between 50 and 250 employees, which comprise two per cent of the total sample. No “large” companies were identified.⁶⁹

Wholesale and retail trade (39 per cent) dominate the sector breakdown of Syrian SMEs, followed by manufacturing (19 per cent), and accommodation and food service (10 per cent). Information and communication, administrative and support service activities, and real estate are other important sectors, representing 20 per cent of the sample combined. Syrian manufacturers tend to be in Gaziantep, whereas Istanbul-based companies are generally engaged in accommodation, food service, and administrative and support services activities.

This general breakdown is confirmed by a separate question firms were asked about their business activity, which revealed 29 per cent of the sample identified as “wholesalers” and 14 per cent as “retailers,” followed by “service providers” at 35

FIGURE 3: Size of Syrian SMEs by Number of Employees



74% of the SMEs surveyed are considered “micro-enterprises” consisting of fewer than 10 employees.

Average annual revenues reported by 117 companies ranged from \$246,690 for micro; \$798,704 for small; and \$4,083,333 for medium-sized enterprises, with an overall average of \$463,201 (median of \$120,000) for the entire sample. The average profit margins for the sample (176 respondents) are 20 per cent, with margins for micro-enterprises (21 per cent) somewhat higher than margins for small (16 per cent) and medium-sized companies (11 per cent). Companies in the sample were established with an average capital base of \$130,936, ranging from \$111,606 for micro-enterprises to \$197,537 for small and medium-sized businesses. An average of \$150,326 in additional capital has been invested in the companies since their founding.

per cent and “manufacturers” at 23 per cent. Manufacturers tend to be larger in size, mainly in the small or medium-sized enterprise categories. Wholesalers and retailers are more likely to be found in the micro-enterprise category.

Within the manufacturing sector, Syrian SMEs produce primarily food products, leather goods, machinery, plastics, and apparel. Food products also top wholesale and retail trade, followed by medical equipment and pharmaceuticals for wholesalers, and apparel, jewelry, cosmetics, and electronics for retailers. At least 10 per cent of the sample is engaged in exports,⁷⁰ including selling food products, medical products, and oil/lubricants to Syria. Services provided by Syrian

SMEs include tourism and travel, translation, education, programming, real estate, advertising, and business advisory services.

Five out of the six businesses owned by women in the survey are service providers and one is retailer. These female entrepreneurs offer cooked meals, daycare, food products, apparel, translation services, and video production. Their average revenues are \$66,700 and they employ a total of 54 employees, with 46 additional full-time employees in total planned to be hired over the next year, both averages on par with the rest of the sample.

Customer Base

When asked about their customers, nearly 79 per cent of businesses reported individuals, with 28 per cent selling exclusively to that customer category. Fourteen per cent of respondents indicated that they sell to Syrian businesses (specifically based in Syria), with that category rising to 18 per cent in Gaziantep. This can be attributed to the proximity of Gaziantep to Syria and the city's long-standing business ties to the country. Similarly, 13 per cent of the businesses include local NGOs in their customer base. That share goes up to 17 per cent in Gaziantep, which could be explained by the procurement activities of non-governmental organizations (NGOs) responding to the Syrian crisis in southern Turkey. Whereas 17 per cent of the overall sample included international businesses among their customers, that rate goes up to 22 per cent in the country's international business hub, Istanbul.

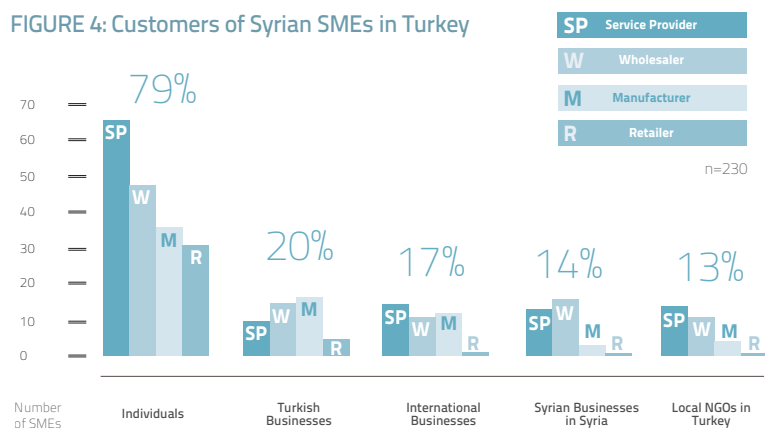
Current Status of Businesses

The overall business performance of Syrian SMEs is strong, with 55 per cent of firms indicating they are “stable” and another 34 per cent “expanding.” Small and medium-sized enterprises appear to be more stable, with greater percentages reporting their status as expanding (46 per cent and 100 per cent, respectively), whereas micro-enterprises tend to be more vulnerable, with a bigger share (14 per cent) downsizing than the overall sample (11 per cent). In Gaziantep, Syrian businesses seem to be doing significantly better, with 46 per cent reporting they are “expanding,” compared to Istanbul (22 per cent).

Syrian Business Owners

All survey respondents identified as business owners.⁷¹ Based on responses from owners that disclosed their share of the business, 63 per cent are “majority owners.” Thirty-three per cent of businesses are family owned, and 12 per cent of the businesses have at least one silent partner. Out of the sample of 230, only three female business owners responded to the survey, with two of them being first-time entrepreneurs. In addition, three male business owners stated they have at least one female business partner, with their total share of the business ranging from 20–40 per cent, bringing the total number of “women-owned” businesses in the sample to six. Nine per cent of firms in the overall sample, or 21 companies, have at least one female manager. That percentage increases to 21 per cent in the service sector, where half of the businesses owned by women report having one female manager.

FIGURE 4: Customers of Syrian SMEs in Turkey



79% of SMEs listed individuals as their primary customers.

Length of Time in Turkey

On average, owners reported residing in Turkey for 2.3 years before starting their businesses and have been in Turkey for 4.8 years on average, without significant differences between Gaziantep and Istanbul. Only 7.9 per cent of the respondents started their business during their first year of living in Turkey.

Twenty-five business owners reported they have been in Turkey for more than six years, i.e. prior to the war (on average for 10 years).⁷² Their longer-term experience in the country seems to indicate fewer challenges with regulations and their companies tend to be larger in size.

Syrian SMEs have been, on average, in operation for 2.5 years in Turkey and have grown consistently with time. Micro-enterprises are 2.2 years old, compared with small and medium-sized enterprises, which have been in operation for 3.4 and 4 years, respectively. Only 2 per cent of all companies surveyed are in their first year of operation.

Fifteen business owners in the sample reported a presence in a third country, including Saudi Arabia, UAE, and Jordan, either as an entrepreneur or an employee, prior to coming to Turkey. Conversations with stakeholders indicate that while Turkey wishes to attract capital and enterprising Syrians from the region, concrete steps have not yet been taken.

Business Ownership Prior to Turkey

The majority of business owners (71 per cent) had businesses in Syria before moving to Turkey, mainly in the same sector of operations. This business ownership rate was higher (87 per cent) among Syrian entrepreneurs in Gaziantep.⁷³ With the war in Syria destroying the country's most vibrant commercial centers and infrastructure,⁷⁴ 84 per cent of all prior business owners in the sample confirmed their businesses in Syria are now closed, with 10 per cent reporting continued but greatly downsized operations.

Whether or not someone owned a business previously in Syria does not seem to make a difference in the average length of time it takes for them to start a business in Turkey.

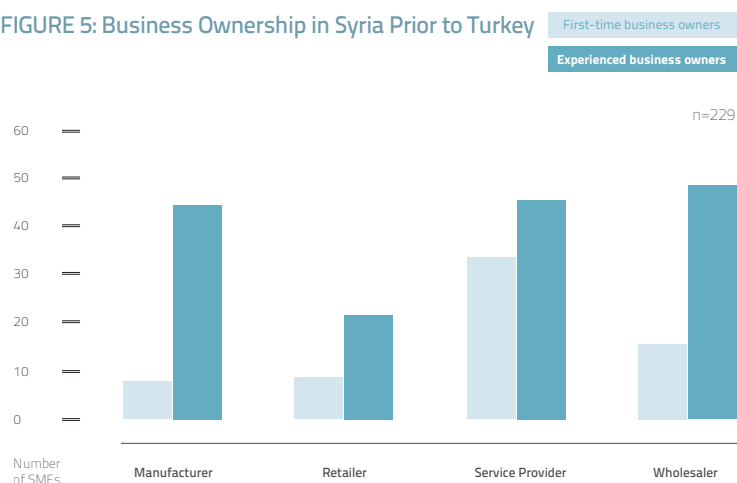
This is likely due to the uncertainties involved with being in a new country and wishing to preserve capital before deciding to invest in the start-up of a business.

On the other hand, prior business ownership in Syria seems to be a factor in business size in Turkey, with an average of 10.6 employees at businesses founded by experienced business owners versus 6.8 employees at companies established by first-time entrepreneurs. This difference may be attributed to the capital, networks, and customer base, as well as the management experience they can bring to their businesses in Turkey. To illustrate this finding further, the largest companies in the sample (i.e. all of the medium-sized enterprises and most of the small enterprises) belong to entrepreneurs who previously had companies in Syria.

Furthermore, experienced entrepreneurs report that their former businesses in Syria were significantly larger than their current businesses in Turkey, with an average of 33 full-time employees in Syria versus 10 full-time employees in Turkey. This can be explained by the longer amount of time they were likely in operation in Syria as well as the greater ease of doing business in their own country, without language and other barriers. Importantly, this difference also indicates the potential of Syrian SMEs in Turkey: with time, further experience with the local business environment, and sufficient support, these entrepreneurs have the capacity to grow their businesses as they did in Syria.

In contrast with the experienced Syrian business owners in Turkey, the sample also includes first-time entrepreneurs (29 per cent), who in some cases, may have been forced to start businesses in the absence of easy access to labor markets as refugees. While their companies may currently be smaller (6.8 total employees on average versus 9.4 for the overall sample), their ability to realize entrepreneurial opportunities in a new country, primarily through service-oriented businesses, speaks to their capabilities and demonstrates the potential for more refugees to do the same with the right support.

FIGURE 5: Business Ownership in Syria Prior to Turkey



71% of the owners had businesses in Syria before coming to Turkey. Only **29%** are first-time business owners. The majority of new business owners are service

Citizenship Status in Turkey

The sample of business owners surveyed have largely entered Turkey with a Syrian passport, and only 17 per cent (22 per cent in Gaziantep and 12 per cent in Istanbul) are currently in the country under “temporary protection.”⁷⁵ Whereas their status has implications especially for their freedom of movement domestically and internationally (see Box 4 below), passport status does not seem to be an important factor in the size of businesses. Furthermore, while 79 per cent of business owners reported that their Syrian passports are valid for more than a year, stakeholders have remarked that passport renewals are difficult, even impossible, for displaced Syrians, and can hinder business planning and forecasting.

Education

The education levels among the sample of business owners is high, with 60 per cent of all business owners having completed university, with an additional seven per cent holding a graduate degree.⁷⁶ The percentage of Syrian entrepreneurs with at least a university degree increases to 74 per cent in Istanbul. This finding contradicts the perception mentioned by some stakeholders that “the educated Syrians have all left for Europe.” The higher education levels among business owners, compared to the overall Syrian community in Turkey, can give them, according to Dr. Murat Erdoğan of HUGO, “a bridge role of vital importance to the integration of the rest [of the refugees] into the Turkish system.”⁷⁷

BOX 5: Freedom of Movement

The ability to travel freely to conduct business is an issue of importance to Syrian entrepreneurs in Turkey. This is especially true for entrepreneurs “under temporary protection,” who are not able to move freely outside of the provinces where they are registered. Moreover, even for those business owners in Turkey on a work or residence permit, difficulties in leaving the country and obtaining visas restricts their international travel and ability to grow export-oriented firms. Stakeholders report requests by Syrian entrepreneurs to create more lenient visa requirements as well as measures that will allow for more free movement in the country.

BOX 6: Real Estate Ownership

A law dating back to the 1930s prohibits Syrian nationals from owning real estate in Turkey (i.e. home, place of business, land, field). The law directly affects Syrians who wish to invest and establish roots in the country.⁷⁸ Stakeholders mention cases of Syrians in Turkey establishing companies solely for the purpose of being able to acquire real estate. Our sampling strategy avoided surveying this type of shell..company by confirming that the businesses were actively in operation. Among 22 business owners who reported owning property (only ten percent of the sample) half responded yes..when asked whether acquiring it was a factor in starting their businesses. These companies are all operational in manufacturing, wholesale trade, and services (including real estate activities).

2.4 KEY CONSTRAINTS TO GROWTH: AN OPPORTUNITY

This research found that Syrian SMEs struggle with language barriers, limited experience with bidding on tenders that can provide them with access to new markets, and are in need of investment capital to grow. They also overwhelmingly have not been exposed to, or had experience with, traditional loans. Understanding these constraints are key to making adjustments to the operating environment that will enable the expansion of Syrian SMEs.

Language

Given the role language plays in economic and social integration of refugees and immigrants, and that “language barriers” tops the list of reported challenges experienced by Syrian SMEs in this survey, language competencies of the business owners, as well as their partners and employees, take on a particular significance.

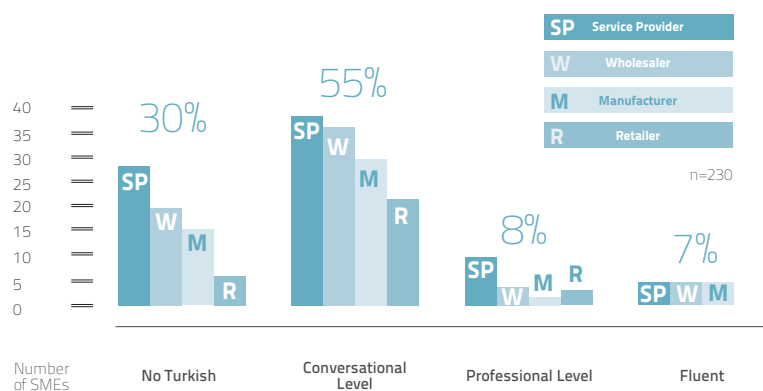
Among the business owners surveyed, 30 per cent do not speak any Turkish, while 55 per cent report a conversational proficiency. Professional and fluent levels are much lower at just 15 per cent. While micro and small businesses show a similar level of Turkish proficiency, owners of three out of four medium-sized enterprises in the sample are fluent in Turkish. Entrepreneurs with higher levels of Turkish proficiency report better business performance: 53 per cent of business owners who have a professional level of Turkish and 73 per cent of business owners who are fluent in Turkish have companies that are “expanding” versus 34 per cent in the overall sample.

Irrespective of their own language abilities, Syrian business owners reported that their SMEs were able to conduct business in multiple languages: five per cent in Arabic only; 14 per cent also in English; and 80 per cent in Turkish, along with Arabic and/or English. The proficiency needed to conduct business in Turkish, i.e. communicate with suppliers and customers (which can also be done by Turkish-speaking employees), however, does not seem to be sufficient in navigating the regulatory and business environment, which requires more advanced skills on the part of the owners.

Access to Markets

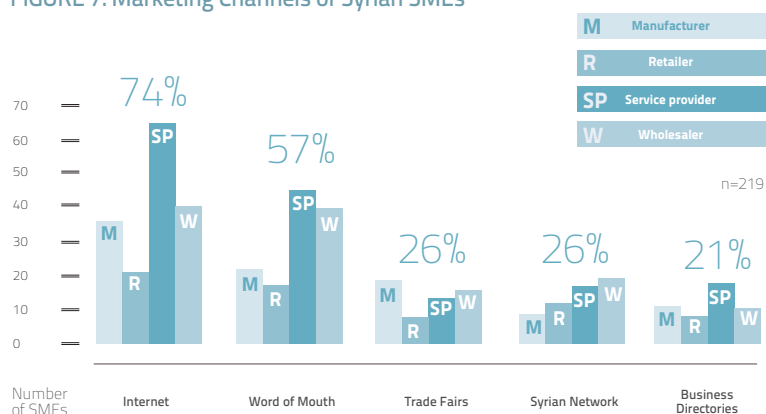
Operating a business in a new economy, especially with a language barrier, can pose challenges for accessing markets. In terms of their marketing channels, 74 per cent of Syrian SMEs surveyed listed the internet, followed by word of mouth (57 per cent). Trade fairs and business directories were used by 26 per cent and 21 per cent of businesses, respectively. While some businesses are using Syrian networks as a marketing channel (26 per cent), membership in professional networks is lower (11 per cent). Marketing channels also differ by city, based on the types of businesses and customers primarily located there. Syrian networks, for example, are used by 34 per cent of businesses in Gaziantep, given the proximity to Syria as well as the larger concentration of the Syrian population there (as a percentage of the local population), versus 19 per cent in Istanbul. In Istanbul, where businesses have indicated a larger share of international businesses as customers, trade fairs are a more important marketing channel than in Gaziantep, at 32 per cent versus 20 per cent, respectively.

FIGURE 6: Turkish Language Skills of Syrian Business Owners



30% of SME owners have no Turkish language skills. Overall, service providers have higher and retailers have lower proficiency than other sectors.

FIGURE 7: Marketing Channels of Syrian SMEs



74% of SMEs listed internet among their top marketing tools. This is particularly important for service providers.

In terms of competition, other Syrian businesses in Turkey (56 per cent) represent the largest competitors for every type of Syrian SME in the sample, with Turkish businesses coming in second at 36 per cent. However, competition represents a relatively small concern for Syrian SMEs, in comparison with language barriers; lack of information about business opportunities; and not receiving payments on time from customers.

Access to Procurement Opportunities

Only 27 per cent of Syrian SMEs reported looking for procurement opportunities. Of the remaining businesses, 23 per cent are interested in doing so in the future. Looking at the bidding experience of 62 businesses, 85 per cent searched for opportunities monthly or more frequently and bid on 17 tenders (on average) in the past year. Tender directories (66 per cent) are the most commonly used method of identifying these opportunities, followed by email lists (34 per cent), newspapers/magazines (29 per cent), visiting buyers (26 per cent), and personal networks (23 per cent).

This research obtained data from only 11 companies that have been successful in winning tenders in the past 12 months, with contracts averaging around \$300,000. Businesses primarily reported that price competitiveness gave them an advantage and helped them win.

Syrian SMEs may hold untapped potential for larger companies and international organizations. In the case of procurement by NGOs, conversations with stakeholders

indicate that local businesses in the border regions have played a role in supplying the goods and services needed for the Syrian crisis response, although precise figures are not available. Syrian SMEs also reported NGOs among their customers in the survey, and in a meeting with the Chamber of Commerce in Gaziantep, the Syrian business community explicitly expressed an interest in becoming suppliers to humanitarian aid organizations.

The opportunity for stronger business ties between the NGO community, both local and international, and Syrian SMEs, may be facilitated by increasing information sharing and Syrian SME capabilities. Furthermore, inclusive procurement policies to give Syrian SMEs an equal opportunity to participate in the humanitarian response could also be an effective way of increasing the efficiency of aid delivery while supporting these businesses.

As one of the possible sources of procurement opportunities, Syrian businesses were asked about international entities operating in Turkey. Overall, 48 per cent of businesses see them as an opportunity, highest among micro and small-sized enterprises, with 33 per cent of businesses saying they did not know.

Access to Finance

Of the Syrian SMEs surveyed, all but seven reported having a bank account. This finding contradicts reports by various stakeholders about the difficulties of opening bank accounts⁷⁹ and bodes well for Syrian businesses in Turkey.⁸⁰ However,

only 104 businesses, or less than half of the sample, reported being able to provide a bank guarantee. At roundtable discussions, business owners elaborated their challenges with bank services and indicated a lack of consistent practices by banks. They also reported difficulty in applying for business credit cards and accessing money transfer services (this, for example, leads export companies, which frequently need international money transfers, to resort to black market services).⁸¹

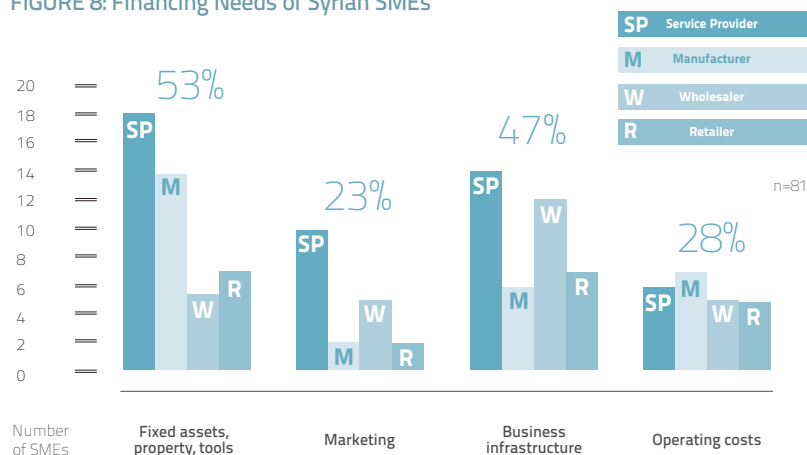
Experience with loans among Syrian SMEs is quite low. Only four businesses (2 per cent) in the sample reported taking out loans in the past (including from banks, friends and family, or other sources).⁸² However, 37 per cent indicated interest in taking out a loan in the future to use towards fixed assets, property, tools and machinery (53 per cent); business infrastructure (47 per cent); operating costs (28 per cent); marketing (23 per cent); and hiring additional employees (13 per cent). Further research is needed to understand the borrowing preferences of the Syrian SME market.⁸³ As a point of comparison, in Turkey, 40 per cent of firms overall, and 23 per cent of those in Eastern and Southeastern Anatolia, have a bank loan or a line of credit.⁸⁴

With regard to Syrian SMEs, the practices and policies of Turkish banks lack clarity, with anecdotal evidence that there is an overall risk-averse and arms-length approach to this market. However, some of the stakeholders, specifically

international financial institutions, have plans to increase financing and loan guarantees to local banks (starting with semi-governmental banks) to lend to businesses in regions with higher perceptions of risk, which also correspond to geographies with high refugee populations. Beyond these efforts, the private banking sector in Turkey, which offers a wide range of products to the local SME market, seems reluctant to serve Syrian businesses, even though, as registered businesses in Turkey, the regulatory environment does not prohibit Syrian SMEs' from accessing these services.

When asked, Syrian SMEs generally did not consider access to finance as a major constraint. Fifty-eight per cent reported that it is not a constraint at all and 35 per cent indicated it as a "little" or "moderate" constraint, with only slightly higher levels among businesses based in Gaziantep versus Istanbul.⁸⁵ However, businesses did express strong investment capital needs over the next 12 months. One-hundred-thirty-five (59 per cent) are looking for investments averaging \$283,104. Of these, 53 (39 per cent) will be looking for investments of less than \$100,000; 60 (44 per cent) \$100,000 and more (but less than \$500,000); and 22 (16 per cent) will be looking for investments of \$500,000 or more, as high as \$7,000,000 over the next year. At roundtable discussions, businesses shared their challenges with accessing loans and working capital, as supplier lines of credit are typically unavailable. This can create operational challenges for Syrian firms given that customer' payments are often delayed, a typical concern for other SMEs in Turkey.⁸⁶

FIGURE 8: Financing Needs of Syrian SMEs



37% of SMEs expressed an interest in taking out a loan in the future. SMEs indicated they would use these loans to purchase assets and strengthen business infrastructure.

Syrians in Turkey may themselves be a source of investment capital for SMEs. Eleven business owners in this sample did not start their business themselves; their comments suggested that they joined the ownership of a family business or bought into an existing business. While this is a relatively small cohort compared to the other founders, this finding confirms anecdotal reports from stakeholder interviews and roundtable discussions of Syrians with capital looking for investment opportunities in Turkey.

2.5 BUSINESS SUPPORT NEEDS

Syrian SMEs, both by their own expressions and based on other indicators in the survey, need business support such as training and mentoring. When asked if they received any support for their business in Turkey, 93 per cent of Syrian SMEs surveyed said that they received no support from a list of choices that included public agencies, as well as local and international NGOs. This lack of access to support is consistent with their cited challenges, including language

BOX 7: A Creative Solution to Working Capital Financing

A Syrian entrepreneur started a printing house in Istanbul and managed, through the quality of his company's services and prices, to win an exclusive contract to provide printing services to a Turkish bottled water company. However, he struggled with his cash flow as it was taking up to six months for his customer to pay for his services. As a result, he agreed with his customer, the water company, to cover the cost of his printing services with bottles of water, which he, in turn, sold daily through distributors to finance his operations.

barriers. While discussions with stakeholders indicate efforts by the Gaziantep Chamber of Commerce, local development agencies, KOSGEB (Small and Medium Sized Industry Development Organization), and International Non-Governmental Organizations (INGOs)/International Financial Institutions (IFIs) to assist Syrian SMEs, the support currently available is often offered on an ad-hoc basis, with only a limited number of examples of ongoing, structured programs with strong outreach to Syrian SMEs.

The survey also asked business owners about their experience with business support. Only 23 per cent of the business owners indicated having received support,⁸⁷ typically in management, sales and marketing, with over 90 per cent of those respondents finding it useful. Going forward, 71 per cent of all respondents were “somewhat interested” or “very interested,” for themselves or someone from their company, to receive such support, with 73 per cent saying that training would make their businesses more efficient. Among the business owners who received training in the past, the interest in additional training was even higher, with 98 per cent reporting that they would like to receive more of this type of support. As a further indication of interest in additional training, over half of the business owners reported a possible willingness to pay for training for themselves or someone at their company.

The training areas in which business owners showed interest are generally geared towards increasing sales, accessing new markets, reaching more customers, and serving them better. These priorities were also reinforced during roundtable discussions where all attendees expressed interest in attending training courses, with a focus on learning the Turkish language, import and export laws in Turkey, sales and strategic marketing, and financial management.

To identify additional areas of capacity development support needed by Syrian SMEs, the survey also asked businesses about their various management and regulatory compliance practices. Generally Syrian SMEs report having a high level of business strategy and planning capabilities, such as a business plan, marketing plan, and regular financial record-keeping in place. In addition, compliance with regulations to

avoid risks is also high, and businesses have indicated an interest in learning more about energy efficiency and disaster preparedness, areas in which international entities such as the United Nations Development Programme (UNDP)⁸⁸ and the World Bank⁸⁹ are offering support to Turkey's SMEs sector. In addition, Turkey has policies in place to incorporate SMEs into the country's environmental priorities, including improving energy efficiency and providing incentives, such as reduced costs for certifications and loans to help SMEs finance environmental investments.⁹⁰ KOSGEB provides SMEs with the necessary information and guidance to access these incentives, which Syrian SMEs can also benefit from with greater interaction with this and other agencies.

Roundtable conversations with Syrian entrepreneurs and stakeholder consultations have provided additional insights into the support needs of Syrian SMEs. While over 95 per cent of the companies in the survey retain an accountant to comply with financial requirements for their businesses, qualitative responses during roundtables highlight the difficulties in finding and working with accountants, including language barriers, fraudulent practices of some accountants, and unreliability of translation services.

TABLE 3: Management Practices of Syrian SMEs

Strategy & Operational Management	Keeps Regular Financial Records	96%
	Has a Marketing Plan	65%
	Has a Business Plan	63%
	Has a Finance Department	44%
	Uses Employment contracts	41%
	Has a Human Resources Department	5%
Compliance & Risk Management	Complies with Health & Safety Regulations	85%
	Complies with Environmental Regulations	80%
	Has an Energy Efficiency Plan	40%
	Has a Disaster Preparedness Plan	30%
	Aware of Incentives for SMEs in Turkey	13%

In addition to accounting, access to reliable legal advice is another support need for Syrian SMEs. Both survey results and conversations with business owners at roundtables indicated that limited knowledge of the Turkish legal environment for businesses is a barrier to their success.⁹¹ During stakeholder conversations, familiarity with Turkish regulations was also indicated as a challenge and a risk factor for SMEs in terms of costly fines, closures, and other consequences of noncompliance. One stakeholder piloted a training session specifically on business law for Syrian entrepreneurs, which was received enthusiastically. Despite their expressed challenges with navigating business regulations, however, only 31 per cent of businesses in the sample reported that they retained lawyers on a regular basis. In addition, almost all of the businesses without lawyers indicated that they "don't need one." In fact, only eight per cent of this group found government regulations to be a challenge, compared to 40 per cent of those businesses that retain a lawyer on a regular basis.

Another support need for businesses is access to information about government incentives available for SMEs in Turkey. Only 13 per cent of the Syrian businesses surveyed were aware of incentives available to them, such as those provided by KOSGEB for access to credit and training, Research and Development (R&D) and innovation support, and regional investment incentives. These companies are more likely to have a Turkish partner as compared with the rest of the sample. Greater interaction with public agencies serving SMEs, partnerships with or mentorship from other businesses in Turkey, and overall improved integration can help Syrian SMEs in this regard.

In terms of technology use and needs, 84 per cent of Syrian SMEs reported that they use email; 42 per cent utilize technology for marketing and promotion; and 20 per cent for customer relationship management. Only 36 companies indicated that they did not use technology; reasons included staff's lack of skills (16), unavailability of technology needed (12), and cost (1).

2.6 IMPACT OF SYRIAN SMEs ON JOB CREATION

One of the key contributions of Syrian SMEs to refugee and host communities is their ability to create jobs. By currently employing on average 9.4 people, as well as planning to add 8.2 more employees on average to their payrolls in the formal sector over the next 12 months, this research found that Syrian SMEs are demonstrating their job creation potential.

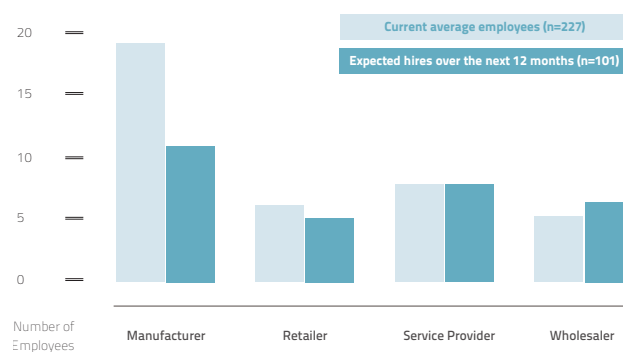
When asked how their companies' total number of employees would change over the next 12 months, 127 (55 per cent) out of 230 business owners say their number of employees will increase versus 98 (43 per cent) who say that it will stay the same. Sixty-five per cent of the businesses in Gaziantep are planning to make additional hires next year, compared with 46 per cent in Istanbul. One-hundred-one business owners reported specific figures on their company's hiring plans in the next year, with an average of 8.2 employees. Micro-enterprises plan on hiring 6 new full-time employees, and small and medium-sized enterprises plan to create 12 and 32 additional full-time jobs, respectively, over the next year on average. Overall, the number of jobs created per year in operation to date is 3 for micro, 7 for small, and 32 for the medium-sized enterprises, with an average of 4 for the sample.

In addition to creating jobs, Syrian businesses are helping to bring employees into the formal sector: 75 per cent of the businesses indicated that most of their employees previously worked in the informal sector, with only seven per cent of employees working full-time formally. Given the concerns with the growing informal sector due to the influx of Syrian workers in Turkey which is already prevalent in the Turkish economy and where the influx of Syrians has increased unemployment for local employees⁹² this is an important contribution of Syrian SMEs in Turkey.

Syrian businesses are well-positioned to offer employment opportunities to the Syrian refugee population in Turkey. Ninety-six per cent of the businesses reported employing non-Turkish nationals, typically Syrians. Discussing their

experience with recruiting and hiring Syrian employees, 61 per cent of the businesses indicated the regulatory challenges of work permits (41 per cent) and employment quotas (20 per cent), followed by language barriers at 12 per cent, whereas 18 per cent did not experience any challenges with hiring. Finding skilled employees was not a challenge reported by Syrian SMEs (7 per cent).

FIGURE 9: Current and Planned Employment by Syrian SMEs



SMEs currently employ on average 9.4 individuals. **55%** of SMEs report they intend to hire in the next 12 months, aiming to create 8.2 jobs on average.

In the overall sample, the average percentage of female employment (number of total female employees, full time and part time combined, as a percentage of the total number of employees) is 11 per cent, and is highest among companies in the service sector with 23 per cent. Among the six businesses that are owned by women, the percentage of female employment increases to 47 per cent, demonstrating the potential of Syrian women entrepreneurs to create jobs for other women.

Overall, 25 per cent of the businesses surveyed have experienced employee turnover, primarily due to personal reasons including moving. Sixteen per cent expressed concern about retaining employees, citing “moving to another country” as the top reason. This demonstrates the difficulties displacement presents for businesses and the labor force.

2.7 SYRIAN WOMEN ENTREPRENEURS

Before the war, Syrian women’s entrepreneurship, as well as labor market participation, was limited, with men typically providing for their families as the traditional heads of household. As Syrian communities were displaced by the war, and in many cases, separated from their family members under tragic circumstances, a growing number of families had to be supported by women.⁹³ Whether as sole breadwinners or to supplement family income given difficult economic conditions in Syria or in host countries, Syrian women are

slowly embracing entrepreneurship, including establishing small businesses to earn a living.

To better understand the views and needs of women business owners, a roundtable of 18 Syrian women entrepreneurs, both experienced and aspiring, was convened in Gaziantep. Women entrepreneurs (who previously started businesses, including those who had to close them), as well as women interested in starting a business in the future, attended the session.

BOX 8: Job Creation – Manufacturing and Exports

The Turkish economy’s industrial sector, which employs over one-fourth of the labor force, accounts for over 77 per cent of total exports, which are crucial to boosting production, job growth and foreign reserves in Turkey.¹¹⁴ According to the 2016 OECD Survey of Turkish Economy, “the challenge of job creation in sustainable export-oriented activities is heightened by the presence of 1.4 million working-age Syrian refugees.”¹¹⁵ An opportunity to increase Turkey’s exports, as well as to boost Syrian employment, would be for countries to offer preferential market access to Turkish exporters that employ Syrians, as proposed by the Turkish Economy Minister during a G20 meeting.¹¹⁶

Syrian entrepreneurs, with their strong regional ties and networks, language skills, and products, as well as previous manufacturing experience, can offer a good opportunity for the Turkish economy in the areas of both manufacturing and exports.

In our sample, there are four medium-sized companies, employing 70–200 people, three of which are in manufacturing (leather shoes

and textiles). All three manufacturers are expanding, anticipating higher profits over the next year, and two plan on hiring additional employees. All express a desire to continue their operations in Turkey as well as expand to Syria when conditions improve. In addition, there are 9 companies in the sample currently employing 10 or more employees with plans to double their payroll over the next 12 months; all of these companies are also in manufacturing.

—

A textile manufacturing company in Gaziantep employs 70 people full-time and intends to hire 15 more over the next year. The owner was an entrepreneur in Syria as well, with a smaller business of 10 employees, which is now closed. Trade opportunities are what drew him to Turkey, and he has been selling internationally; his top training area need is import/export rules. Among his biggest challenges are old and outdated equipment, which he plans to replace over the next 12 months, and he is looking for investment capital of \$1,500,000.



Asmaa

can only be described as the modern working woman. Not

only did she launch her own language learning center, she also volunteers at a local orphanage and is a mother to four children. She also happens to be Syrian. This story is best put in her own words:

“Back in Syria, I worked in education [in private schools] for nine years before starting my own school in Syria. We lost everything in the war, when my family came here [to Turkey]. For the next three years, I worked in private schools in Turkey, but then decided to establish this adult learning institute. It is a training center for Arabic, English, and Turkish languages.

I decided to open the institute because this is my field. This is what I know best. Also, there is a need for the Syrian community in Turkey to learn the local language. But the institute is also for the Turkish community who may be interested in learning Arabic and English.

Even though I worked for a Turkish company for three years, which exposed me to the Turkish business culture, it could not prepare me for the challenges of starting a company here. I wish I had more support to understand the rules, and regulations especially in understanding financial compliance [tax, accounting, and auditing].

Currently, we have nine teachers. I hope to expand our work to also teach adolescents. I can see the challenges that our children are facing; they need to be equipped with the skills to fit into the job market of tomorrow, which is much more competitive. I would like to do this but the situation for us [Syrians] in Turkey is unclear. We do not know what will happen tomorrow, if the rules and regulations for us will change. Until there is a clear vision for our presence in Turkey, I will continue to maintain our current work, and when the time comes, I hope to be able to expand.

Work is what gives a human purpose. My husband and I are serious about raising our children in an environment where they learn to value work and contribute to the society that is hosting them. Education is the most important way to do this, as our children are the future. If our children are well equipped, with a solid foundation [education], they can contribute positively to this society.

One day, I would also like to start a kindergarten. After all, these are the pillars of our future. For now, I am volunteering at a local orphanage that provides training for children with special needs.”

With that, Asmaa beams at her youngest son, who returns her smile from across the room, where he has been quietly playing with building blocks.

The roundtable discussion revealed that Syrian women entrepreneurs have started businesses such as sweet shops and bakeries, shops selling cosmetics and accessories, hairdressing salons, and language training centers. Among the new ideas expressed at the roundtable were a Turkish language center for Syrian mothers, as well as a nursery for their children, a school for children with special needs, an internet media platform, and a marketing consulting company. The idea for an incubator specialized in the production of sweets or hairdressing businesses was also enthusiastically discussed.

Additional information from the roundtable discussion revealed that Syrian women generally work from home but have greater Turkish language abilities than their male counterparts and more Turkish clients than Syrian. They are highly interested in training and qualification programs to build their capacities as entrepreneurs and expressed a need for mentorship in starting and running a business. They also identified a lack of financial support in the form of grants or loans as a constraint to establishing and growing a business.

In terms of their future in Turkey, there are challenges and opportunities for Syrian women entrepreneurs. As the host country, Turkey has a poor performance in women's economic participation and entrepreneurship.⁹⁴ According to KAGIDER (Women's Entrepreneurship Association of Turkey), women entrepreneurs comprise only eight per cent of business owners nationally, with the percentage increasing to 20 per cent in Istanbul. The good news is there are several public and private initiatives in place to alleviate these challenges. For example, women receive 45 per cent of all training by KOSGEB.⁹⁵ By making Syrian women entrepreneurs more aware of the resources available in Turkey and by supporting the providers in expanding their training, mentorship, and investment programs to Syrian women as well, it is possible to create a greater number of successful Syrian-women-owned businesses in Turkey.

Examples of women-owned SMEs from the sample include:

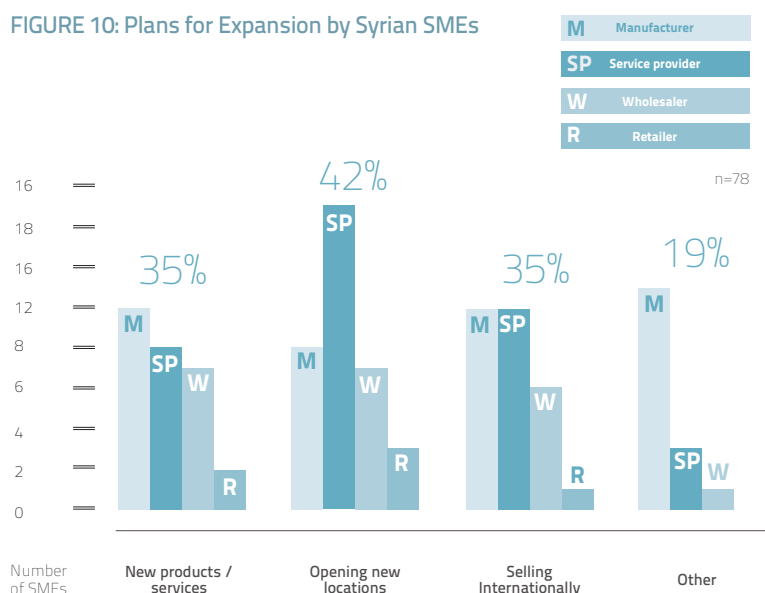
A translation services company in Gaziantep, which was founded by a woman and first-time entrepreneur, chose Turkey for its developed economy and proximity to Syria. With three full-time employees, her business serves individuals, Syrian businesses, and local and international NGOs with translation services in four languages. Even though operating in a new country and market has been hard, she hopes to open additional locations and to stay and expand her business in Turkey even after the conflict in Syria ends.

Another first-time female entrepreneur who previously worked in video and sound recording/publishing in Syria, started a company in Gaziantep providing similar services, primarily to other Syrian businesses and civil society organizations. She sees contracts with international entities in Turkey as her primary opportunity and bids on tenders, but has not been able to win any in the past year. Her greatest challenges are her limited ability to travel and access to finance. The business has two full-time and 10 part-time employees, including five women in total, and earned \$100,000 in revenues last year.

2.8 OUTLOOK FOR SYRIAN BUSINESSES

Syrian SMEs in Turkey are generally confident about their future, with 68 per cent citing that they are doing "a lot better" or "somewhat better" compared to last year. Looking forward to the next 12 months, 65 per cent expect their profits to increase and 55 per cent intend to hire more employees. Of the businesses that are expanding, 42 per cent plan to open new locations within Turkey over the next 12 months, followed by introducing new products/services and selling internationally, each at 35 per cent.⁹⁶ Additionally, 47 per cent say they will be purchasing equipment and fixed assets for their businesses, indicating their confidence in outlook, as well as investment capital needs.

FIGURE 10: Plans for Expansion by Syrian SMEs



42% of Syrian SMEs intend to expand their operations by adding new locations in Turkey. This is particularly important for service providers.

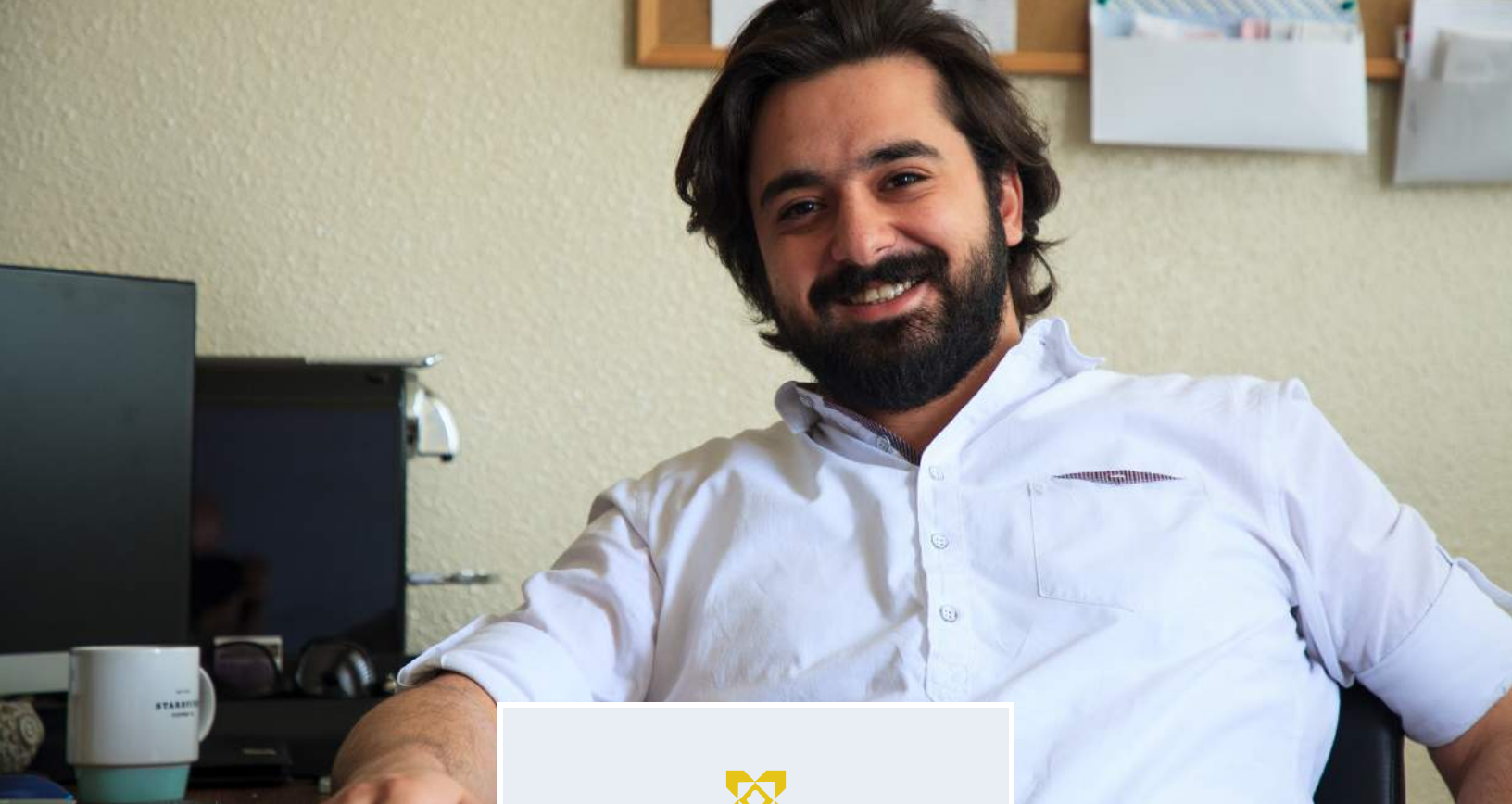
In terms of the sectors or goods and services expected to be most lucrative for Syrian businesses in the next year, food and beverage services and trading top the list, chosen by nearly half of business owners, followed by real estate, exporting, and construction and construction materials. Many stakeholders also mentioned that these areas are preferred by Syrian entrepreneurs in opening businesses in Turkey.

Future in Turkey

The shift to a more permanent status for Syrians in Turkey necessitates support for greater social and economic integration. Both the literature and stakeholder conversations highlight this recent shift in the policy environment as well as the responses by local and international entities. Reinforcing this point, Syrian business owners surveyed demonstrate that they view their presence and investments in Turkey as long-term.

When asked whether they intend to move their business back to Syria after the war ends and conditions improve, the majority stated that they will keep their business in Turkey while also expanding to Syria (76 per cent), with the remaining entrepreneurs planning to stay and grow their

businesses in Turkey (11 per cent). Thirteen per cent reported that they would close their Turkish operations completely and move back to Syria. The intention on the part of Syrian business owners to stay in Turkey⁹⁷ is an indication of their commitment to their investments and ongoing contributions to the local economy, which is also demonstrated by their registration as formal businesses, hiring plans, and ongoing capital investments. Furthermore, 39 per cent of business owners surveyed said they would start another business in Turkey, with the rate of future entrepreneurship plans higher for those currently in manufacturing (47 per cent) and retail industries (52 per cent). This aspiration to start additional businesses despite difficulties experienced reflects both the capacities and confidence of Syrian business owners, as well as their anticipation of a more permanent future in the country.



conclusion & recommendations

BOX 9: Recommendations from Syrian Entrepreneurs

We asked 63 Syrian business owners participating in four separate roundtables to share their recommendations. Here are their suggestions:

For new Syrian entrepreneurs:

- ⚙ Learn Turkish before starting any business in Turkey.
- ⚙ Know all rules before starting a business in Turkey.
- ⚙ Learn about working with Turkish people. It may not always be necessary to have a Turkish partner, but at least have a Turkish employee who can engage with and create marketing strategies that target the local market.

For the Turkish government:

- ⚙ Create a section for Arabic speakers at entities concerned with Syrian investors.
- ⚙ Treat Syrian investors like Turkish citizens concerning banking transactions, giving them the freedom to carry out financial transfers.
- ⚙ Inform Turkish employees on foreign investment rules to avoid miscommunications.
- ⚙ Allow greater freedom of movement for Syrian investors.

For international organizations:

- ⚙ Establish international exhibitions; invite and facilitate participation of Syrian businesses and create opportunity for them to promote their products.
- ⚙ Refer to Syrian manufacturers and investors when buying food baskets for Syria.
- ⚙ When tendering for the purchase of relief materials for Syria, consider the tender terms in accordance with the customs of Syrian society.
- ⚙ Establish an international guide or platform that links the Syrian business community around the world.

For Syrian civil society organizations:

- ⚙ Establish a business guide for Syrian investors in Turkey to connect them.
- ⚙ Establish a legal committee to answer all legal questions that concern Syrian businesses.
- ⚙ Translate all laws and incentives offered by the Turkish government and distribute them to Syrian investors.
- ⚙ Invest in the capacities of Syrian employees and employers through training.
- ⚙ Focus on success stories of Syrian entrepreneurs. Encourage Syrians to make long-term investments.

The Syrian crisis has created unprecedented displacement and forced migration into neighboring countries. This has resulted in challenges and strains for countries like Turkey, which has taken in the bulk of refugees. Many have viewed this influx in a negative light, however Syrian business owners offer another side to the story. From experienced industrialists and serial entrepreneurs to qualified professionals forced to be self-employed for the first time, these business owners demonstrate the qualities, resourcefulness, and drive needed to create dividends for themselves, their employees, and their host communities.

Syrian entrepreneurs are changing the narrative. Rather than a so-called burden or recipients of aid, they are becoming net contributors to the economies that host them, which are often struggling with the effects of the Syrian war as well as pre-existing challenges, such as unemployment. In Turkey, commercial hubs such as Istanbul and provinces along the Syrian border, like Gaziantep, can both benefit from the entrepreneurial energy, capital, innovation, diversity, and networks Syrian businesses offer. Business is about competition, and Syrian firms will intensify that competition locally, in some sectors and regions more than others. However, the macroeconomic benefits can ultimately outweigh these microeconomic challenges with the right policies and support made available to both Syrian and other local SMEs.

Building Markets recommends the following actions be taken to support Syrian SMEs:

3.1 POLICY AND REGULATORY ENVIRONMENT

Given the protracted nature of the Syrian crisis and the need to generate employment and economic dividends for refugees and host communities, policies and regulations that specifically enable the growth of Syrian entrepreneurship should be considered.

⚙️ **Encourage formalization of Syrian businesses** by disseminating information through help desks and digital platforms, reducing registration costs, and expediting processes. This will increase tax revenue, decrease unfair competition with Turkish firms, and limit expansion of the informal sector.

⚙️ **Assist Syrian SMEs with increasing employment opportunities within their firms by:** 1) boosting access to work permits for Syrians; 2) Making it easier for SMEs to obtain waivers from the 10:1 Turkish to refugee employment quota;⁹⁸ and 3) Promoting the growth of export-oriented SMEs that create jobs for Syrian refugees by negotiating preferential market access (e.g. lower tariffs) from Turkey's trade partners that purchase their goods and services.

⚙️ **Broaden awareness of incentives and facilities offered to local SMEs** by hiring an Arabic-speaking liaison within each relevant public agency to increase compliance with regulations.

⚙️ **Enable Syrian entrepreneurs/investors to deploy and retain their capital in Turkey** by minimizing uncertainties about their future and legal status in Turkey, especially given the difficulties that Syrian passports pose.

⚙️ **Encourage Syrian business growth, including export-oriented business activity**, by extending permits and visas that will allow for greater freedom of movement.

⚙️ **Develop “inclusive” local procurement policies** that emphasize contracting of goods and services with SMEs that are owned by or employ Syrians, where such vendors can perform to acceptable standards at a cost equal to or less than alternatives.⁹⁹

3.2 BUSINESS INTEGRATION AND SUPPORT

Syrian entrepreneurs are at risk of being isolated, particularly without language abilities and access to business support. This may prevent them from taking full advantage of Turkey's developed economy and the resources available to SMEs and entrepreneurs.

⚙️ **Reduce language barriers for Syrian entrepreneurs** by increasing access to business-oriented Turkish language training, developing a network of reliable translators to work with the Syrian business community, and identifying efficient, innovative tech-oriented language training and translation services (such as mobile applications and websites).

⚙️ **Offer business training that is aligned with Syrian SME growth constraints.** These courses should be delivered by knowledgeable, Arabic-speaking trainers fluent in both countries' business environment and culture.

⚙️ **Create Syrian Champions” that can mentor or be a resource to other Syrian businesses.** Where language and cultural barriers permit, provide mentorship programs that foster relationships between Turkish and Syrian businesses, especially for women, who are fewer in number and may benefit from similar successful models in Turkey.

⚙️ **Build a network of eligible, reliable, professional advisors, including lawyers and accountants, with language abilities.** This could include matching Syrian lawyers, who are not allowed to practice in Turkey, with Turkish law offices as paralegals to assist with bridging the language and culture gap.

⚙️ **Where possible, extend Turkish SME support programs to Syrian entrepreneurs and make Syrian SME programs**

accessible to Turkish firms. This would leverage resources targeting SMEs and accelerate growth and impact. This could include offering sessions/programs bilingually.

⚙️ **Communicate the contributions of economically productive Syrians** to the local economy through greater coverage of success stories among Syrian entrepreneurs.

3.3 ACCESS TO MARKETS

Syrian SMEs in Turkey are struggling to reach new domestic, regional, and international markets due to a lack of visibility, networks, and infrastructure, which limits their growth.

⚙️ **Facilitate business relationships between Syrian SMEs and potential buyers** through better visibility of their capabilities, status, and product and service offerings. Maintain up-to-date profiles that can be accessed by international organizations, investors, and multi-national corporations, especially those that are responding to the Syrian crisis.

⚙️ **Ensure tenders are easily accessible to SMEs in multiple languages through user-friendly directories.** Include NGO sector tenders, along with private and public sector opportunities.

⚙️ **Encourage Turkish and international businesses to seek out Syrian SMEs as partners when entering markets where Syrian entrepreneurs are experienced and well-established (e.g. Arab Gulf region).** This can be accomplished by increasing awareness of the strengths of Syrian businesses and facilitating interaction among the Turkish and Syrian business communities.

⚙️ **Work with local Chambers of Commerce and other business groups to establish overview seminars on bidding processes and tenders for Syrian and Turkish SMEs.** This could attract a broader group of businesses while also raising competency in the bidding process.

3.4 ACCESS TO CAPITAL

Syrian SMEs present an economic opportunity for banks and investors. However, institutions and financiers seem to be bypassing this market due to a lack of knowledge, data, and products that target their unique needs.

⚙️ **Increase access to finance** by developing alternative risk models that help banks evaluate Syrian SMEs, providing loan guarantees, introducing innovative financial products and offering targeted advisory services for SMEs that are credit ready – especially in regions that experience capital constraints and host large numbers of refugees.

⚙️ **Ensure transparent and consistent interpretation and application of commercial banking policies** by training bank staff.

⚙️ **Attract new Syrian investment in the region** by establishing investment support offices to share information. Alongside this, develop and support Syrian diaspora hubs and angel investor networks in Turkey that can engage and introduce Syrian investors to opportunities in the country.

⚙️ **Provide pipeline development assistance to local and international investors** through access to data on business operations, history, and performance. Facilitate introductions and exposure through seminars, showcases, and pitch-sessions. Tailor efforts to engage impact investors.

⚙️ **Treat and support experienced Syrian entrepreneurs like other foreign investors** who come to Turkey with capital, know-how, and networks. For example, introduce incentives such as KOSGEB grants and Investment Zones.

3.5 FURTHER RESEARCH NEEDS

This research evaluated 230 Syrian SMEs operating in Turkey to inform Building Markets' future programming and to promote SME growth by filling an important gap in market information. However, additional research is needed to better understand the impact of Syrian SMEs, the financial instruments best suited to their needs, and the policies that can enable their success and expansion in the Turkish economy.

⚙️ **Improve understanding of the external and internal factors that inhibit Syrian SME access to finance.** This includes the experience and constraints of financial institutions and the borrowing preferences of Syrian SMEs.

⚙️ **Analyze buyer demand** to reveal opportunities to increase SME procurement/supply chain integration, including among Syrian SMEs.

⚙️ **Identify sectors with the highest growth potential** for new Syrian SMEs in Turkey to match local and international market opportunities, their competencies, and competition from existing firms.

⚙️ **Assess the impact of Syrian SMEs on the Turkish economy** to identify strategies that can minimize distortionary impacts and maximize positive contributions (job creation in the formal sector).

⚙️ **Measure the success factors of Syrian SMEs in specific sectors**, including the rates of business integration and performance in the Turkish economy. This can inform strategies that can leverage broader growth among Syrian and refugee SMEs.

NEXT STEPS

Building Markets plans to play a key role in assisting SMEs in Turkey and across the region, especially those founded by and employing Syrians.

This includes:

⚙️ **Expanding and bringing visibility to its Syrian SME network.** Building Markets has created in-depth profiles of 230 Syrian SMEs. The organization will continue to expand this network in Turkey and across the region and will feature businesses on its online platform, searchable by location and sector.

⚙️ **Connecting Syrian SMEs to resources and market opportunities.** Leverage its knowledge, data, local partners and methodologies to connect Syrian enterprises with business support, working capital, supply chains, and investment.

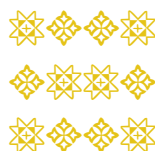
⚙️ **Undertaking further research and tracking Impact.** This includes additional analysis on its growing network of Syrian SMEs and sharing market research on emerging trends, challenges, and opportunities.

BOX 10: Syrian Start-ups in Turkey

Syrians, as well as other technology entrepreneurs around the world, are responding to the needs of the Syrian refugee community through technology. Initiatives to support Syrian startups are sprouting in Turkey as well as in other major refugee-hosting nations. The U.S. Consulate in Istanbul, for example, recently held a hackathon and a technology camp to bring Syrian and Turkish techies together to create innovative solutions. Syrian technology entrepreneurs are also beginning to take advantage of the resources offered to start-ups in Turkey. For example, a Syrian entrepreneur was selected to Turkey's prestigious eTohum accelerator with a startup he founded after arriving in Turkey three years ago, following business opportunities in Libya, Sweden, Russia, China, and the United States. Dynamic Syrian technology entrepreneurs, with their unique life and business experiences, language skills, and regional networks, and Turkey's developing start-up ecosystem, have the potential to offer mutually beneficial opportunities if greater integration and interaction can be achieved between the two.

-

A web designer and mobile applications developer based in Istanbul moved his business to Turkey from another country in the region for the ease of doing business. His experience has so far largely matched his expectations - both starting his business and registering it have been easy with no significant challenges. The business is expanding and plans to increase its current payroll of five full-time employees by six the next year, with business and restaurant owners the primary customers.





Mojahed

a young
informatics
engineer

turned tech entrepreneur, is getting wide-spread acclaim for launching Gherbtana, an app that connects Syrian refugees to their information needs depending on their geographic location. The app includes job listings, video, alerts, a message board, advice, and information on services Syrians might need to help them settle into their new lives – from language classes, work permits, bank accounts, medical assistance, and yes, even Syrian sweet shops.

After moving to Turkey, Mojahed described his own journey struggling to learn the new language, rules, regulations and paperwork, and figuring out his rights in a new country. After working for a Turkish technology company for a year, which helped him learn Turkish and mobile app development, Mojahed started his own business.

Since launching Gherbtana, Mojahed has received a lot of publicity and has been invited to attend and speak at conferences around the world, although he is constrained in

his ability to obtain visas for travel overseas because of his Syrian passport.

Since launching his business in Turkey, Mojahed's small but growing company employs 10 people, which he hopes to double over the next 12 months. "Our app [Gherbtana] has now had over 100,000 downloads; we received between six and eight thousand daily hits on our website and we are planning to open a training center in the coming months."

In his pursuit to further simplify the lives of Syrians in Turkey, Mojahed launched Tarjemly-Live, a live translation platform for Syrians (similar to Uber for ride-sharing, and Fiverr for freelancers), where freelance translators who sign up to the platform can provide live translation services to users via SMS and phone for a fee.

This gig-economy style business model, Mojahed hopes, will create jobs for Syrian and Turks, while addressing the most pressing needs of Syrian refugees settling into their new lives in Turkey.



annexes

ANNEX I: TURKISH ECONOMIC ENVIRONMENT

This section provides additional information on the Turkish economy as it relates to the operating environment for Syrian SMEs. This includes an overview of the exports sector, foreign direct investment, and the country's SME landscape.

Exports ¹⁰⁰

The exports sector is the keystone of Turkey's economy. It accounts for nearly a third of GDP and is especially relevant for the Syrian business community given their experience establishing import/export businesses. According to trends published by Turkish Exporters Assembly (TIM), exports of goods and services constituted 27.5 per cent of GDP in 2015; exports of goods was 20 per cent of GDP for the same year. The top 5 export sectors in 2015 (by their share in overall exports) were automotive, apparel, machinery, gold and jewelry, and textiles. The fastest growth during 2001–2015 was in gold and jewelry, plastics, and automotive. Europe is the biggest regional destination for Turkish exports, with Germany ranking number one among countries globally. The Middle East comes in second with a rapidly growing share. In the period between 2001–2015, the top 3 fastest-growing export destinations were Iraq, Turkmenistan, and U.A.E. In 2016, Turkey's exports were \$142.6 billion, a 0.8 per cent decrease compared to 2015. This can be attributed to a currency value loss and problems with export markets such as Russia and the Middle East. Exports are expected to bounce back to \$155 billion in 2017.

Foreign Direct Investment

Despite the domestic and regional political risks, a complex bureaucracy, and barriers to market access across a range of sectors,¹⁰¹ Turkey attracts \$12.3 billion in foreign direct investment (FDI) annually,¹⁰² with a wide array of incentives in place for general, regional, large-scale, and strategic investments. As an incentive to foreign and domestic investors, Turkey offers three types of Investment Zones: "Teknoparks" for technology start-ups; "Organized Industrial Zones," which offer land and infrastructure to manufacturing companies; and "Free Zones" that exempt companies from customs and other taxes on trade. A recent law has

established certain cities in eastern and southeastern regions as "Centers of Attraction" (Cazibe Merkezi) for enticing investments to these less developed regions of the country. Total investment to be attracted this year through this new law is expected to be over \$25 billion, which will create over 300,000 new jobs.¹⁰³ Another piece of recent legislation grants citizenship to foreign investors who invest at least \$1 million in property or \$2 million in fixed capital investments; purchase government bonds or keep a balance of \$3 million in a bank for 3 years; or who create at least 100 jobs in the country.¹⁰⁴

Small and Medium-Sized Enterprises (SMEs) ¹⁰⁵

Defined broadly as enterprises with fewer than 250 employees, SMEs play a critical role in the Turkish economy. More than 90 per cent of all firms in Turkey are SMEs, and more than 90 per cent of all Turkish SMEs are considered "micro," with fewer than 10 employees. SMEs in Turkey account for more than half of total value added (53 per cent) and nearly three in four jobs (74 per cent) of the "non-financial business economy." While the SME sector continues to suffer from challenges related to innovation, management capacity, and access to skilled employees, improvements have been steady over the past few years in policy and access to finance. SME banking is generally well-developed with access to credit and services for SMEs offered by most major banks in Turkey, although there are some challenges in the southeast region. As alternatives to bank credit, especially for higher-impact small businesses, angel investing and venture capital have both been gaining prominence.¹⁰⁶

Turkey's "Medium Term Plan"¹⁰⁷ states as a priority "improving SME competitiveness through innovation and Research and Development (R&D), branding, institutionalization, and development of innovative business models." The plan includes supporting and facilitating SME access to international export markets as well as increasing access to finance by reducing the credit risk of SMEs. Turkey prioritizes improving production capacities of exporting companies; encouraging FDI in high tech production areas; and supporting manufacturing sectors with high trade deficits through public R&D spending.

In keeping with the importance placed on developing SMEs, Turkey offers a strong support system and portfolio of incentives and facilities to them, primarily via KOSGEB through various support instruments in financing, R&D, market research, investment, marketing, export, and training.¹⁰⁸ International financial institutions, such as IFC, EIB, and EBRD, are also active in offering access to finance and business advisory services. In addition, “entrepreneurship” as a concept has been growing in significance over the past decade. University programs, public agencies, and private sector NGOs and companies increasingly offer programs supporting high-impact ideas and the creation of new firms.

Consistent among various assessments of the entrepreneurial environment in Turkey is the need for further improvement in the regulatory environment with regard to procedures and bureaucracy, especially in starting businesses and international trade. These are also areas of relevance for Syrian SMEs in Turkey. The negative effects of bureaucracy are exacerbated for Syrian entrepreneurs by the additional challenge of language barriers and access to information.

ANNEX II: METHODOLOGY

To fill the gap in market information about Syrian SMEs in Turkey, Building Markets conducted an assessment, together with its local partner and research collaborator, SEF. Through research, in-person interviews, and focus groups, qualitative and quantitative data was collected from January to April 2017 in Gaziantep and Istanbul.

Objectives

The objectives of conducting this market assessment were two-fold: 1) to inform Building Markets' approach and strategy for supporting Syrian SMEs in Turkey, including business profiling on the organization's database and online platform, structured business support, and facilitating connections to capital, supply chains, and investment; and, 2) to bring visibility to Syrian SMEs and their capacities and constraints to better inform policy and programming intended to support their growth.

Study Components and Survey Techniques

The key to the success of this assessment was to identify a local partner in Turkey to work alongside Building Markets to undertake this work. SEF was identified through a competitive bidding process and was selected based on their capacity to undertake field research, their extensive network, and their exceptional track record. In addition to field research through surveys and roundtable discussions, SEF made important contributions to the study with their outreach to Syrian SMEs and their contextual insights.

This assessment included four key components:

1. Desk research
2. Primary data collection through an in-person survey
3. Stakeholder interviews
4. Roundtable discussions with Syrian business owners

1. Desk Research

Desk research preceded survey development and implementation to understand the existing context for Syrian businesses in Turkey, and to inform the focus of the rest of the assessment. Sources used included reports by a variety

of public, private, local, and international entities, including the World Bank, UNDP, ILO, the Investment Support and Promotion Agency of Turkey (ISPAT), KOSGEB, OECD, and others, on the SME environment in Turkey, with a focus on the economic impact and integration needs of Syrian refugees, as well as relevant news articles. The resources consulted are listed in the Bibliography (Annex IV).

2. Survey

In consultation with SEF, Building Markets tailored its survey methodology to ensure the approach was appropriately aligned with the culture, context, and expectations of Syrian SMEs operating in Turkey. This included reviewing and adjusting over 180 qualitative and quantitative questions across 10 categories of inquiry covering topics such as basic firm data, labor and hiring, finance, tender bidding practices, support and training needs, perceptions about external factors, constraints to business operations, and business outlook.

Between January 25 and April 8, 2017, 11 enumerators visited 230 businesses in Istanbul (115) and Gaziantep (115). Each survey was administered in-person to a business owner¹⁰⁹ with a tablet and took around 1 hour to complete. SEF's proprietary software tracked survey responses, and the SEF team in Gaziantep managed data maintenance and cleaning in close consultation with the Building Markets team in New York.

Survey Sample and Definitions

The sample requirements for the survey included: 1) registered as a formal business in Gaziantep or Istanbul; 2) ability to conduct interview with the business owner; 3) an "active" business with employee(s). The study relied on the SME definition adopted by Turkish law and generally used by actors serving SMEs in Turkey. This definition is in line with the European Union (EU) definition in terms of employee number thresholds, but requires smaller revenue and balance sheet figures for each category (see Table 4).

The sample for the survey relied on the list of registered businesses from the Chambers of Commerce in Istanbul

TABLE 4 : Definition of Micro, Small and Medium-sized Enterprises in Turkey ¹¹⁰

	EU Definition		Turkish law on the SME definition (Nov 4 2012)	
Micro	< 10 employees	< \$2,128,000 turnover/balance sheet	< 10 employees	< \$318,000 turnover/balance sheet
Small	< 50 employees	< \$10,638,000 turnover/balance sheet	< 50 employees	< \$2,543,000 turnover/balance sheet
Medium	< 250 employees	< \$10,638,000 turnover < \$ 45,745,000 balance sheet	< 250 employees	< \$12,715,000 turnover/balance sheet

and Gaziantep, two cities with different economic and social environments for Syrian SMEs. SEF reached out to the SMEs on this database and solicited survey participants.¹¹¹ In addition, SEF, together with Building Markets, conducted broader outreach, via social media and professional networks, to solicit additional participation in the survey. The leads developed through these efforts were followed up by the SEF team to ensure compliance with the survey requirements and to schedule in-person surveys.

3. Stakeholder Interviews

Concurrently with the SME survey, the assessment included qualitative, semi-structured conversations with 28 key stakeholders from public, semi-public, private, and international stakeholders. This included the Chamber of Commerce and Ipekyolu (Silkroad) Development Agency in Gaziantep, IFC, EBRD, UNDP, Federation of Chambers of Commerce (TOBB) and other Turkish business associations, NGOs, and researchers. Conversations focused on the impact of Syrian refugees on the Turkish economy, their challenges and needs, opportunities to support and scale them, and, more broadly, the challenges and opportunities associated with the entrepreneurial environment in Turkey. For a complete list of stakeholders consulted, see Annex III.¹¹²

4. Roundtable Discussions

Four roundtable discussions were carried out in March 2017, with a total of 63 business owners identified from the survey sample. The purpose of these interactions was to delve deeper into survey topics and gather additional qualitative insights. Two roundtables were conducted in both Istanbul and Gaziantep, and included SMEs from a diverse range of sectors. The criteria used to invite roundtable participants included: success with job creation;¹¹³ experience bidding on tenders or having Turkish partners; and a positive outlook.

In addition to the four roundtables mentioned above with survey participants, an additional roundtable took place in Gaziantep with 18 experienced and aspiring Syrian women entrepreneurs identified through broader outreach. This roundtable focused on the unique experiences of being a female entrepreneur and gathered insights and recommendations on support needs. See section “2.7 Syrian Women Entrepreneurs” for more details.

Assumptions and Limitations

Data Reliability

This report utilizes publicly available information, data, and literature, supplemented by qualitative and anecdotal evidence and insights acquired through interviews with stakeholders and roundtable discussions with Syrian entrepreneurs. In preparing this analysis and recommendations, Building Markets has relied on the accuracy of the information reported, and has not undertaken any independent verification of data.

Furthermore, the survey data used in the analysis for this report was reported directly by owners to enumerators during an interview. No separate audit of documents or other evidence, corroborating the data provided, was conducted. In analyzing survey responses, Building Markets carefully reviewed and flagged any data fields that were determined to be outliers and/or subject to misreporting by survey respondents. In addition, despite reassurances about confidentiality, business owners were generally less willing to provide financial data and details of their employees and partners, such as nationalities and ownership shares, which was expected given the sensitive nature of this information.

Employee Numbers and SME Categories

Turkish regulations and institutions use the EU definition of SMEs with the same employee number thresholds but smaller revenue and balance sheet figures for each category (see Table 4). In categorizing Syrian businesses surveyed as micro, small or medium-sized enterprises, Building Markets has relied on owner-reported employee numbers only, according to this common EU-Turkey definition, in the absence of detailed and reliable financial figures from most of the sample. The total numbers of employees have been calculated by adding full-time and part-time employees at a rate of 0.5 full-time equivalent (FTE).

To assess the needs of companies that have created at least one job, and to avoid surveying any inactive businesses, the sample only included businesses that reported having at least one full-time employee (227 of 230 surveyed). The remaining three businesses refused to provide employee

numbers. Through their answers to other questions and their overall business profile, we were able to determine that they did have employees, and therefore included them in the overall sample. However, in the absence of precise employee numbers, they were not included in the SME size classifications.

One observation, and limitation of the survey, is that owners might have been inconsistent in including themselves when reporting employee figures. Consultations with SEF confirmed that owners responding to the survey tended to report employee numbers excluding themselves. This means that actual job creation numbers, including owners, are likely higher than reported.

ANNEX III: LIST OF STAKEHOLDERS CONSULTED

Stakeholder	Description
Turkish Public Entities	
GASMEK	Gaziantep Metropolitan Municipality Artistic and Occupational Training Courses (GASMEK) offers general and technical vocational training, including to Syrian refugees.
Silkroad Development Agency (SDA)	The main duty of SDA is to ensure long-term sustainable development of the provinces of Gaziantep, Adiyaman, and Kilis in Southeastern Anatolia. SDA provides consultancy and guidance services free of charge to national and international investors through Investment Support Offices in these regions.
International Entities	
European Bank for Reconstruction and Development (EBRD)	In Turkey, EBRD focuses on investment in sustainable energy, improving infrastructure, strengthening the competitiveness of the private sector, and deepening capital and local currency markets, while promoting regional and youth inclusion and gender equality.
European Investment Bank (EIB)	The EIB is the only bank owned by and representing the interests of the European Union Member States. It has been supporting Turkey's development and integration with the EU since the mid-1960s, focusing on support to SMEs, transport, the environment, and agriculture projects.
Finance in Motion	Finance in Motion is an impact investing advisor exclusively focused on development finance, advising funds with around EUR 1.7 billion in assets under management.
International Finance Cooperation (IFC)	The IFC in Turkey invests in projects to support sustainable energy and infrastructure development, improve municipal services, develop public-private partnerships, promote local capital markets, and help Turkish companies increase competitiveness and impact.
International Labor Organization (ILO)	A specialized agency of the United Nations, the ILO Office in Turkey works to promote International Labor Standards in Turkey, and develops, implements, and monitors technical cooperation programs and projects for advancing the decent work opportunities for all.
International Rescue Committee (IRC)	The IRC, an international NGO, provides services to improve education, economic wellbeing, safety, and legal support for refugees in Turkey who are fleeing armed conflict, most notably in Syria.
United Nations Development Programme (UNDP)	UNDP Turkey works for progress in three core areas: inclusive and sustainable growth; inclusive and democratic governance; and climate change and environment. It emphasizes the role of women, the private sector, capacity development, and information and communication technologies in its policies and programs.
U.S. Department of State - Istanbul of Consulate	Several agencies of the United States Government that constitute the U.S. Consulate in Istanbul work as a team to promote relations between the American and Turkish government and people.
The World Bank	The World Bank is a vital source of financial and technical assistance to developing countries around the world, and has a strong partnership with Turkey and countries in the Middle East. The World Bank has a new initiative for the Syrian diaspora.
Turkish Entrepreneurship Ecosystem & NGOs	
Arya Women's Investment Platform	Arya is Turkey's only women-focused investment platform that channels funds to women-led businesses.
Corporate Social Responsibility Association of Turkey (CSR Turkey)	CSR Turkey is an independent NGO formed in 2005 that aims to promote CSR notions within international standards in Turkey and to increase CSR awareness that already exists with foundations, associations, and guild culture in Turkey.
Entrepreneurship Foundation	Founded by business people and opinion leaders, Entrepreneurship Foundation works with youth to advance the entrepreneurship culture and to make entrepreneurship a career alternative among young people in Turkey.

Habitat	Habitat is a local NGO whose objective is to contribute to sustainable development in Turkey by developing projects that increase the capabilities of youth and all other vulnerable groups and support their participation in decision-making processes.
Istanbul Startup Angels	Istanbul Startup Angels is an accredited angel investor network that aims to discover new initiatives that will have a high impact at the startup stage and to mentor and to develop potential investors in Turkey.
KAGIDER	The Women Entrepreneurs Association of Turkey (KAGIDER) is a local NGO aimed at strengthening women entrepreneurs economically, socially, and politically. It is engaged in training, counseling and mentorship activities that support this goal.
Target Technology Transfer Office	Located at the Gaziantep University, Target Technology Transfer Office (TTO) was established as an affiliate of Gaziantep Technology Development Region and was selected as one of the 10 TTOs that were funded by TUBITAK to serve the region, the university, and the industry.
World SME Forum (WSF)	The World SME Forum, based in Turkey, aims to improve the overall growth and impact of SMEs globally. WSF is designed to be an enduring platform contributing to the G20's overall mission for sustainable global economic growth.
Turkish Private Sector/ Business Associations	
Foreign Economic Relations Board (DEIK)	DEIK conducts the foreign economic relations of Turkish private sector and is a “business diplomacy” organization representing Turkey's business community. DEIK's Turkey-Syria Business Council was established in 2001; with the outbreak of civil war in 2011, it is now focused on Syrian businessmen active in Turkey and finding solutions for their problems.
Gaziantep Chamber of Commerce	Gaziantep Chamber of Commerce, with over 17,000 active members, is one of the most prominent trade organizations in the country, as well as the region.
The Union of Chambers and Commodity Exchanges of Turkey (TOBB)	TOBB is the highest legal entity in Turkey representing the private sector, with 365 members in the form of local chambers of commerce, industry, commerce and industry, maritime commerce, and commodity exchanges.
TurkonFed	Turkish Enterprise and Business Confederation (TurkonFed), established in 2004, is a business NGO, aiming to contribute to the development of regional, sectoral, and national economic policies; its network represents over 40,000 companies.
Syrian Organizations	
Association of Syrian Businessmen (Suriyeli Isadamlari Dernegi - SIAD)	SIAD is a civil society organization and business association based in Gaziantep with branches in Mersin and Istanbul. The association aims to build good relations between Syrian and Turkish companies, in addition to providing new opportunities for member companies through opening new markets for their products, in Turkey or abroad.
Syrian Friendship Association (Suriye Dostluk Dernegi)	The Syrian Friendship Association, with its 8 branches in Turkey, works to promote social, economic, and cultural development through events and research together with national and international partners. Its membership is largely comprised of the Syrian business community.
Research Organizations	
Hacettepe University Migration and Politics Research Center (HUGO)	The aim of HUGO is to conduct national and foreign research, examinations, evaluations, education programs, and other studies regarding internal and external migrations, migrants and historical, political, economical, legal, and international relationships and sociologic and strategic fields.
Istanbul Economics Research	Istanbul Economics is a research and strategic consultancy firm.
The Research Center on Asylum and Migration (IGAM)	IGAM is an NGO founded in 2013 in Ankara by a group of academics, researchers, journalists, and humanitarian workers to fill the gap of nonexistence of an independent research center on asylum and migration issues.

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ANNEX IV: END NOTES

¹ The report refers to these firms as “Syrian” SMEs, for short, to make the distinction between other SMEs in Turkey and those founded/owned by Syrians in the country, in large part since the beginning of the Syrian war. As registered, formal companies in Turkey, there is no legal distinction between these entities and other SMEs operating in Turkey.

² Daniel Johnson. 2016. Estimated by UN Special Envoy in August 2016. (accessed June 15, 2017)

³ Figures from UNHCR, Syria Refugee Response, <http://data.unhcr.org/syrianrefugees/regional.php> and International Rescue Committee (IRC).

⁴ Wood, Josh. 2016.

⁵ Gobat, Jeanne, Kostial, Kristina. 2016. More specifically, the centers of Syria’s manufacturing base in Aleppo, Homs, and the suburbs of Damascus have been severely affected by the conflict and shortages of materials, destruction of infrastructure, and constraints on trade and financing rendered their businesses unviable.

⁶ World Bulletin News Desk. 2014.

⁷ Sema, Handan. 2015.

⁸ Union of Chambers and Commodity Exchanges of Turkey. 2017. Calculated from the annual “Company Establishment/Liquidation Statistics” reported by TOBB, (accessed May 23, 2017). Foreign investment rank is by number of companies established, not total amount of capital.

⁹ Union of Chambers and Commodity Exchanges of Turkey. 2017. Data estimated from the first four months of 2017 from TOBB “Company Establishment/Liquidation Statistics” reported by TOBB, (accessed May 23, 2017).

¹⁰ According to a 2013 survey conducted by AFAD, Turkey’s disaster and emergency management agency.

¹¹ Karasapan, Omer. 2016.

¹² Collier, Paul, Betts, Alexander. 2017.

¹³ Erdoğan, M. 2015.

¹⁴ Asik, G. 2017.

¹⁵ Republic of Turkey Prime Ministry Disaster and Emergency Management Presidency (AFAD). 2016.

¹⁶ Crisis Group. 2016.

¹⁷ World Bank Development Research Group. 2011.

¹⁸ Union of Chambers and Commodity Exchanges of Turkey. 2017. Data in the section are from and calculated based on annual “Company Establishment/Liquidation Statistics” reported by TOBB, (accessed May 23, 2017).

¹⁹ UNDP, ILO, WFP. 2017. Jobs make the Difference report cites this figure based on interviews. There are also higher estimates: A Syrian consultancy in Turkey says that “\$10 billion [of Syrian money] has flowed into Turkey’s southern provinces in the past three years, and most of it is now invested in business.”

²⁰ Woetzal, Jonathan, et al. 2016.

²¹ Vador, Peter; Franke, Nikolaus. 2016.

²² Rosenlund, Stephen; Tabbaa, Ayman. 2016.

²³ Kallick, David Dyssegaard; Roldan, Cyierra; Mathema, Silva. 2016.

²⁴ World Bank. April 2017. “Despite the War, the Syrian Diaspora Begins to Organize Reinvestment.” The World Bank has launched an initiative to facilitate organization and coordination among the Syrian diaspora community.

²⁵ Summarized from World Bank, OECD, ISPAT overviews. 2016 figures unless indicated otherwise.

²⁶ Cassidy, John. 2015. Cali, Massimilian, Sekkarie, Samia. 2015.

²⁷ Devranoglu, Nevzat. 2016.

²⁸ Erdoğan, M. 2015.

²⁹ Crisis Group. 2016.

³⁰ Özpınar, Esra. 2015.

³¹ Afanasieva, Dasha. 2016.

³² Karakaya, Kerim. 2016.

³³ Balkan, B. & Tumen, S. J. 2016.

³⁴ Hürriyet Daily News. 2016. “Turkey worst in OECD for unregistered economy: Study”.

³⁵ World Bank. 2015.

³⁶ Orhan ,Oytun and Gündoğar, Sabiha Senyücel. 2015.

³⁷ Crisis Group. 2016.

³⁸ Erdoğan, M. 2015.

³⁹ Gaziantep Ortak Akıl Platformu (Gaziantep Common Mind Platform). 2015.

⁴⁰ Türkiye İstatistik Kurumu. 2016.

⁴¹ TIM. 2016. “İhracatın Yıllar İçindeki Gelişimi 2001–2015.” 62 firms among the top 1,000 exporters in Turkey from Gaziantep; 442 from Istanbul.

⁴² Türkiye İstatistik Kurumu. 2016. Data in this section are from the Turkish Statistical Institute, Population of Provinces by Years (accessed April 4, 2017).

⁴³ Data in this section are from the Directorate General of Migration Management, Syrian Refugee Management, Ministry of the Interior (accessed May 31, 2017, 2017).

⁴⁴ Data in this section are from the Turkish Statistical Institute, Unemployment rates by region (Level 1) and city (Level 2), Turkish Statistical Institute, (accessed April 4, 2017).

⁴⁵ Gobat, Jeanne, Kostial, Kristina, 2016.

⁴⁶ Invest in Turkey. 2009. “Turkey aims to raise trade with Syria to USD 10 billion.”

⁴⁷ DEİK (Foreign Economic Relations Board). 2017.

⁴⁸ Gobat, Jeanne, Kostial, Kristina. 2016.

⁴⁹ Sahoo, Sananda. 2013.

⁵⁰ Gobat, Jeanne, Kostial, Kristina. 2016.

⁵¹ Global Entrepreneurship and Development Institute. 2017. Data in this section are collected from GEDI (Global Entrepreneurship Index) (accessed March 27, 2017).

⁵² Global Entrepreneurship Research Association. 2017.

⁵³ Kadkoy, Omar. 2017.

⁵⁴ Gonultas, Bahattin. 2017.

⁵⁵ Kadkoy, Omar. 2017.

⁵⁶ Turkish Labour Law. 2016. The requirement for other foreigners in Turkey (i.e. not under temporary protection) is lower: At the workplace for which work permit is requested, at least five persons who are citizens of the Republic of Turkey must be employed for each foreign employee.

⁵⁷ Union of Chambers and Commodity Exchanges of Turkey. 2017. Data in the section are from and calculated based on annual “Company Establishment/Liquidation Statistics” reported by TOBB, (accessed May 23, 2017).

⁵⁸ UNDP, ILO, WFP. 2017. Jobs make the Difference report cites this figure based on interviews. There are also higher estimates: A Syrian consultancy in Turkey says that “\$10 billion [of Syrian money] has flowed into Turkey’s southern provinces in the past three years, and most of it is now invested in business.”

⁵⁹ Union of Chambers and Commodity Exchanges of Turkey. 2017. Data in the section are from and calculated based on the first four months of 2017 from “Company Establishment/Liquidation Statistics” reported by TOBB, (accessed May 23, 2017).

⁶⁰ Kaymaz, Timur. 2016.

⁶¹ Sema, Handan. 2015.

⁶² Erdoğan, M. 2015. “Complaints by locals who believe that Syrians create an “informal economy”, that they do not pay taxes and that the locals are being abused are on the rise.”

⁶³ International Labour Organization. 2017. and International Labour Organization. 2016.

⁶⁴ Crisis Group. 2016.

⁶⁵ Examples include Habitat’s IMECE entrepreneurship training program and EBRD’s SME support program.

⁶⁶ UNDP, ILO, WFP. 2017.

⁶⁷ Unfamiliar with the Turkish law at the time, he had to accept this response from the exhibition staff. As a persistent entrepreneur, however, he went as a visitor, and managed to sell 12 apartments to other visitors from the Arab Gulf region.

⁶⁸ Three businesses did not provide employee numbers and are therefore excluded from this and all subsequent analyses referring to the SME size breakdown. See Annex II: Methodology for further explanation.

⁶⁹ Total employee figures calculated by adding the number of full-time employees and, where available, half of the number of part-time employees (with a 0.5 FTE assumption). Number of employees may or may not include the owners. Size categories by employee numbers are assigned based on the SME definition according to

Turkish regulations. The sampling strategy required companies to have at least 1 full-time employee, therefore micro category corresponds to 1–9 employees. See Annex II: Methodology for further details on SME definition and employee figures in sample.

⁷⁰ This figure is based on qualitative responses provided by businesses where they have explicitly mentioned being engaged in “exports” and is therefore likely understated. Other responses, such as customer base and opportunities pursued, indicate a larger concentration in export-oriented businesses.

⁷¹ One respondent (out of 230) was a knowledgeable representative of the business owner answering the survey on the owner’s behalf, due to the owner’s travel schedule.

⁷² These entrepreneurs were looking for opportunities outside of Syria prior to the war and established ties in Turkey, although it is unclear whether they lived and operated a business in Turkey continuously throughout that time.

⁷³ Stakeholder comments confirm that Syrian entrepreneurs, particularly those from northern Syria, already had strong business relations with Gaziantep and the rest of the border region.

⁷⁴ Gobat, Jeanne, Kostial, Kristina. 2016.

⁷⁵ Refugee Rights Turkey. 2014.

⁷⁶ Gautier, Bruno Gizon, Adrien. 2017. This finding is consistent with the education levels observed in a Habitat/UNHCR survey of 150 refugees (93% Syrians), released in January 2017, where “62% of the sample was enrolled in tertiary education versus a 33% average in Syria.” It is also known that Syria, before the war, had one of the most educated populations in the region.

⁷⁷ Erdoğan, M. 2015.

⁷⁸ Kadkoy, Omar. 2016.

⁷⁹ The ILO discussion with Syrian businesses, in June 2016, states “Banks may pose problems in opening accounts for Syrians despite relevant legislative arrangements. There is need to inform banks well on this issue,” which was echoed in our conversations with stakeholders and SMEs.

⁸⁰ World Bank. 2013. In fact, this is a higher rate than those reported by Turkish companies, 79% of which have a checking or savings account, according to a World Bank Enterprise Survey in 2013, with an even lower rate of 67% in Eastern and Southeastern Anatolia, where Gaziantep is located. Data in this section are from the World Bank Group, Enterprise Surveys, (accessed April 6, 2017).

⁸¹ Gautier, Bruno Gizon, Adrien. 2017. A Habitat/UNHCR survey of 150 refugees (93% Syrian), released in January 2017, finds that “34% of respondents use informal “Hawala” mechanism to transfer money to their country of origin.”

⁸² Sharrack, Rami H. 2016. In SEF’s previous survey of Syrian businesses in Gaziantep, none of the 958 respondents received financing from a bank. Similarly, the Habitat/UNHCR study indicates that none of the 37 registered businesses surveyed got a loan from a formal financial institution.

⁸³ Gautier, Bruno Gizon, Adrien. 2017. There are some indications that Syrians have more experience with interest-free loans. In the

Habitat/UNHCR survey above, 10% of the sample, who borrowed funds, mainly from friends and relatives but no banks in Turkey, say that 91% did not pay any interest and largely borrowed without collateral. The World Bank has done work in Turkey to increase access to Islamic financing, which is interest free, for SMEs, and several other sources also cite this as a growing financing option for businesses in Turkey, which Syrian SMEs may also benefit from. World Bank, Feature Story. 2016.

⁸⁴ World Bank. 2013. Data in this section are from the World Bank Group, Enterprise Surveys, (accessed April 6, 2017).

⁸⁵ World Bank. 2013. The regional variation is significantly higher for firms in Turkey overall: while only 8.7% of firms in the World Bank Enterprise Survey identify access to finance as a major constraint, that percentage goes up to 53.2% in Eastern and Southeastern Turkey (where Gaziantep as well as other major Syrian refugee-hosting provinces are located).

⁸⁶ Willis-Ertur, Sarah, Vader, Jennie. 2014.

⁸⁷ Whereas the previous question is intended to assess available support for Syrian business in Turkey, this question is intended to be more general, including training experience in Syria.

⁸⁸ Connecting Business Initiative - Turkey. 2017.

⁸⁹ World Bank. 2017. "Turkey SME Energy Efficiency Project."

⁹⁰ OECD, et al. 2016. "SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe."

⁹¹ Sharrack, Rami H. 2016. A previous SEF survey of nearly 1,000 formal and informal Syrian businesses in Gaziantep also indicates this need acutely with 88% of the businesses indicating they are not familiar with Turkish business law.

⁹² World Bank. 2015.

⁹³ UNHCR. 2014.

⁹⁴ World Economic Forum, Insight Report. 2016. 2016 female labor market participation rate in Turkey is 32.5%, one of the lowest among OECD nations, and Turkey ranks a dismal 129 out of 144 on economic participation and opportunity in the World Economic Forum's 2016 Gender Gap Report.

⁹⁵ OECD, et al. 2016. "SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe."

⁹⁶ Percentages add up to more than 100% as respondents could provide multiple answers.

⁹⁷ Sharrack, Rami H. 2016. This finding is consistent with a previous survey SEF conducted with nearly 1,000 Syrian (formal and informal) businesses in Gaziantep in 2016, where 93% of the respondents indicated a desire to stay in Turkey.

⁹⁸ Turkish Labor Law. 2016. "In case it is proven by employer that there is no qualified Turkish citizen in the province who can perform the same job as the foreign worker do, this employment quota may not be applied."

⁹⁹ OECD, et al. 2016. "SME Policy Index: Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act

for Europe." In Turkey, public procurement is considered well-advertised, including online, with trainings and helpdesk support available for SMEs.

¹⁰⁰ All figures are from TIM (Turkish Exporters Assembly)

¹⁰¹ Export.gov. 2016.

¹⁰² Invest in Turkey. "TR Snapshot."

¹⁰³ Daily Sabah. 2017.

¹⁰⁴ Doğan, Zülfikar 2017.

¹⁰⁵ European Commission. 2016. All SME data in Turkey in this section is from the European Commission's SBA Fact Sheet 2016-Turkey, SBA, (accessed March 27, 2017).

¹⁰⁶ OECD. 2016. "Financing SMEs and Entrepreneurs 2016: An OECD Scoreboard."

¹⁰⁷ Republic of Turkey Ministry of Development. 2016.

¹⁰⁸ Doing Business in Turkey. 2016. On the other hand, some of the stakeholders we interviewed suggested that, while the legislations and policies to support SMEs are in place, not much is done to assess their efficacy or measure their impact.

¹⁰⁹ With one exception, where the owner, due to travel, designated a knowledgeable representative to answer the survey on his behalf.

¹¹⁰ Reproduced by Building Markets based on an OECD table, converting originally reported EURO and TRY figures to USD at exchange rates of 0.94 and 3.146, respectively. OECD, et al. 2016.

¹¹¹ This process revealed gaps in the membership data of the Chambers of Commerce, where contact information was either missing or referred to the same accountant representative for several companies.

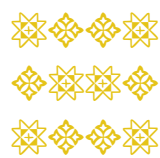
¹¹² While they may not be among the interviewees, attempts were made to incorporate views of additional key stakeholders, most notably KOSGEB and UNHCR, based on third-party consultations and desk research. Furthermore, conversations took place with a couple of additional entities that remained anonymous.

¹¹³ Businesses included in roundtable discussions have as many as 100 employees, on average 17.5. Even with a low number of employees, some businesses were invited based on their other qualities and experience as indicated by data and comments they provided to the survey.

¹¹⁴ Republic of Turkey Prime Ministry Investment Support and Promotion Agency (ISPAT), 2014.

¹¹⁵ OECD, et al. 2016. "Economic Survey of Turkey 2016."...

¹¹⁶ Kızılbağ, Yaşar. 2016. Star, July 11



ANOTHER SIDE TO THE STORY

A market assessment of Syrian SMEs in Turkey

June 2017

“ Do what you love. Use your knowledge and skills and do what you do best. I’ve seen so many businesses start in fields they were unfamiliar with, and as a result they have failed. We arrived in Turkey with a few hundred dollars and our laptops and are doing well. Now that we are more established and have been working with several clients for a long time, we are doing better. In fact, we now have two new Turkish clients!”

