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Access or Non-Access to Finance?

Challenges Faced by Syrian SMEs
in Turkish Border Cities

June 2021

spark



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PREFACE

This report has been developed by SPARK with funding from the European Union under the DAHIL Employment Creation Through Improved Access to Finance for Syrians under Temporary Protection (SuTP) and Host Communities Project. The overall objective of DAHIL is to improve livelihoods among Syrian refugees and host populations in Turkey.

The baseline report and scoping study for the project have been conducted in four cities of the greater Gaziantep region, which hosts the highest numbers of Syrians after İstanbul, including Adana, Gaziantep, Hatay, and Şanlıurfa, in line with the geographical limits of DAHIL.

The writing and field research were led by Dr. Aslı Bilge and data collection support was provided by Rami Sharrakh and Saad Alnassife, both Syrian investors and entrepreneurs in Turkey.

The writing and research team acknowledges Syrian business owners for their time and their contributions to the report in many ways. We also like to thank the Chambers of Commerce and Industry in the region for their support throughout the research. The recommendations of this report will be used as a basis for further advocacy for policy change within the scope of the project.

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List of Abbreviations

3RP	Regional Refugee & Resilience Plan
CPA	Certified Public Accountant
DGMM	Directorate General of Migration Management
ESSN	Emergency Social Safety Net
EU	European Union
FRIT	Facility for Refugees in Turkey
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
ISIS	Islamic State in Iraq and Syria
IMTO	International Money Transfer Operator
INGO	International Non-Governmental Organization
KEDV	Foundation for the Support of Women's Work
KOSGEB	Small and Medium Enterprises Development Organization of Turkey
KYC	Know Your Customer
MASAK	Financial Crimes Investigation Board
MENA	Middle East and North Africa
NACE	Statistical Classification of Economic Activities in the European Community
NGO	Non-Governmental Organization
OECD	Organisation for Economic Co-operation and Development
PTT	Postal and Telegraph Corporation
SCT	Special Consumer Tax
SGK	Social Security Institution
SME	Small and Medium-Sized Enterprise
SuTP	Syrian under Temporary Protection
TOBB	Federation of Chambers of Commerce
TÜBİTAK	Scientific and Technological Council of Turkey
UN	United Nations
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
VAT	Value-Added Tax

Executive Summary

2021 marks the tenth anniversary of the crisis in Syria and, since the beginning of the conflict, rapid demographic change has turned Turkey into the largest host country for refugees, with nearly 4,000,000 Syrians or about 4.4% of the Turkish population. In the south-eastern cities bordering Syria, that change has been even more dramatic, with Syrian refugees accounting for up to an average of 19% of cities' populations. In the face of the magnitude of the influx of Syrian refugees, the Turkish government has been generous in the services provided. There is a sustained need to provide both Syrians and host communities with access to (self-)employment, including support for new and existing businesses to be established and grow to create new jobs and safeguard existing jobs during the COVID-19 pandemic. This also requires additional support in terms of legal and economic policies allowing better access to available services. This report is the outcome of baseline research and a scoping study performed in four south-eastern cities of Turkey to gather information on SME growth potential, including their access to financial services in Turkey.

Syrians in Turkey are creating jobs through at least 15,000 SMEs that they have founded, most of them being microenterprises with fewer than 10 employees. Around the globe, the smaller a business is, the more obstacles it faces in accessing finance. Syrian SMEs are no exception.

Despite the significant potential for growth, there are structural difficulties. Syrians face constraints such as limitations on free movement, language barriers, lack of knowledge of Turkish systems, business and employee registration processes, and lack of transparency in the naturalization process. As for access to financing, challenges range from opening a bank account to acquiring a credit card or transferring money. It seems almost impossible for a Syrian to obtain a bank loan. Turkish banks are reluctant to grant loans to foreigners as they try to apply "Know Your Customer" guidelines. In addition to the general challenge of being foreign, Syrian SMEs are particularly overlooked because they are small and risky. From a bank's perspective, the fact that their business transactions or workers are unregistered affects their accountability. On top of being foreign, they come from a country subjected to sanctions and they tend to export to other sanctioned countries. Even after naturalization, having a Syrian name on the board may constitute a problem for banks that fear international sanctions. Again, in the region, Syrian beneficiaries of governmental grants, loans, or incentives are very scarce or even non-existent. Administrative procedures for those require language skills and proficiency to navigate through the administrative system, in addition to challenges in fulfilling the established criteria.

Financial instruments via NGOs, although limited, seem to be the most effective way for entrepreneurs to start a business. The EU provides substantial assistance for Syrian businesses and the community, alongside other donors.¹ There are many local and global NGOs, again mainly funded by the EU/FRIT program, operating in the cities considered in this report, to provide grants and invest in a long list of educational programs with aims including financial literacy and entrepreneurship training, mentoring, customized consultancy, and guidance in regulations. Most importantly, these are almost always in Arabic. Some of the best success stories have been born out of civil society programs.

Our main conclusion is that Syrian entrepreneurship has great untapped potential for both energizing the local economy with employment creation and improving inclusion in local communities, but structural barriers such

1. For a list of projects funded by the EU under FRIT, see https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/facility_table.pdf, accessed on 6 September 2021.

as limited mobility, banking rules, language barriers, and a generally difficult business climate force these entrepreneurs to create a market within the market, with unregistered clusters of miniature business ecosystems that trade among Syrians. This also limits their integration into society. Simply convincing banks to give them loans will probably not fix this. The approach should be more comprehensive, custom-made, and culturally sensitive. There is a greater need for concentrated efforts to prepare the future not only for Syrians, including a whole new generation who know only Turkey as their homeland, but also for social cohesion and the economic wellbeing and growth of Turkey by including these newcomers. Operations in the field should ideally include a mixture of banking and non-banking financial instruments, supported by fintech solutions and needs-based approaches.

Key Findings

Syrians in Turkey have laid the foundation of a self-reliant community through the SMEs that they have founded, and they achieved this with very little help beyond their own or family savings. Access to finance is a constraint for the growth of their SMEs as they have little or no access to bank loans and face challenges in accessing any banking services. Access to governmental incentives in the form of grants, credits, tax facilities, or training also remains limited. NGOs are actively supporting these SMEs through various programs in the region, but the outreach is still limited. SMEs suffer from unpredictability for their future stemming from the temporary protection status and challenges faced due to limitations of free movement, lack of information about the Turkish economic system, language barriers, and opaque criteria for selection, such as for the processes of naturalization or work permits.

According to the latest data provided by the DGMM, 3,707,564 Syrians under temporary protection (SuTPs) live dispersed throughout Turkey's urban geography. According to the latest data, Turkey hosts at least 3,670,717 SuTPs. An additional 57,502 refugees still reside in camps in five south-eastern cities.² Moreover, 88,907 Syrian nationals who entered the country with valid passports live or work in Turkey.³ In addition, at least 110,000 naturalized Syrians⁴ reside in Turkey together with an unknown number of those who are still unregistered in any of the above cited categories.⁵ These numbers give us a picture of a Syrian community of nearly 4 million people, an estimated 4.39% of the total population of Turkey. After İstanbul, this community is heavily clustered in the cities bordering Syria:

Cities Hosting the Highest Number of SuTPs			
1	İstanbul	524,721	3.4%
2	Gaziantep	449,073	21.5%
3	Hatay	435,830	26.3%
4	Şanlıurfa	423,677	20%
5	Adana	254,058	11.3%

2. Official Website of the DGMM, <https://www.goc.gov.tr/gecici-koruma5638>, accessed on 10 September 2021.

3. Foreign population by country of origin, TÜİK, <https://data.tuik.gov.tr/Bulten/Index?p=The-Results-of-Address-Based-Population-Registration-System-2019-33705>, accessed on 10 September 2021.

4. The latest data were provided by the Ministry of Interior on 30 December 2019 and quoted by Mülteciler Derneği, <https://muleciler.org.tr/turkiyedeki-suriyeli-sayisi/>, accessed on 21 April 2021.

5. For an early assessment of the refugee crisis see Ahmet İçduygu, 'Syrian Refugees in Turkey, The Long Road Ahead', Transatlantic Council on Migration, A Project of the Migration Policy Institute, April 2015.

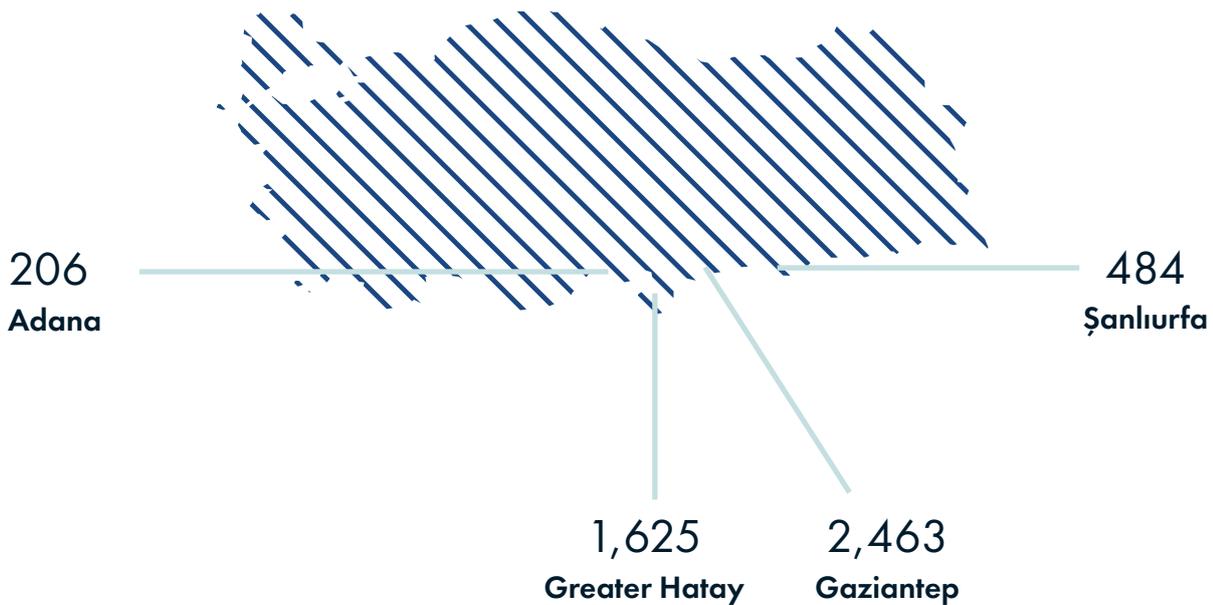
Gaziantep ranks first after İstanbul with 456,684 SuTPs, constituting 21.89% of the city's population, followed by Hatay with 436,843 or 26.3%, and then Şanlıurfa (424,712 or 20.15%) and Adana (254,064 or 11.32%).⁶

Syrians have founded businesses in Turkey, creating jobs and earning livelihoods for themselves, their families, and their communities. Since 2011, more than 15,000 businesses have been founded with Syrian capital.⁷

During this research we collected data on the number of Syrian businesses registered in the Chambers of Commerce or Industry for the greater Gaziantep region. We found a total of 4,876 such businesses, and their breakdown is as follows:

- In Adana there are 206 Syrian businesses registered with the Chamber of Commerce and two registered with the Chamber of Industry.
- In Hatay there are 950 Syrian businesses with an additional 505 businesses registered in the border town of Reyhanlı, 107 businesses in İskenderun, and 63 in Dörtöyl.
- In Gaziantep, 2463 Syrian businesses are registered with the Chamber of Commerce and 96 businesses are registered with the Chamber of Industry.
- In Şanlıurfa, 482 Syrian businesses are registered with the Chamber of Commerce and Industry and 2 with the Birecik Chamber of Commerce.

Breakdown of Syrian SMEs in the South-eastern Region of Turkey:



6. 'Temporary Protection', Directorate General of Migration, <https://www.goc.gov.tr/gecici-koruma5638>, accessed on 10 September, 2021.

7. Declaration of the former Turkish Minister of Commerce Ruhsar Pekcan, 14 June, 2019, https://www.ntv.com.tr/ekonomi/bakan-pekcan-turkiyede-15-bin-159-suriyeli-sirket-var,RL47ciK0hkb4yUoF_Uu3g, accessed on 20 May, 2021.



SPARK

Juman Jamal Sakkae, Smart Marionette,
Gaziantep, Turkey

The role of refugee entrepreneurship is encouraged by the Turkish government and international organizations worldwide, with the view that it will be a stepping stone to economic growth and social integration. As much as these benefits exist, it is important to situate the endeavours within the economic systems of the south-east of Turkey. The area is characterized by informal businesses, economically exploited workers (seasonal, construction, etc.), and, in terms of finance, a considerably significant unbanked population and some of the highest rates of unpaid loans.

The Syrian entrepreneurs who were interviewed often stated that they had never used a loan back in Syria and most of their businesses were unregistered. Furthermore, 70% of the respondents said that they had no previous dealings or experiences with the banking sector in Syria before and that banking services in Turkey are completely different from their previous experiences in Syria. More than 30% of Syrian businesses are still unlicensed and unregistered according to Turkish business law. As many of these entrepreneurs came without attesting documentation or any way of transferring over their previous credit history, most of them also lack the tools to prove their credit history. Hence, the agency of a Syrian person is limited in integrating into the formal administrative and financial systems. In addition, the cultural implications of what can go wrong in dealings with the state create defensive strategies: more than one interviewee explained that they would be too scared to file a complaint against a Turkish citizen or entity, even if they knew they were justified, for fear of being deported or denied some level of documentation.

Introduction and Context

2021 marks 10 years since the beginning of the conflict in Syria. Since 2011, 6.6 million Syrians were displaced, with about 4 million of them arriving in Turkey, making it the largest host country for refugees. The Turkish government displayed a significant level of generosity in opportunities provided to SuTPs, eventually offering formal opportunities such as work permits and entrepreneurship support. Over the course of this decade, we observed Syrians turning themselves from refugees into business owners, contributing in various ways to the economy, bringing livelihoods for themselves and their families, and thus laying the foundations of a self-reliant community. Even though it is commonplace to define refugees as burdens for the host society and consumers of services and governmental funds, Syrians have become essential components of the Turkish economy through at least 15,000 SMEs that they own.⁸ In the first years of the crisis international and governmental attention was focused on provision of 'survival kits' for newcomers, addressing shelter, food, education, and health services.⁹ Today, there is an increasing need for careful planning and legal endorsement for their economic activities.

With access to finance being one of the impediments blocking the advancement of Syrian enterprises, immediate and creative solutions are more urgently needed than ever before in order to achieve the full potential of the SMEs as well as providing tax revenues and employment for the host country. SMEs around the world are under close observation of governments and international organizations for their vivacity, potential, and resilience during times of crisis, but also for their vulnerability as we are currently experiencing the COVID-19 pandemic. SMEs constitute up to 99% of all businesses in the OECD, EU, and Turkey. SMEs are key to local job creation, providing the jobs of 50% of all employees in the formal sector in developing countries.¹⁰ They also create a greater share of jobs relative to larger firms, even in times of net job loss.¹¹ They are instrumental in the adaptation period of societies to

8. *ibid.*

9. FRIT Office of the Presidency of Turkey & Ministry of Family, Labour, and Social Security, Exit Strategy from the ESSN Program, 20 December 2018, p. 5, <https://www.csgb.gov.tr/media/3725/essn-exit-strategy-1.pdf>, accessed on 20 May 2021.

major transformations, such as the rapid demographic change that we are witnessing today with the Syrian crisis. In Turkey, a large and vibrant SME scene is the backbone of the economy where fluctuations and uncertainties prevail. Syrians have come with their networks and business skills together with dynamism and determination to provide livelihoods for their families and community.¹² The majority of these businesses may be considered 'micro' with fewer than 10 employees. Across the globe, the smaller the business, the more obstacles it faces in its efforts to access finance. Smaller businesses report significantly more financing obstacles than medium-sized businesses and both report more financing obstacles than large firms.¹³

Syrian SMEs are no exception; in fact, they may suffer more hardships due to their legal status. In Turkey there is an attempt to support refugee entrepreneurship through various governmental programs as a main tool to create jobs and open new horizons for commerce, as is evident in the increase of Turkish exports to the MENA countries. There has been considerable discussion about Syrian businesses in terms of their impact on the employment of Syrians, the creation of new jobs, and the contribution of their growth to local economies during the economic slow-down.

Turkey also identified 'developing Syrian businesses' as the second strategic objective in terms of increasing formal employment and job creation. However, the capacity of these programs to reach Syrian businesses together with the inadequacy of the financial services that banks offer to refugee entrepreneurs leaves Syrian-owned SMEs in the trap of remaining on an exceedingly small scale or in the desperate position of not accessing any help to launch the business. Despite challenges, a vibrant business scenery underpins the resilience of Syrian SMEs and has helped achieve prosperity in this community.

Methodology

The aim of this study was not to draw a full map of Syrian SMEs in the four selected cities but rather to understand in depth the challenges they face in their journey to financial access. In the field, we worked in Adana, Hatay, Gaziantep, and Şanlıurfa and carried out in-depth, face-to-face interviews with 30 Syrian owners of SMEs of different sectors and different sizes. We also received responses to our detailed questionnaire from 30 additional Syrian SME owners selected from among 500 businesses according to region, age, area, and size. We contacted three bank headquarters in İstanbul and interviewed four different branch managers in the mentioned cities. We also spoke to local and international fintech professionals.

On the public side, we spoke to the team involved with work permits within the Turkish Ministry of Family, Labour, and Social Security and the Expert Consultant to the Minister of Trade. Their valuable insights and visions helped us shape the recommendations.

We contacted the Adana, Gaziantep, Şanlıurfa, Hatay, Reyhanlı, Dörtöyl, İskenderun, Birecik, and Erzin Chambers of Commerce and the Adana and Gaziantep Chambers of Industry to verify their numbers of Syrian members and ask about the activities that they are organizing for them. We talked to two Turkish white-collar workers (a customs broker from Antakya and an accountant from Gaziantep) who work for Syrian SMEs. In addition to that, we organized two focus group meetings in Gaziantep and Şanlıurfa. Finally, we questioned two Syrian economic consultants who work with Syrian SMEs.

10. Meghana Ayyegari, Asli Demirgüç-Kunt & Vojislav Maximovich, 'SME Finance', World Bank Policy Research Working Paper, December 2017, p. 2.

11. 'Another Side to the Story: A Market Assessment of the Syrian SMEs in Turkey', Building Markets, 2017, p. 8.

12. Thorsten Beck, Asli Demirgüç Kunt, Luc Laeven & Vojislav Maximovich, 'The Determinants of Financing Obstacles', World Bank Policy Research Working Paper, February 2004, p. 12.

13. Exit Strategy from the ESSN Program, op. cit.

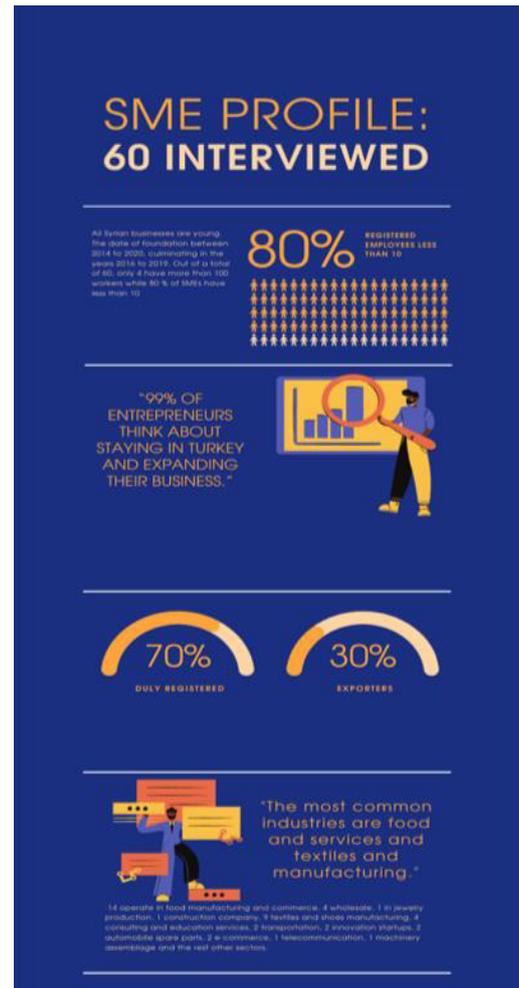
14. TOBB Statistics, available online at <https://www.tobb.org.tr/BilgiErisimMudurlugu/Sayfalar/KurulanKapananSirketistatistikleri.php>, accessed on May 18, 2021.

SME Profile

It is hard to evaluate the exact number of Syrian businesses. According to the data provided by TOBB,¹⁵ there are approximately 10,000 registered businesses (only Ltd. and incorporated companies), whereas the Ministry of Commerce declared that, in 2019, there were 15,159 businesses owned by Syrians and these businesses employed 10,046 registered workers.¹⁶ However, the data do not make clear which types of businesses are included. To this number we should also add unregistered businesses: we estimate that at least 30% of the Syrian businesses in Turkey operate unregistered¹⁷ and those with sole proprietorship (Turkish: şahıs şirketi), common among Syrians who do not have the capital or other tools for expansion, are not among the TOBB statistics. The numbers show that Syrian businesses, even when we take into consideration only the registered ones, bring livelihoods for more than 250,000 people in the studied region alone, bearing in mind that the average Syrian household comprises six individuals.¹⁸ The real number of Syrian businesses and members of the Syrian refugee community who earn a living from these businesses may surpass earlier estimations.¹⁹ The claim that Syrian SMEs of all sorts are providing jobs and thus a living for a quarter of all Syrian refugees in Turkey would not be beyond imagination.

Through a questionnaire administered online and face-to-face interviews, we learned the following about our sample group:

- All Syrian businesses are young, having been set up between 2014 to 2020, with rates of establishment culminating in the years of 2016 to 2019.
- Out of a total of 60, only 4 have more than 100 workers, while 80% of SMEs have fewer than 10.
- Out of 60 interviewees, 14 operate in food manufacturing and commerce, 4 in wholesale, 1 in jewellery production, 1 in construction, 9 in textiles and shoe manufacturing,
- 4 in consulting and education services, 2 in transportation, 2 in innovation start-ups, 2 in automobile spare parts, 2 in e-commerce, 1 in telecommunications, 1 in machinery assemblage, and the rest in other sectors.
- Out of 60, 20 are exporters, with 2 of them targeting the export market only.
- Only 70% are duly registered according to the requirements of Turkish business law.
- 99% of Syrian SME owners think about staying and expanding their business in Turkey.



15. TOBB Statistics, available online at <https://www.tobb.org.tr/BilgiErisimMudurlugu/Sayfalar/KurulanKapananSirketistatistikleri.php>, accessed on 18 May, 2021.

16. https://www.ntv.com.tr/ekonomi/bakan-pekcan-turkiyede-15-bin-159-suriyeli-sirket-var,RL47cjk0hkib4yUoF_Uu3g, accessed on 25 April, 2021.

17. The exact number of unregistered Syrian businesses remains unknown. This estimation is based on our sample group numbers and interviews with Syrian and Turkish professionals who provide consultation services to Syrian businesses in the region.

18. Murat Erdoğan, 'Suriyeliler Barometresi 2019, Suriyelilerle Uyum İçinde Yaşamın Çerçevesi', UNHCR, July 2020, p. 47

19. 'Syrian SME Snapshot: Syrian Small Businesses in the Southeastern Region of Turkey', Building Markets, April 2021.

Section I

General Problems that Impede Growth



SPARK

Greenhouse classes, Turkey

I. Legal Status of Syrians

The legal status of Syrian refugees in Turkey was first defined in 2013 with the Law on Foreigners and International Protection, being further detailed in the Regulation on Temporary Protection.²⁰ With further amendments in 2016, Syrians obtained the 'service' of work permit applications. Turkey deliberately avoided the use of 'rights' for refugees in areas such as education, shelter, and employment, instead insisting that 'services' be provided under the law. This means that the provision of these services is not compulsory.²¹ As the title of the regulation itself suggests, the 'temporality' of the 'protection' seems to be limited in time and vulnerable to political and economic changes. Syrians fear that the Turkish government may change its attitudes towards them as a community. Syrian SME owners are not comfortable with their legal situation.²² This is a challenge for businesspeople, who need stability and trust in order to expand their businesses. As one bluntly put it, 'We want to know whether we are refugees or investors. This fact results in the loss of millions of euro as many of the Syrians with capital prefer not to use it in Turkey or to put it under a pillow. For this reason, Syrians under temporary protection desire to become Turkish citizens as soon as possible, thinking that naturalization will solve their problems completely. However, we found out that, despite this belief, even naturalized Syrians may face similar problems, because, in the words of a bank official, "their birthplace is Syria".'

II. Registration

The cities studied here were notorious for high levels of unregistered businesses and workers even before the start of the flux of refugees. This business environment was familiar to the newcomers and they too opened a large number of unregistered microbusinesses. In our sample group, where 80% of the businesses are considered microbusinesses, 18% are small businesses, and 2% are medium-sized businesses by number of workers, 30% of all businesses are unregistered.

On the one hand, opening an unregistered business comes with a level of ease. There is no need for complicated paperwork, language is not a total barrier, and it offers a certain level of flexibility that businesses in formal systems may not have. However, operating in the informal sector keeps the business small and reinforces concentration in immigrant districts. All of the studied cities had areas where Syrian businesses clustered and shops clearly targeted mainly Syrian clientele.

The slippery ground of the informal economy also manifests itself in the lack of legal grounds for defending one's business. With work based on verbal or non-binding contracts and needing to build mutual trust, immigrants are expected to face greater problems, if not at the beginning then certainly in times of crisis.

As a fresh approach to integration through entrepreneurship, it is necessary to ask whether informal entrepreneurship and/or employment helps integration at all. In addition to the initial limitations of social capital

20. The law was fully effective after it was published in the Official Gazette No. 6458, on 11 April, 2013. Temporary Protection was further detailed in the Regulation on Temporary Protection that was published in the Official Gazette, No. 29153, 22 October, 2014, <https://www.goc.gov.tr/yabancilar-ve-uluslararasi-koruma-kanununda-gecici-koruma>; <https://www.mevzuat.gov.tr/MevzuatMetin/21.5.20146883.pdf> accessed on 21 April 2021.

21. Oğuzhan Aslantürk & Yusuf Erdem Tunç, 'Türkiye'de Yabancıların Çalışma İzinleri: Suriyeliler Örneği', *Ombudsman Akademik*, Year 9, Issue 9, Jul-Dec. 2018, p. 161

22. Feyzi Baban, Suzan Ilcan & Kim Rygiel, 'Syrian Refugees in Turkey: Pathways to Precarity, Differential Inclusion and Negotiated Citizenship Rights', *Journal of Ethnic and Migration Studies*, Vol 43, No. 1, 2016, pp. 1-17.

by concentrating immigrant settlements in certain localities, it limits entrepreneurial effects in integration. This has multiple results, but most importantly, it limits production and trade by Syrian entrepreneurs who could create an atmosphere of exchange between the two cultures. Second, it limits the potential acts of exchange, dialogue, and daily encounters; in short, it limits relations with the host community.

While being unregistered provides competitive price advantages to businesses, it also diminishes their hopes of expanding and integrating into the economic system. Whether unregistered or registered, Syrian businesses almost exclusively employ only Syrian people, thus creating job opportunities for the community. However, being unregistered prevents them from benefiting from any kinds of government incentives and bank or non-bank financial access.

This issue also harms social inclusion as it upsets local business owners and workers. There are unfounded rumours that Syrians are exempt from any taxation, which has likely grown out of the tendency of Syrian SMEs to not become formal entities.

III. Work Permits

The issue of work permits is one of the concerns reiterated by the owners of SMEs. This issue also diminishes the chances of Syrian SMEs obtaining governmental or NGO incentives, as the employment of at least five registered workers is often a required criterion. Furthermore, these SMEs cannot prove to banks that they have a business that is active and real, translating to problems in accessing financial services.

SuTSPs in Turkey were allowed access to basic social services as of 2013. However, the right to apply for work permits was only issued in 2016.²³ The issue of work permits remains a challenge, as is evident in the fact that until 2019, the number of issued permits was as low as 132,497.²⁴ There are restrictive measures in the regulation; for example, the application should be made by the employer on behalf of the employee, and a 1/10 ratio is in place for employing foreigners, meaning that an enterprise has to employ 10 locals in order to gain the right to 1 work permit. The permit lasts for 1 year and has to be renewed, costing a certain amount each time. These rules apply to all foreigners in Turkey and there may be further restrictions for white-collar businesses in fields like engineering or pharmacy, depending on their respective chambers. During our interview at the Ministry of Labour, the process of approving work permit applications was revealed:²⁵ the protocol for issuing work permits is based on constantly changing social, economic, and political contexts.²⁶

The growth in the numbers of Syrian SMEs after 2016 should be considered in light of the fact that sometimes starting a business may be a good way to obtain a work permit. It seems that the odds of the application being approved is higher if an entrepreneur is applying, even if their employees may not be obtaining work permits. For Syrians living in Turkey with a residency permit (i.e. not under temporary protection coverage), obtaining a work permit is done through the same procedure as it is for all foreigners. Sometimes this creates additional difficulties for a Syrian person, having come from a war zone. Renewing passports, which must be valid for 2 years, is very costly

23. Aslantürk & Tuğ, op.cit.

24. Data provided by the 3RP Working Group, led by UNDP and UNHCR Turkey, 16 June, 2021.

25. 'Geçici Koruma Sağlanan Yabancıların Çalışma İzinlerine Dair Yönetmelik', <https://www.mevzuat.gov.tr/MevzuatMetin/3.5.20168375.pdf>, January 15, 2016, accessed on 3 May, 2021.

26. Based on face-to-face interview with the Head of Department of the Directorate General of the Inter-national Labour Force, Ankara, 2 June, 2021.

and not always safe as it may require returning to Syria. It can cost up to 1,500 USD to renew one passport.²⁷

We must also note an adverse effect of the Emergency Social Safety Net (ESSN) cards, called 'Kızılay cards' in Turkey because they are distributed through the Turkish Red Crescent (Kızılay) Society: Even when business owners desire to apply for a work permit and register their workers, the latter generally do not accept the offer, as registration with the SGK means that they will lose their monthly ESSN allowances. Work is regarded as volatile, while the Kızılay card, a lifeline for many low-income Syrian families, is difficult to re-obtain once it is lost. The lack of registered workers creates a number of problems for the financial health of an SME, from keeping books in accordance with the regulation to having a clear picture of how big the business actually is, especially when reaching out for financial assistance.

IV. Syrians with Higher Education

Syrians who have higher education diplomas face twofold challenges in the labour market.²⁸ Their employers have to apply for their work permits, so the Syrians must first find a business owner willing to apply for a Syrian employee. Even in Syrian-owned SMEs, the 1/10 quota makes it impossible to legally hire more Syrians. Microenterprises can only apply for one Syrian worker. We observed that Syrian SMEs can only legalize the owner and one family member in terms of SGK coverage and work permits. Apart from that, those who are registered as employees of larger businesses are generally white-collar Turkish nationals. This reality forces educated Syrians to start their own businesses even though they have had no previous experience in the business market. They often do not know about the extra financial burdens that they must shoulder while running the business or any insights about commerce in general. Educated Syrians also have another disadvantage. A lack of recognition of their diplomas and the prohibition of employing foreigners in some professions distance them from the labour market. Those who have graduated from the social sciences, lawyers, teachers, doctors, and pharmacists are among the most vulnerable in Turkey and are most often planning immigration into Europe.

V. Language Barriers

We found that unless they had pursued their education in Turkey, the language proficiency level of the Syrians was limited. Even as education levels rise, there is a possibility that a Syrian person in Turkey may live his or her life speaking only Arabic. The high numbers of community members who came to Turkey make it difficult for Syrians to integrate, beginning with learning Turkish. In the south-east, there are few who have already attended free Turkish classes offered by government agencies like public education centres, municipalities, or Chambers of Commerce. Since COVID-19 forced these courses to close, there has been a disruption of one full year for those wishing to learn Turkish. The language barrier limits the access of Syrian SMEs to Turkish-speaking consumer markets as well as business collaborations with Turkish-speaking SMEs, resulting in their customer base being limited to the refugee community at large or a desire to work with only Arabic-speaking countries. Even though a few business owners claimed that they did not need Turkish in order to conduct their business, the majority underlined that their inability to speak the language limited their capacity to grow, understand the dynamics of the market, and deal with

27. Cenk Saraçoğlu & Danièle Bélanger, 'Suriyeli Mülteciler ve Geçici Koruma Rejimi: Sermaye İçin Mekansal Ayar' in Esengül Yıldız et al., Marx 2020, Belge Yay. 2020, pp.303-333; Luis Pinedo-Caro, 'Türk

İşgücü Piyasasında Suriyeli Mülteciler, ILO Turkish Office, 9 Feb. 2020, p. 24;

28. Pinedo-Caro, *ibid.*

their customers without any intermediaries; limited their grasp of the economic, social, and cultural systems of the country in which they live; impeded their hopes of obtaining governmental incentives; and lowered their chances of defending themselves when they face injustices.

VI. Freedom of Movement within the Country

Syrian SME owners often asserted that access to finance is a minor problem compared to other existential challenges that they face in their daily operations. The lack of free movement ranks high on the list of issues still awaiting a solution. Temporary protection comes with geographical limits to where Syrians may live and work. Under the current legislation, SuTPs must apply to the Migration Office of the city in which they live in order to travel.

Syrian SMEs often operate in the sectors of manufacturing, construction, transport, and wholesale, all of which require free movement between cities and sometimes abroad. They must be on the move to fulfil the requirements of their businesses, buying raw materials, attending meetings, sealing new deals, attending exhibitions and fairs, and so on. The owner of a Turkish technology SME that hires Syrian engineers noted that, as much as he wants to hire more Syrians, they create more complications for his business. On several occasions, the projects that Syrian engineers oversaw could not be presented abroad because the Syrians could not obtain visas. In a similar vein, construction businesses that have projects in different cities or sometimes abroad cannot have their workers travel unless they spend days dealing with the long bureaucratic processes of the Migration Office.²⁹

One shoe manufacturer from Adana noted that they have to go to İstanbul often to buy raw materials to produce shoes, and sometimes they do not know in advance when they will have to travel. Once they start their journey, they might need to continue traveling rather than going back home, obtaining another permit, and getting back on the road again. This business owner was fined twice while trying to travel for business purposes.

One distributor from Hatay described their situation as being 'handcuffed to the city'. In his line of work, which requires mobility, and with most of his workers being Syrians, he finds the restrictions on free movement 'catastrophic'.

29. According to one businessman who owns a construction business in Gaziantep, conducting business in another city is extremely complicated. To work in a different city, all his employees must obtain long-term travel permission and all names should be on one document. This is not obtainable online and when they try to explain the situation to the DGMM office in their city, they are not even allowed into the building. The owner explained that it was only because he knew someone inside that his business managed to obtain those permissions. Even then, he and his workers have to wait long hours, sometimes days, to obtain travel permission. When we asked what happens to those who do not know anyone in the office, he replied: 'They may try to go illegally or they simply cannot do business in other cities'.

Section II

Access to Finance



SPARK

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I. Banks Syrian SMEs Work With

Similar to the trends among local people in the south-east of Turkey, there is a large segment of the Syrian population that is unbanked. They mainly use cash for their personal spending as well as for their businesses and savings are stored 'under the mattress'. They have a general mistrust of banks and they are reluctant to place their capital in Turkish banks due to a lack of confidence created by their legal status. Pre-conflict Syria did not have a widely functioning, modern-day banking system. Hence, Syrian SME owners do not have significant banking history or experiences before their arrival in Turkey. Therefore, there is a general illiteracy among Syrians regarding the products and services that are available. For simple money transfers, the Turkish postal service/bank, the PTT, offers a preferred solution. This transfer process does not require much paperwork and the PTT also offers some branches inside Syria, so it meets a large portion of the needs.

However, when it comes to dealing with more than simple money transfers, it becomes necessary to find a conventional bank offering various financial services and instruments. Unfortunately for Syrian people, personal preferences in choosing the bank to work with are not relevant, because there are limited banks that will work with them and the services that they offer are even more limited.

A. State Banks:

At the top of the list of banks that Syrian people can work with, we find Ziraat Bank, a leading Turkish state bank that welcomes Syrians when they provide the necessary documents. Syrians also cited that they rely on this bank because it is owned by the state, thus considered as more trustful. The bank has a wide network of branches throughout the country, relatively easy to access, the main bank for the Government for the SGK and other governmental payments. Ziraat Bank scarcely has Arabic speaking staff in any branches and they do not provide any Arabic option in their mobile application. Vakıf Katılım comes second, which is also a state bank, and offers an Islamic component of 'participation banking' which 25% of our sample Syrian group prefer for religious reasons. Compared to Ziraat Bank, Vakıf Katılım is considered to have easier to access. Vakıf Katılım also has many branches in our focus cities, and they also have Arabic speaking staff. However, like Ziraat, Vakıf Katılım does not provide any Arabic or English language options in their mobile application.

B. Private Banks

The Syrians that we spoke to seemed to prefer working with Kuveyt Türk Katılım and Albaraka Türk. Both are participation banks. Both have partnerships with Arab countries of the Gulf and offer sensitive solutions for Arabic-speaking customers. These banks clearly welcome Syrians. They have Arabic-speaking staff, which is found to be helpful by Syrians, and they also have mobile applications in Arabic. However, some interviewees stated that the services provided by these banks are not always to the expected standards; there may be delays or glitches that may have negative effects on their business relations. İş Bank is a bank that 20% of the SME owners we spoke to preferred to work with. Anecdotal evidence suggests that this bank was very welcoming to Syrians until 2018 and was offering credit cards, but it started to be more rigid and lost its appeal in more recent years. İş Bank does not offer services in Arabic, but its mobile application is effective and well designed according to our interviewees.

II. Banks Reluctant to Work with Syrians

We found that as a matter of general inclination, banks with non-Arab foreign partners are more reluctant to work with Syrians. A great number of our interviewees named certain banks, asserting that these banks did not even allow them 'to step onto their premises' once it was realized that they were Syrians. Some banks openly state that they will not provide bank accounts to Syrians, and many do not offer any explanation for that, which creates a discriminatory tone, especially when bearing in mind that all SMEs founded in Turkey are Turkish notwithstanding the owner's nationality or legal status. Talking to representatives of those banks, we found that their strategy is intended to avoid being fined due to international sanctions and that even non-Syrians with Arabic-sounding names can be a red alert when it comes to being investigated for potential violations of those sanctions.

III. Step-By-Step Challenges in Accessing Finance

A. Opening a Bank Account

The first step of financial inclusion is opening a bank account, and the challenges of Syrians in accessing financial instruments start there at the very beginning. The majority of Syrian business owners asserted that they encountered problems in opening personal as well as business accounts. For them, it is not easy to generalize about bank attitudes because there are differences in treatment from city to city and even from branch to branch of the same bank. A majority of the interviewees indicated that they faced discriminatory treatment and many asserted that they were 'not even permitted to step onto the bank premises' because they are Syrian. The only banks that Syrians 'prefer' for opening accounts are those where regulations are lenient. Syrian customers cannot discern why they are denied services. They believe that there are no regulations prohibiting a Syrian from being served by these banks, and they generally describe the treatment they receive as arbitrary, changing according to the director of the branch or even to the mood of the employee at the counter. Generally, when they face discriminatory treatment, they change banks, they visit other branches of the same bank, or they simply try to work with another employee. We believe that language barriers facilitate discriminatory behaviour on the side of the banks.

B. Documentation

Turkey does not have a special banking regulation for Syrians that mandates that banks provide accounts with basic features to all those who reside legally in the country.³⁰ There are also no uniform internal regulations of the banks addressing the issue of Syrian accounts. Banks request a set of documents, uniform for every foreign customer, in order to open personal and business accounts. Some SMEs cannot provide the necessary documentation and find the procedures lengthy and exhausting. Conversely, if the bank does not categorically refuse to work with Syrians, the documentation that is required is quite simple to provide in practice. For personal accounts, the necessary documents consist of a communication address in Turkey, a potential tax number (to be obtained from any tax administration), a passport (or identity card), and a Turkish telephone number or an invoice with the applicant's name on it.

For commercial accounts, things become somewhat more complicated, as there are different documentations for

30. EU regulates access to basic payment accounts for all, including refugees, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32014L0092>, accessed on 21 May, 2021.

different kinds of enterprises. Unlicensed businesses cannot provide the necessary documentation in order to open bank accounts and operate through banks. For registered businesses, the long list of tasks to be completed may seem daunting. Again, Syrians who came to Turkey with legal documentation and live in the country as foreigners find it difficult to comply with all the documentation requirements. Banks do not accept passports when accounts are being opened for sole proprietorship enterprises, as they are not sufficient to verify the identity of the applicant from the bank's perspective. For other businesses, banks require the identity card of the owner, a trade registry gazette notice, a tax registration certificate, a certificate of good standing, authorized signature identification, a certificate registering with the business chamber of the city, and, in some cases, a notarized photocopy of the registry book. Bearing in mind that Turkish language proficiency and knowledge about the financial system is limited among Syrians, collecting all of these documents may generate several challenges. Banks evaluate Syrian businesses on the basis of capital, assets, and management. This evaluation requires the SME to present proper documentation, but in many cases, inconsistencies exist because there is a gap in the market of competent sworn public accountants. On many occasions, SuTPs underlined that they prefer to work with Arabic-speaking sworn accountants, but those are hard to find. Turkish accountants are generally approached with suspicion by Syrian clients, accused of charging excessive prices for their work or simply not informing them enough about tax issues or governmental incentives. Overall, there is room for improvement in the bookkeeping practices of the SMEs in order to build healthy relationships with banks.

C. Transferring Money

All Syrian owners of exporting SMEs said that they faced problems in transferring and receiving money via banks. According to the Gaziantep Chamber of Commerce's Syrian Desk, new businesses particularly face challenges in sending and receiving money. The formal remittance market in Turkey includes banks and traditional international money transferring organizations (IMTOs) like Western Union and MoneyGram. Interviews with bank officers in the region highlighted that the transactions of any Syrian are regarded with high suspicion, especially as a result of the Money Laundering, Terrorist Financing, and Transfer of Funds Regulations of 2017. The identity card of the business owner does not provide a legal basis for interactions through the banks

This impediment is so significant that many Syrian businesses cannot use the banking system at all and therefore often end up having no choice but to use informal money transferring facilities such as the 'Hawala' system in order to operate. Western Union and MoneyGram are also preferred by Syrians but caps on individual transfers at any one time (1,000-1,500 USD) make these semi-formal financial instruments inadequate for business operations. On top of this, some SME owners mentioned that banks required them to perform their transactions in only Turkish lira, USD, or euro, making it impossible for customers in some countries to transfer money and thus leading to a loss of customers.

IV. Sources of Finance

A. Obtaining a Credit Card

Ownership of a credit card, a step forward on the way to building a credit history and a requirement of the market, especially with e-commerce booming as a result of the COVID-19 pandemic, is scarce among Syrians. Interviewees also highlighted that they did not wish to use a credit card by choice 'to not use money that is not one's own' or for cultural/religious reasons, but primarily, they had tried to obtain one and had failed. Very few

have a credit card, and those who do could only obtain it once they obtained Turkish citizenship. Banks do not want to grant credit cards to Syrians as a policy choice. The respondents who wished to have a credit card stated that, in many instances, they were refused after evaluation by the 'compliance department'. As one private bank manager put it, 'a Syrian under temporary protection cannot get a credit card under any circumstances. The problem is that their score at the Credit Bureau is nil. We cannot see anything for the payment score, either.' Even the very few who have a credit card do not have a 'real one'. They have to keep a deposit in the bank corresponding to the amount of the actual limit of the card. These limits are extremely low at around 1,000 or 2,000 Turkish lira (100-200 euro). Therefore, it is difficult to make use of these cards for business purposes, such as renting a car or buying equipment.

B. Borrowing Habits of Syrians: Family Comes First

Syrian SMEs rely on their own savings to fund their operations. We noted that often they fall into despair as those savings start to shrink. Out of 60 interviews, only 2 start-up businesses benefited from capital offered by an NGO. Apart from their own resources, when they need extra financing, the owners of SMEs rely on the broader family's savings in the form of non-interest loans and it is also common to borrow from 'friends'.

C. Accessing Bank Loans

Accessing formal loans rather than informal types of finance is a more effective tool for SMEs to expand their business. However, there is a considerable percentage of Syrian-founded SMEs that do not want bank loans for cultural and religious reasons. Non-users include those who find the cost too high for the size of their enterprises. The traditional preference for cash in their dealings also makes it difficult for them to envisage credit options. Bank credit, already nearly impossible for a Syrian SME to obtain, is nevertheless wished for by many, and 60% of the interviewees noted that they would use a bank loan if necessary. Only 20% of the business owners stated that they did not need a bank loan. Apart from those businesses that are unsuitable for such loans, the rate of those who would refuse bank credits for religious reasons is relatively low (10%) and they explained that interest is 'haram', or religiously forbidden. Similarly, 10% of respondents preferred non-interest forms of borrowing. For many, even though financing is necessary, the interest rates of banks for loans are too high and fluctuations in the exchange rate make it difficult to estimate the payments of the loans. Non-interest forms of borrowing are available from participation banks, but those are not exempt from the fluctuating exchange rate.

About 20% of our interviewees had already tried to obtain a loan and were rejected by the banks. We observed that SMEs with more prospects of investment and vision to expand their business, which often fell into the category of medium-sized businesses, showed more interest in obtaining loans from banks. However, even for them, it was almost impossible to access loans, largely due to the Syrian origins of the owners. Among the SMEs owner that we reached, 99% of those who tried to get a loan from a bank were refused. Overall, banks do not grant loans to Syrian SMEs, even when they have collateral, be it money or movable goods worth more than the loan itself. Moreover, it is impossible for Syrian individuals to acquire non-movable assets in Turkey due to 'the principle of reciprocity' with Syria, thus making it difficult for them to show collateral.³¹ Any non-movable assets of Syrian nationals should be registered under the names of their businesses (Ltd. and incorporated companies). This complicates the route to showing collateral for loans, or at least limits the possibilities.

31. As a response to restrictions from Syria, Turkey issued Mukabele-i Bilmisil Kanunu (Reciprocity Law) No. 1062, May 28, 1927, confiscating non-movable assets of Syrians and forbidding them to acquire new ones. For a review of the issue see Sinan Şığıva, 'İdari Yargı Kararları İçerisinde 1062 Sayılı Mukabele-i Bilmisil Kanununun Uygulanışı', Hacettepe HFD, Vo. 6, No. 2, 2016, pp.181-196

V. Banks' Perspective

Despite the fact that Turkey is the leading country in terms of numbers of refugees hosted worldwide, traditional financial institutions are having a hard time dealing with this large new potential customer base.

There is definitely room for development in Turkey regarding the need for the financial inclusion of refugees, as there are no regulations that would constitute a framework for refugee customers. On paper, all Syrians are eligible to open a bank account after providing a passport or some form of ID card, a utility bill showing an address, and a tax number³² to be evaluated by the bank. It is also expected that they will be able to transfer money after opening a bank account. However, from our findings and according to previous research as well, we know that this is not the case in practice.

There are no formal, transparent, or inclusive guidelines regulating the financial inclusion of refugees. In the absence of such guidance, desk clerks almost always use their own initiative, creating inconsistencies in services and a general mistrust from the perspective of Syrians.³³ From the bank's perspective, there are several barriers that prevent them from working with Syrians, as discussed in more detail below.

VI. Approach of Banks to Loans

As a result of our interviews with bank headquarters and branches in the region together with the Syrian business community, we found that it is nearly impossible for a Syrian SME to obtain a bank loan. Indeed, the bank headquarters and regional branch managers told us that they do not grant any loans to foreigners, no matter which nationality they hold. Turkish banks expect SMEs to have 'at least one partner to be Turkish', since all partners being foreigners does not comply with 'minimum credibility' for the bank. Moreover, the Credit Guarantee Fund has the same requirement. In the field, the bankers that we talked to highlighted that Syrians are risky customers, and there is no willingness from the banks to apply marketing strategies for them. Despite the fact that Syrians believe that they would be eligible for bank credits upon naturalization, banks are reluctant to give credit even to naturalized Syrian owners or to firms with Turkish-Syrian partnerships.

A. Know Your Customer

The banks' working principle, 'Know Your Customer' (KYC), means that they will not serve customers with whom they are not comfortable being associated. That may suggest a blanket category of foreigners and refugees, as well as people without credible credit scores or registered jobs, homes, etc.

On top of the difficulties that Syrians automatically face with KYC, global geopolitics also work against them in that the system of controls for banks in dealing with sanctioned countries has increased its pressure. A few years ago, French bank QNB Paribas was issued a fine of nearly 9 billion USD after violating sanctions against Sudan. This incident resonated with almost all banks in terms of dealing with countries for which international sanctions apply, such as Iran and Syria. Like Iran, Syria has been subject to sanctions since 1979 with increased intensity in recent years. Hence, it is very problematic to send money to any place in Syria or any Syrian organization, which at times

32. Guidelines for SuTFs, UNHCR, 2018, https://help.unhcr.org/wp-content/uploads/sites/11/2019/07/FAQ-for-Syrians_TR_2018_11_27.pdf

33. See footnote no. 21.

has extended to people with Syrian names or origin and even to Turkish areas near the Syrian border.

The impact of sanctions overlaps with anti-money laundering regulations in banks' approaches to Syrians. The main enforcement in anti-money laundering for Turkish banks has been EU legislation, which led to the setting up MASAK, the financial crimes investigation unit. With relevance to Syria and financial crimes, this unit unveiled a web of black-market money transfer systems that were used by ISIS in 2018. The businesses used by ISIS in this instance were operating within the large, informal money transfer system set up by the Syrian diaspora, whereby the principle is quite similar to regular banking but it is entirely unregistered.

All of the above points mean that most banks will refrain from working with SMEs that export to countries that are under sanction or that have any relations with those countries. The result is that SMEs founded by Syrians have an exceedingly difficult time obtaining banking services, even if their profile as individuals might fit the KYC criteria.

B. Findex Score

The Findex score, as a credit score for any credit seeker, is practically non-existent for Syrian entrepreneurs due to a combination of the facts that:

1. Credit scores from Syrian banks are not valid,
2. Syrian businesses are likely to have unregistered employees, and
3. Their presence in Turkey is recent and therefore not enough transactions have been made to create a score.

It seems that the Findex score can be overridden once the KYC principle is satisfied for SME clients in general in the region. These communities are close-knit and smaller, so a bank manager has a certain degree of security. Meanwhile, it should be noted that Şanlıurfa was mentioned as the place where the loan payback rate was the lowest in Turkey. Still, banks apply their filtering mechanisms in favour of locals.

VII. Non-Banking Financial Instruments

None of our interviewees had previously benefited from government incentives even though they would very much like to do so to expand their businesses. There are many governmental agencies that offer incentives and support for entrepreneurs and SMEs. It should be noted that once a business is formed in Turkey, it becomes a legal entity and is a Turkish business, no matter what nationality is possessed by its owner. Owners have to obtain work and residency permits, similarly to the registered workers of these businesses. The business must submit tax returns each month and there is a small, fixed cost each month, even if there is no transaction. The submitting of the tax returns is usually done with the help of an accountant/CPA. EU funds also help support the incentive scheme of the government and are funnelled to relevant entities via Turkish governmental agencies including development agencies, TÜBİTAK, and relevant ministries.



SPARK

Industrial Vocational Courses,
Turkey

A. Small and Medium Enterprises Development Organization (KOSGEB)

The Turkish government entity KOSGEB is the first to address for financial support of SMEs and entrepreneurs. Its services include several entry-level support programs for entrepreneurs and several grants for development. Many steps of the process are now explained online, although the information is not available in Arabic and can be complex to comprehend even in Turkish. Identifying which support or incentive is right for which particular SME is complicated, as is determining where to look, preparing paperwork, keeping records, and knowing where to submit them. A business is expected to know its NACE code and then distinguish whether it fits into the right geographical area and the right sector, since some towns have completely different sets of rules as an anomaly. Once the application is made, the paperwork then needs to be meticulously kept, which may be too demanding for small, new businesses, particularly if their owners do not speak Turkish.

This might also apply to many bureaucratic procedures in Turkey that require the help of a broker: visa applications, dealing with customs, buying stock shares, and so on. It is possible in theory to complete some of these processes without involving a third person, but the fact remains that there are full business streams providing such services. Finding out which incentives are available to SMEs and going through the required steps is similarly an area in which independent brokers are sought for help. As difficult as navigating through the incentive and support schemes are for Turkish businesspeople, when there is a language barrier and/or unfamiliarity with the system is also an issue, businesses founded by Syrians are unsurprisingly likely to shy away from these financing channels. In addition to the maze-like system, the approach towards Syrians appears to be tainted by anti-refugee sentiment at times, even if that is based on individual opinions.

KOSGEB packages are considered to be hard to apply for, administratively burdensome, and difficult to understand for Syrians who have not mastered Turkish well. An Arabic translation of the website would definitely be helpful, but not sufficient alone. As part of an EU-funded project, training modules were translated and will be published soon on KOSGEB's website. We believe that the main challenge preventing Syrians from applying for such incentives is their lack of experience and information. Many improvements can be achieved with guidance in navigating through these complex application systems.

B. Chambers of Commerce and Industry Support

Chambers of Commerce and Industry in Turkey are the first stop for any business to be formed and also the best sources of information when it comes to profiling Syrian SMEs. They are also beneficiaries of international organizational support, providing various training sessions, mentoring and coaching programs, and language courses for Syrian business circles.

In dealing with Syrian businesspeople, services such as Arabic-speaking staff members are not uniform practice

among the chambers of the region. However, it is very evident that wherever such services are offered, it creates a great sense of inclusiveness. Some best-practice examples are found in the region. The Gaziantep Chamber of Commerce provides a variety of programs with a dedicated 'Syrian Desk' and relevant programs. Similarly, the Gaziantep Chamber of Industry has the same facilities and training programs for Syrian businesses. Chambers in Adana and Hatay also provide customized programs for Syrians.

C. Microcredit Programs

Microfinance, as a broad concept, describes financial services targeting microenterprises that lack access to finance from traditional institutions such as banks and individuals who wish to start businesses but face difficulties in accessing finance due to a lack of collateral or credit history.³⁴

An earlier UNDP analysis of the microcredit market in Turkey concluded that the microfinance instrument supply in Turkey was limited both in terms of numbers of people served and the range of services offered.³⁵ There is much room for coordinated efforts of financial institutions that might provide loans to Syrian SMEs. Islamic microcredit might also be a good alternative. KEDV, for example, is an NGO that has its own microcredit program called Maya Enterprise, supporting women since 2002.³⁹

Thus, there is much room for financial support or programs delivering microcredit to Syrians in Turkey through traditional banks, NGOs, microfinance institutions, European development banks, and governmental agencies. These programs should target Syrians specifically and market their products adequately. Fintech solutions are extremely successful when working with refugees. MoneyPhone is only one example, offering access to credits via a smart phone-enabled platform. According to Jan Vos, the founder of MoneyPhone who worked in Jordan with Syrians refugees, 'They are loyal borrowers: their pay back rate is 99%'.^{36, 37}

³⁴ 'Microfinance in the European Union: Market Analysis and Recommendations for Delivery Options 2020-2027', Final Report, Directorate-General for Employment, Social Affairs and Inclusion (European Commission), 2020, p. 2
³⁵ Burritt, *op.cit.* p. 7

³⁶ See KEDV website at <https://www.kedv.org.tr/ekonomik-quclendirme>

³⁷ Interview with Jan Vos, 15 May, 2021.

Section III

Outcome



SPARK

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Conclusions

As a result of our research in four south-eastern Turkish cities, we concluded that Syrian entrepreneurs and SMEs encounter fundamental barriers in accessing financial instruments. There are several systematic challenges that refugee entrepreneurs would be capable of overcoming on their own or with limited intervention, such as learning the language or obtaining work permits. These issues seem to be resolved on paper, but the reality is far from that. Building economic means is always complicated and, from the refugees' standpoint, filled with daily challenges.

There are multiple layers of difficulties facing Syrians as either individuals or as founders of businesses in accessing conventional financial instruments. At a legislation level, because they are from a sanctioned country and tend to collaborate with people of the same nationality, or because they are unregistered, they are not seen as viable customers by banks both from commercial and legislative points of view.

Proposed solutions can achieve maximum success by creating a diverse range of financial instruments that can be offered by non-bank actors, using technology to create a digital identity and thus a record that resembles a credit score. The full picture should also involve customizing all these services according to the needs of the target group, building the capacity of existing actors and all the while adjusting the metrics to include both process and impact results.

The banking sector is highly regulated and banks face many 'risky clients' due to the geographical and socio-political position of Turkey. In line with this, in terms of refugees accessing financial instruments, effective microfinance institutions and/or fintech solutions might provide true resolution of these problems. In addition, capacity strengthening of governmental agencies that interact with Syrian beneficiaries is an absolute necessity.

In increasing financial access, one aspect that may benefit from disruption is the traditional way of gathering information about beneficiaries. This is likely to be overseen by non-bank fintech organizations exploring non-traditional data sources like consumers' digital footprints, social media usage and accounts, psychometric test results, rent, utility bills or mobile phone bills, and the value of owned assets. To this may also be added the educational level of the beneficiary, the schooling of his or her children, and language skills, to name just a few.

Fintech solutions that seem to be the future of finance are also useful in bypassing several of the challenges that Syrian refugees encounter. Blockchain-based services might assist unbanked refugees and allow people to transfer money from anywhere, like the Berlin-based BankeNu.³⁸ There are several other initiatives, some offering money transfers to areas of conflict using cryptocurrencies or creating a form of 'money' based on blockchain technology for refugees who have zero access to traditional financial instruments. There have also been initiatives using blockchain technology to register refugees' educational and vocational certificates. Among all of these options, the easiest solution seems to be the usage of mobile phones and GSM technology for monetary transactions.

Fintech solutions are increasing daily, not only to challenge conventional finance systems but also make financing

38. Thin Lei Win, 'A generation of refugees have set up financial technology firms to help other refugees and migrants send money access paperwork and share information', Thomson Reuters Foundation News, <https://news.trust.org/item/20200709093832-5a87/>

more accessible by decentralizing the processes. However, we are still a long way away from developing systematic and globally applicable solutions for refugee entrepreneurs. The particular vulnerable points to be aware of at this stage are the accuracy of the entry of data and data protection during usage.

The above conclusions and concepts should encourage growth in micro-sized businesses through increased market penetration and increased employment. Spreading awareness about available public incentive schemes and easing access to them by translating certain websites into Arabic, for example, would be among the more effective ways to realize these goals. Accessing public incentive schemes would probably facilitate easier access to finance as well for Syrian refugee start-ups.

Recommendations

It should be assumed that Syrians are staying in Turkey and are no longer guests. The Syrian community is too large to be excluded from plans for the future. All decisions should be made involving all stakeholders, including Syrian business associations, Chambers of Commerce, governmental agencies, INGOs and NGOs, and banks, among others.

When determining how to help and who to help, the dynamics of growth should be considered. Some schools of thought, perhaps not without their merits, claim that help provided to a business that has neither a chance to grow nor to employ others only extends the life of a non-competitive enterprise. However, enterprises have less of a chance to grow if they do not have enough capital. This should not mean that a small business is condemned to stay small. It should also be remembered that as part of the refugee survival strategy, small enterprises are inevitable. Thus, there should be more options, including substantial loans to bigger businesses from banks and more financial support offered to entrepreneurs and start-ups, and microcredits for individuals, including the poor, and especially women and young people, to start businesses and increase the chances of social cohesion. Networking with angel investors and crowd funding should also be considered. The legal framework for banks should allow Syrians to benefit from the system equitably. There is great potential for technology to advance the financial inclusion agenda for vulnerable communities in every society.

Increased interaction between Syrian and Turkish businesspeople would be an absolute benefit for both sides. Governmental agencies, Chambers of Commerce, and Turkish business associations may be instrumental in this. We found that Syrians who had good contacts with Turkish counterparts had fewer problems in understanding the economic system and finding the right people to work with (including lawyers, accountants, and customs brokers), while their Turkish counterparts benefited from expanding into new markets.

There is an ongoing digitalization process in order to achieve better marketing and expansion of businesses through international digital markets. This calls for targeted awareness, information, and education campaigns for these enterprises.³⁹ Digitalization remains a challenge for Syrian businesses; the percentage of them with a website or social media presence, for example, is relatively low. Mobile banking solutions, digital payments, alternative risk profiles, and innovative credit scoring offer convenient and easy ways to use banking and in turn act as

39. Orta Karadeniz Kalkinma Ajansı, <https://www.oka.org.tr/assets/upload/dosyalar/turkiyede-saglanan-tesvik-ve-destekler-25-78.pdf>

gateways to other products and services. Fintech is not a panacea to solve all barriers to financial inclusion, many of which stem from political and social structural issues such as user literacy, education, and regulatory oversight. Fintech does, however, offer tools to make it easier to address and resolve many of these challenges. Some of the broad areas where we saw room for development are as follows:

- Transparency should be ensured in state-community relations.
- Support for Syrian SMEs should be tailor-made to suit different types of residency, sizes of enterprises, or levels of financial literacy.
- Language remains a main barrier for the integration of Syrians; therefore, more investments in language courses are needed.

From the NGO Side:

- Direct intervention to boost employment capacity is necessary. For example, SMEs that employ SuTPs could be granted a 3-month salary guarantee for each employee, or technical assistance in their endeavours to obtain work permits for themselves and for their employees could be provided.
- Assistance in registering businesses could be provided.
- Financial literacy training may be provided for Syrian SMEs to enable access to financial services and bank loans, addressing the benefits of formalizing one's business, how to open a bank account, how to apply for a loan, banks' customer evaluation processes, building and maintaining a good credit score (Findex score), and training on the economic and financial systems of Turkey.

From the Banking Side:

- A viable alternative to the informal Hawala system should be created to encourage Syrian entrepreneurs to use official channels for fund transfers and to benefit from lower costs and increased transparency of their activities, which will make them more visible to the financial system in Turkey.
- Banking regulations for Syrian SMEs and individuals should be revisited and clarified. Banks' local KYC requirements should be revisited and clarified to define the compliance risk and create a green category based on specified criteria that cannot be declined by the bank for opening a bank account (i.e. the right to access to financial services)
- Credit guarantee facilities should be offered, targeting Syrian SMEs and host communities employing Syrians, for banks' existing clients who wish to grow their businesses but cannot borrow due to a lack of collateral.

Greater Understanding Is Needed from the Turkish Government, Including:

- Easing of rules for harmonizing diplomas and certificates.
- Easing of rules for getting a work permit.
- Revision of the rights and duties of the holders of Turkish work and residency permits in order to harmonize them with EU requirements so that entrepreneurs will not think that Turkish citizenship will be a single-handed solution to their problems.
- Clarification of the rules for entrepreneurs with foreigner status and Syrians (under temporary protection or not) who wish to be naturalized.
- Business-specific solutions to improve the working conditions of Syrian entrepreneurs with special regulations for them, and especially removal of the restrictions on the free movement of SME owners and employees as SuTPs.
- Accepting the reality of the permanent change in the demographics of Turkey with inclusion of SuTPs in the projections for the future.

Innovative Ways to Help Syrian Enterprises in Turkey, Including Microcredits and Specific Training Methods and Audiences:

- In terms of overcoming obstacles such as KYC or Findex scores, blockchain-based solutions may provide a valuable gateway and there are already best-practice examples. Innovative ways to recognize Syrian clients may be a good start for a solution.
- Mobile phones are ubiquitous for all in this region and can be utilized for non-banking financial solutions; they can be used for digital identity, self-utilized blockchain solutions, or for storing and exchanging money, as seen in examples elsewhere.
- Credit guarantees for banks that are lenient towards Syrian SMEs can be a practical support in increasing access to finance. Along with that, non-banking financial instruments can be developed, including microcredits, leasing, insurance, etc. Diversified and customized financial instruments that are based on needs of Syrian SMEs are needed.
- Capacity building for all stakeholders is necessary; training the manager is the best option when access to finance is limited. Coaching, mentoring, and training on numerous topics that would help entrepreneurs and business owners navigate the economic system should address contemporary needs such as e-commerce and digital technologies for social media, among others.
- Chambers of Commerce and Industry could lead initiatives to form networks among Syrian SMEs as well as between Syrian and host communities.



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