SME Snapshot:

Syrian Small Businesses in the Southern Region of Turkey

April 19, 2021

Building Markets

Connecting Entrepreneurs. Creating Jobs. Sustaining Peace.

ABOUT THIS SNAPSHOT

Building Markets creates jobs and encourages economic growth by finding, building, and connecting competitive local small and medium-sized enterprises (SMEs) to supply chains and investment. Since 2006, the organization has scaled its model to eight diverse markets where it has supported over 26,000 SMEs, assisted them in winning USD $1.3bn in contracts, $21m in loans, and helped create more than 70,000 full-time equivalent jobs. Building Markets is headquartered in New York City.

Building Markets has a data-driven model. The organization collects detailed data on businesses to verify local firms' capabilities and to assess and respond to the challenges and opportunities in each market where it operates. It leverages this unique dataset to provide brief, targeted analyses to suppliers, buyers, and other private and public sector stakeholders. Building Markets also features some of the data it collects in business profiles on its searchable online matchmaking platform to increase the visibility of local suppliers and connect them to growth opportunities: https://entrepreneurs.buildingmarkets.org/

In Turkey, Building Markets partners closely with SME clients in the Southern Region to accelerate their significant economic contributions – including much needed job creation. The organization's strategy to support refugee-led SMEs in the Southern Region focuses on increasing their visibility and integrating them with host communities by facilitating their access to partnerships, supply chains, and capital.

This SME Snapshot is based on data collected through Building Markets verification and re-verification surveys with 1,136 SMEs in Turkey between October 30, 2017 and January 31, 2021. Of those surveyed, 1,123 are Syrian-owned and 13 are Turkish-owned businesses. Given the overwhelming majority of Syrian-owned businesses in the sample, the data analysis is reported and conclusions are drawn for Syrian-owned businesses. The data includes SMEs based in Adana, Mersin, and Hatay in the Mediterranean region, and Gaziantep, Kilis and Şanlıurfa in the Southeastern Anatolia region. For the purposes of this report, these areas are referred to as the Southern Region.

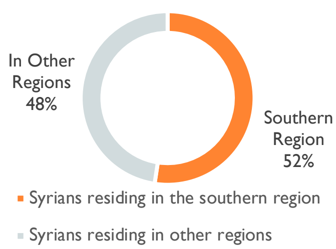
This SME Snapshot was prepared by Basel Hariri, Senior Technical Specialist, with support by Zonglong Chen, Data Analysis Statistician**.** Any questions or comments directly related to this SME Snapshot can be directed to: newyork@buildingmarkets.org. If you are a Syrian business operating in Turkey or you are interested in identifying verified Syrian-owned suppliers for investment, capital or to expand and diversify your supply chain, please contact us at turkey@buildingmarkets.org.

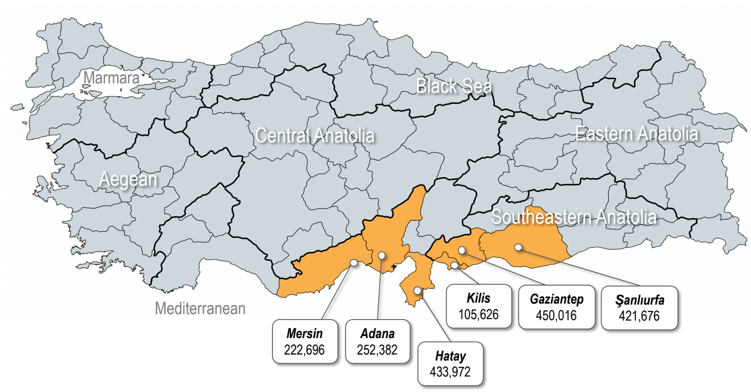
1. CONTEXT

Turkey continues to be home to the world's largest refugee population. Of the 3.6 million Syrians registered under Temporary Protection in Turkey,[1] 1.9 million (approximately 52%) live in the southern provinces of Şanlıurfa, Hatay, Gaziantep, Adana, Mersin, and Kilis. Syrian refugees constitute 19% of the combined population of these six provinces, ranging from 11% in Adana to 75% in Kilis.

The increase in the number of Syrian refugees and migrants in Turkey has been accompanied by an increase in the number of businesses they have founded, bringing capital and job creation potential with them.[2] It is estimated that 10,000 formal companies, wholly or partly owned by Syrian refugees, employ seven people (on average), and sustain more than 250,000 refugees in the country.[3]

Figure 1 – Syrian Refugees in Turkey





Syrian entrepreneurs have faced new market dynamics in Turkey. They have been challenged by a competitive economy and a more regulated business environment. As one Mersin-based food manufacturer in Building Markets' network shared: "I have done everything well: my production line, my food production certificates, and the skilled workers that have come with me, but I cannot penetrate the Turkish market, even though I was number one in Syria." Given their sectoral niches, market limitations, and growth challenges experienced (see section 4), Syrian- owned enterprises have remained small-scale businesses: In Building Markets' network of 2,138 Syrian-owned firms across Turkey, 83% have less than 10 employees (micro), 16% have 10 to 50 employees (small), and 1% have 50 to 250 employees (medium).

Most of the Syrian population and their enterprises in Turkey are concentrated in the southern provinces, a region that has historically been the crossroads of migration and trade, including the ancient Silk Road. Turkey shares its longest land border with Syria, which runs along the provinces of Gaziantep, Hatay, and Kilis. The region has a vibrant SME sector, making up 13.3% of the total number of SMEs in Turkey.[4] They provide diversified products and services to domestic and export markets. The wholesale-retail sector constitutes the highest number of registered SMEs in the region, followed by transport and storage (15.4%) and manufacturing (10.1%). In terms of GDP, the province of Adana is the largest, followed by Gaziantep. Gaziantep is also home to 57 companies out of Turkey's 1,000 Largest Industrial Organizations (ISO 1000), the largest concentration in the Southern Region, and boasts the highest percentage of employment in the industrial sector. See Table 1 for details on the economies of provinces covered in this report. While the influx of Syrian refugees since 2011 put some economic and social pressure on these host provinces, it has also brought entrepreneurial skills, capital, exports growth, and job creation potential.

Table 1 - Select Economic Indicators for the Southern Region

	Adana	Gaziantep	Hatay	Mersin	Şanlıurfa	Kilis	Total
Population (2019)*	2,237,940	2,069,364	1,628,894	1,840,425	2,073,614	142,490	9,992,727
GDP (2018) - Thousand TL**	72,187,342	68,300,915	49,406,412	66,363,670	32,561,955	3,485,433	292,305,728
GDP per Capita (2017) - USD**	7,735	7,656	7,084	8,538	3,888	6,048	6,825
Sectoral Distribution of Employment							
Agriculture %	19.4	15.0	24.5	19.4	36.1	15.0	21.6

[1] UNHCR Turkey. https://www.unhcr.org/tr/en/unhcr-turkey-stats
[2] Building Markets. Another Side to the Story: An Assessment of Syrian-owned SMEs in Turkey. 2017.
https://buildingmarkets.org/sites/default/files/pdm_reports/another_side_to_the_story_a_market_assessment_of_syrian_smes_in_turkey.pdf
[3] TEPAV. Syrian Entrepreneurship and Refugee Start-ups in Turkey: Leveraging the Turkish Experience. 2018..
https://www.tepav.org.tr/en/haberler/s/10023
[4] TUIK (Turkish Statistical Institute). https://data.tuik.gov.tr/Bulten/Index?p=Small-and-Medium-Sized-Enterprises-Statistics-2019-37548 Includes TRC1, TRC2, TR62, and TR63 statistical subregions, which include more provinces covered by this report.

Industry %	22.6	33.0	24.7	22.6	17.4	33.0	25.6
Service %	58.0	51.9	50.8	58.0	46.5	51.9	52.9
Number of Companies Established (2018)**	1,597	2,123	1,335	2,026	849	197	8,127
Turkey 1000 Largest Industrial Organizations (ISO 1000) - (2017)**	25	57	15	10	0	0	107
Number of Active Corporate Taxpayers (2018)*	182,933	169,963	114,091	179,163	90,933	8,187	745,270

*TUIK
**TOBB, Economic Report 2018

2. PROFILE OF SYRIAN BUSINESSES IN THE SOUTHERN REGION

The data below provides a profile of Syrian-owned SMEs located in the Southern Region of Turkey, based in Şanlıurfa, Hatay, Gaziantep, Adana, Mersin, and Kilis. Of the 2,174 registered companies verified and served by Building Markets throughout Turkey, 1,136 (52.5%) are based in these provinces.[5] The remaining businesses (82.8%) are located in Istanbul. Of the 1,136 SMEs in this region, 85% are micro-sized, 13% are small-sized, and 1% are medium-sized. Syrians in Turkey established micro-sized enterprises relying on their economic, social, and cultural capital to seize market opportunities largely within their own communities. Micro-businesses are registered and established with minimal infrastructure requirements, which is an advantage for refugee entrepreneurs who are looking to generate livelihoods for themselves and family members. These micro-businesses operate in the textile, food, and service sectors in locations where Syrians are concentrated. This includes, for example: graphic designers, web developers, grocers, restaurants, buffets, barbers, tailors, garment and shoemakers, wholesalers and retailers, and ready-made garment workshops. On the other hand, fewer numbers of Syrian entrepreneurs were able to establish SMEs. These entrepreneurs relied on their previous entrepreneurial experience, know-how of certain production methods, and pre-migration social capital, i.e., building partnerships with other Syrians and reviving relations with old customer networks to develop transnational trade relations.[6]

The top five sectors of operation of SMEs in the Southern provinces are wholesale and retail (47%), manufacturing (24%), food service (10%), professional activities (4%), and information and communication (3%). Conversations with Syrian business owners indicate that they have selected their sector based on their professional backgrounds, networks, and capital, as well as opportunities presented by their current location. For example, Gaziantep, which is home to one of the largest Organized Industrial Zones in the country, has a higher number of manufacturing SMEs compared to other provinces. As a result, Gaziantep takes the lead in the number of Syrian enterprises of all sizes, followed by Mersin. In addition, the number of SMEs is bigger in Gaziantep than in other provinces due to the strong presence of manufacturing, focused on the following goods:

Table 2 - Goods Manufactured by Syrian-Owned Micro, Small, and Medium-Sized Enterprises in Gaziantep

Micro	Small	Medium
Textiles, animal feed, ready-made garments, shoes, food stuffs, medical clothing, metal works for construction and industry, disposable medical products, furniture, metal handicrafts, curtains and home textiles, detergent, and packaging machinery.	Production lines and machinery for the food industry, PE and Nylon plastic packaging materials, flexo-printing packaging materials, footwear, garments, carpets and mats, and plastic molding.	Detergents, tricot clothes, footwear, garments, and production lines for the food industry.

In the Southern Region, 39% of Syrian-owned SMEs export products and services. They earn their largest export revenues from Iraq (22.5% of SMEs), Syria (21.4%), and the Kingdom of Saudi Arabia (8.6%) (see figure 17, page 7). Research indicates that when relations between the Governments of Turkey and Syria deteriorated in 2011, exports to Syria dropped dramatically from Istanbul, the previous hub, and shifted to the southern provinces of Hatay, Mersin, and Gaziantep, resulting in an increased number of Syrian businesses in these cities.[7] Please see Section 3 for a Spotlight on the export capabilities of these businesses.

[5] 13 of these companies are Turkish-owned.
[6] Syrian Refugee Entrepreneurship in Turkey: Integration and the Use of Immigrant Capital in the Informal Economy, Reyhan Atasü-Topcuoğlu, Hacettepe University
[7] TEPAV. Syrian Entrepreneurship and Refugee Start-ups in Turkey: Leveraging the Turkish Experience. 2018. https://www.tepav.org.tr/en/haberler/s/10023

TURKEY SOUTHERN REGION: SYRIAN SME NETWORK IN FIGURES

Figure 2 - Business Size

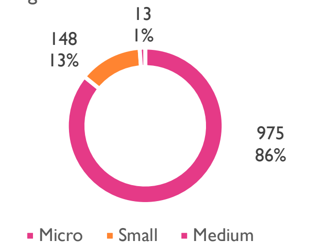


Figure 3 - Primary Language

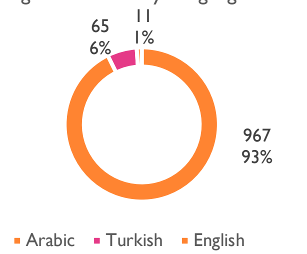


Figure 4 - Business Location

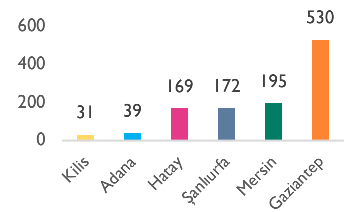


Figure 5 - Additional Branch

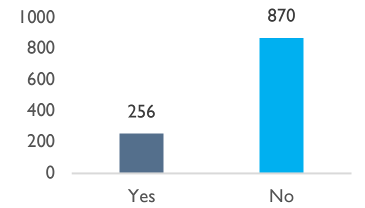


Figure 6 - International Client in Past 6 Months

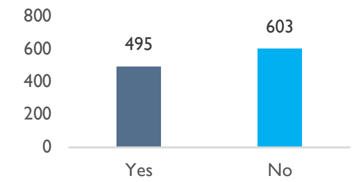


Figure 7 - Submitted a Tender Bid

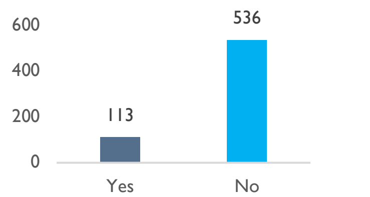


Figure 8 - Won Tenders in Past 6 Months

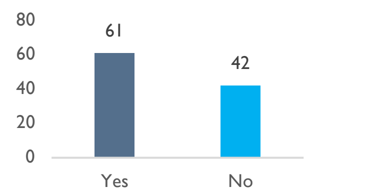


Figure 9 - Interested in Loans

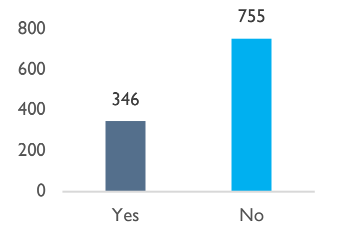


Figure 10 - Interested in Investor/Business Partner

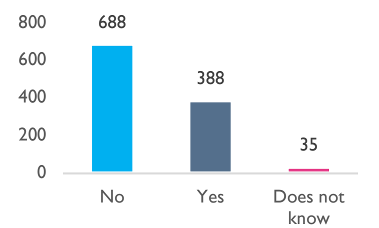


Figure 11 - Exports Goods & Services

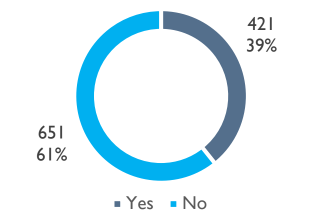


Figure 12 - Directly Imports Goods & Services

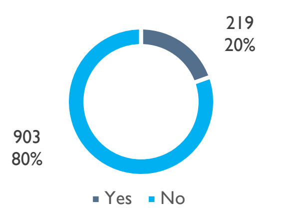


Figure 13 - Accepted Payment Methods

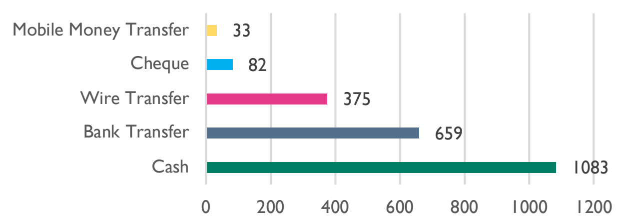


Figure 14 - Financial Management Capacity

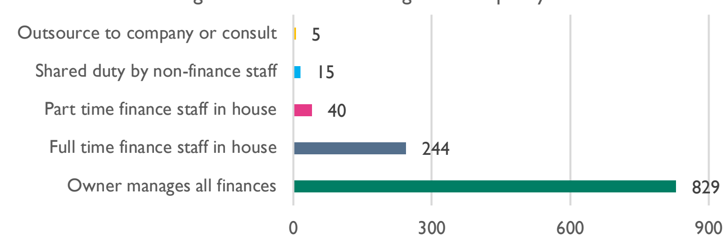


Figure 15 - Sectors of Operation

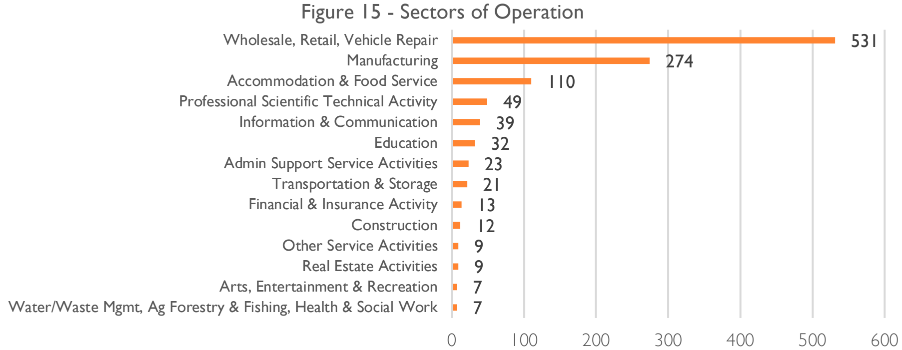
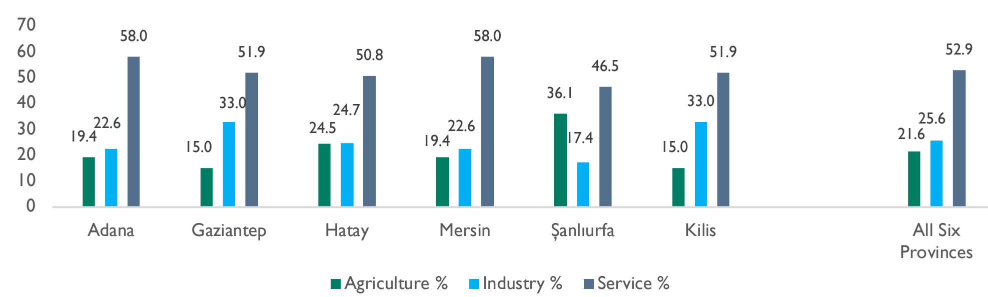


Figure 16 - Sectoral Distribution of Employment



3. SPOTLIGHT: EXPORT CAPABILITY IN THE SOUTHERN REGION

Export-oriented businesses in the Southern Region constitute 56% of all exporting businesses in Building Markets' network across Turkey. These enterprises are a potential actor in local economic development by boosting export revenue and employment, in partnership with Turkish companies and other stakeholders such as local chambers, development agencies, and business associations.

Syrian exporters expand the region's opportunities in the Middle East and Africa, taking advantage of the entrepreneurs' networks and language skills, and responding to the demand for Turkish products in these markets through wholesale trade. In fact, research has shown that the growing number of Syrian-owned businesses in Turkey, in particular in the Southern Region, has contributed to the increase of Turkish exports to Syria to pre-2011 levels, as well as the diversification of export products and destinations in the broader MENA region.[8] Findings on Syrian SMEs' export capabilities and practices are:

- 36% of SMEs in the Southern Region export. They largely operate in the wholesale/retail and manufacturing sectors.
- Iraq and Syria are the most targeted markets by Syrian-owned businesses, followed by other Middle Eastern countries.
- Food products top the list of exports by Syrian-owned SMEs in the Southern Region, followed by clothes and textiles, together constituting more than 47% of all exports. Other exported products are furniture, appliances, and home goods.
- Gaziantep is ranked fifth in export value on the national level[9] and continues to be a hub for exports to Syria, Iraq, and other Middle Eastern countries. 46% of Syrian SMEs in Gaziantep export. Hatay, with its proximity to one of the active border gates with Syria; Mersin, home to an international seaport; and Adana are other important export hubs.

Table 3 - Exporting and non-Exporting SMEs in Relation to Business

	Adana	Gaziantep	Hatay	Kilis	Mersin	Şanlıurfa	Subtotal
Number of Exporting SMEs							
Micro	18%	27%	42%	29%	35%	9%	28%
Small	5%	9%	4%	3%	10%	0%	7%
Medium	3%	2%	0%	3%	1%	0%	1%
Sub-total for Exporting	26%	39%	46%	35%	45%	9%	36%
Number of Non-Exporting SMEs							
Micro	72%	54%	47%	65%	49%	86%	58%
Small	3%	7%	7%	0%	6%	4%	6%
Medium	0%	0%	0%	0%	0%	0%	0%
Sub-total for Non-Exporting	74%	61%	54%	65%	55%	91%	64%

Table 4 - Exporting SMEs in Region and Sector

Sector	Southern Region	Other Regions	Total	Southern Region as % of Total Exporting SMEs
Wholesale, retail, vehicle repair	193	114	307	62.9%
Manufacturing	169	90	259	65.3%
Professional, scientific, technical activity	13	23	36	36.1%
Transportation and storage	9	9	18	50.0%
Information and communication	8	7	15	53.3%
Accommodation and food service	4	5	9	44.4%
Admin support service activities	4	9	13	30.8%
Real estate activities	3	11	14	21.4%
Construction	2	5	7	28.6%
Other service activities	2	0	2	100.0%
Art entertainment and recreation	1	1	2	50.0%

[8] ibid.

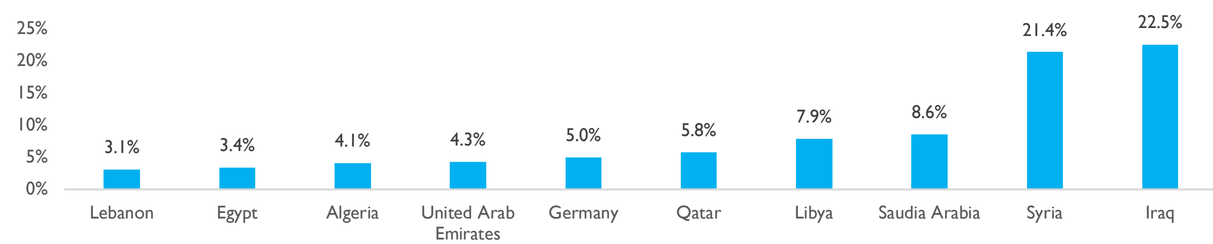
[9] TUIK.

Agriculture forestry and fishing	0	1	1	0.0%
Education	0	4	4	0.0%
Human health and social work	0	2	2	0.0%
Mining and quarrying	0	1	1	0.0%
Grand Total	408	282	690	59.1%

Table 5 - Top Export Destinations of SMEs in Gaziantep

Country	Products	# of SMEs
Iraq	Production lines, electrical medical devices, textiles, garments, printing services, consultancy services, furniture, plastics, medical supplies, soaps and detergents, construction services, etc.	93
Syria	Construction materials, steel, medicines and medical supplies, food, automotive oil, raw materials, telecommunication devices, power generators, machinery, packaging materials, Computers, fabrics and garments, Consulting services, etc.	92
Libya	IT Devices, textile machines, mobile accessories, fabrics and yarns, garments, footwear, cotton wears, machinery, etc.	25
Saudi Arabia	Laurel Soap and detergents, garments, footwear, hot drinks, car parts, raw materials, plastic molds, food, machinery, etc.	24
Algeria	Food Production Lines, Packaging Machines, Cotton Wears, Garments, Plastics Ware, Plastic Molds.	17

Figure 17 - Top 10 Export Destinations



Businesses also exported to Kuwait (2.6%), France (2.1%), Canada (1.9%), Netherlands (1.9%), Morocco (1.5%), Austria (1.4%), Bahrain (1.2%), Denmark (0.5%), Belgium (0.3%), United Kingdom (0.3%), and Australia (0.2%).

Table 6 - Top Export Destinations of SMEs in Adana

Country	Products	# of SMEs
Iraq	Garments, packaging machines for food production lines	2
Syria	Soft Drinks, packaging machines	2
KSA	Garments.	1
Libya	Soft drinks	1
Germany	Textiles, perfumes	2
Egypt	Packaging machines	1
France	Men's wear	1

Table 7 - Exporting SMEs in the Southern Region by Product Category

Product Category	Adana	Gaziantep	Hatay	Kilis	Mersin	Şanlıurfa	Grand Total
Foodstuff	1	40	29	3	53	5	131
Clothes, Textiles & Accessories	2	57	12	3	5	5	84
Furniture, White Appliances & Home Accessories	1	11	2	2	5	2	23
Services & General Trade		17			3	2	22
Machinery & Industrial Equipment	4	12	1		3		20
Medicines & Medical Equipment		12	5		2		19
Cleaning Products & Cosmetics	2	7	2	2	3	1	17
Paper Products		9	1		4		14

Computer & Electrical Equipment		11	1			1	13
Car-Related Products		4	8		1		13
Agricultural & Farming Materials		1	2	1	7		11
Plastics & Plastic Manufacture		9			1		10
Raw Materials		5	4				9
Other		6	2				8
Construction Materials		4	3		1		8
Gifts, Toys & Handicraft Products		2	4				6
Grand Total	10	207	76	11	88	16	408

Table 8 - Number of Exporting SMEs by Size and Sector

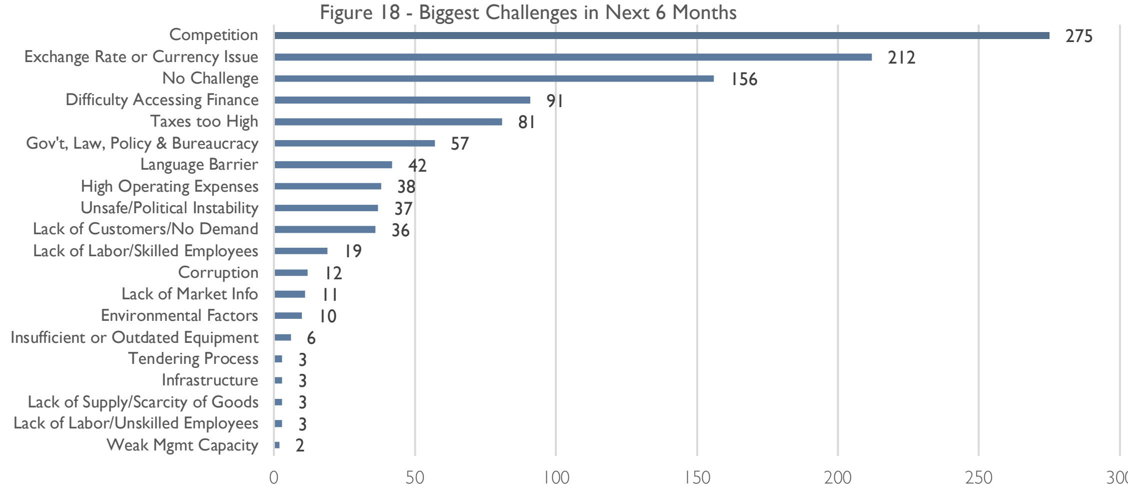
	Adana	Gaziantep	Hatay	Kilis	Mersin	Şanlıurfa	Subtotal	%
Micro	7	147	69	9	68	16	316	77%
Wholesale, retail, vehicle repair	5	54	55	4	43	10	171	
Manufacturing	2	71	10	4	18	3	108	
Professional, scientific, technical activity		8				2	10	
Transportation and storage		2	3		4		9	
Information and communication		5			1	1	7	
Admin support service activities		2		1			3	
Accommodation and food service		1			1		2	
Other service activities		1	1				2	
Real estate activities		1			1		2	
Art entertainment and recreation		1					1	
Construction		1					1	
Small	2	50	7	1	19		79	19%
Manufacturing	2	35	2	1	10		50	
Wholesale, retail, vehicle repair		7	5		8		20	
Professional, scientific, technical activity		3					3	
Accommodation and food service		2					2	
Admin support service activities		1					1	
Construction		1					1	
Information and communication		1					1	
Real estate activities					1		1	
Medium	1	10		1	1		13	3%
Manufacturing	1	10					11	
Wholesale, retail, vehicle repair				1	1		2	
Grand Total	10	207	76	11	88	16	408	100%

4. CALL TO ACTION: SYRIAN-OWNED SMEs AS DEVELOPMENT PARTNERS

Syrian-owned businesses are active economic actors in domestic and export markets, demonstrating their significant capacity to contribute to the region's prosperity despite barriers to their growth. According to data collected from Syrian SMEs in the Southern Region, their top challenges are competition, exchange rate loss/fluctuation, and limited access to finance.

The marketing channels used by Syrian SMEs rely mostly on Syrian networks and the internet. This limits their participation in the broader Turkish market, their competitiveness, and opportunities for their growth. Other marketing channels such as membership in professional networks and participation in trade fairs and internet-based platforms are needed to provide enhanced visibility and facilitate access to markets. Overcoming barriers such as lack of Turkish language skills, networks in the Turkish market, and familiarity with the business environment are also requirements to increase competitiveness.

Figure 18 - Biggest Challenges in Next 6 Months



Exchange rate fluctuations bring additional pressures on Syrian SMEs since their receivables are typically for more than 30 days, especially in the wholesale and export sectors. While factoring services for SMEs in Turkey are widely available, most Syrian businesses are not familiar with these financial services and products. Access to finance, both working and growth capital, is one of the top challenges facing Syrian SMEs. Building Markets has observed in its work that these businesses are reluctant to apply for tenders with payment terms that go beyond 60 days since they might face a gap in their current cash flow. Yet, most Syrian SMEs do not seek financing from financial institutions for a variety of reasons that include lack of bankable company documents, credit history, and collateral.

Building Markets recommends the following for Syrian businesses to become more sustainable companies, competitive exporters, and active partners in economic development and job creation in the Southern Region of Turkey:

1. **Integration**: There are several socioeconomic factors affecting the performance of Syrian-owned businesses in the Southern Region, starting with language and cultural barriers. Local solutions, such as fostering diversity in their workforce by hiring professionals from the host communities and obtaining membership in local Turkish business associations, will strengthen the marketing capabilities, acceptance, and visibility of Syrian-owned enterprises, and facilitate their integration in the Southern Region.
2. **Technology**: Digitalization adds pressure on SMEs but also brings market opportunities and paves the way for integration and growth. Improving technological competencies and digital strategies, including e-commerce, will increase the visibility, efficiency, and market access of Syrian-owned businesses and better position them to contribute to the local economy.
3. **Customer Service**: Product and service development and customer service are continuous processes which should become an integral part of business operations, especially during the pandemic. With the right support, Syrian-owned businesses can further develop their competencies to enhance customer experience, quality, and performance.
4. **Access to Finance**: Syrian-owned SMEs face higher collateral requirements compared to Turkish enterprises[10] since many do not meet the information requirements of banks (i.e., transparent financial statements, bankable business plans, corporate governance standards). At the same time, banks often do not see Syrian companies as new profitable clients and therefore do not develop or market products that would meet their needs. Closing these gaps in financial documentation and policy will help overcome barriers to loans and investment. Beyond traditional bank loans, innovative financing, including invoice factoring, could help Syrian SMEs manage cash flow and grow their access to supply chains.

[10] The World Bank Innovative Access to Finance, 2019 - http://documents1.worldbank.org/curated/en/469411572032903256/pdf/Turkey-Innovative-Access-to-Finance-Project.pdf