

Financial Inclusion

SME Snapshot, January 2023



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Highlights

This edition of Building Markets' small and medium-sized enterprise (SME) Snapshot focuses on Syrian-owned businesses' access to financial services. The analysis is based on regularly updated surveys with 2,547 SMEs in Türkiye, the vast majority (92.8%) of which are owned by and employ Syrians. Nearly 75% of these businesses report access to finance constraints.

SME Snapshots are based on quantitative and qualitative data collected through business verification and re-verification surveys conducted by the organization's team in Türkiye—one of the primary activities implemented as part of the organization's "Find, Build, Connect" model. These surveys regularly gather information on business characteristics and operations, including ownership, business size, import and export capacity, and challenges. Using this data, Building Markets can identify market trends, better understand the evolving needs of entrepreneurs operating in the local market, and share opportunities and recommendations with the growing network of SMEs and partners.

In addition to survey data, this Snapshot is informed by insights from the Building Markets technical advisory team, who support Syrian-owned and host community SMEs to identify and improve their investment-readiness in order to connect them to financial opportunities. This work builds on a [previous assessment](#) of the financial inclusion and access to finance constraints faced by Syrian-owned businesses in Türkiye, conducted by Building Markets in partnership with INGEV from 2018 to 2019.

Click [here](#) to learn more about our work in Türkiye and to read other research publications.

We sincerely thank all the businesses that participated in these surveys.

Spotlight: Financial Inclusion for Syrian-owned SMEs in Türkiye

Currently, Türkiye faces pervasive economic challenges, including high levels of unemployment, an ongoing currency crisis, and an all-time high inflation rate. As the country seeks to achieve sustainable growth, SMEs, which account for the majority of employment and contribute over 50% to the country's GDP, [1] are an essential driver of job creation and economic recovery. An important socioeconomic consideration in Türkiye's economic recovery is the inclusion of over four million refugees and asylum seekers into the economy, 90% of whom are Syrian. Over the last decade, Syrians have become more integrated into economic life as entrepreneurs and job creators, as demonstrated by the thousands of companies they have started since arriving in the country. Even further integration of these newcomers into society and the economy will support economic growth.

Syrian-owned SMEs are crucial to creating jobs and improving livelihoods in Türkiye. They continue to face unique challenges that inhibit their growth and employment-creation potential. The legal status held by refugee entrepreneurs allows them to start a business and access banking and financial services, yet two of the foremost obstacles limiting Syrian entrepreneurs' inclusion into the Turkish economy are their limited access to loans and investments. [2]

Access to financial services for SMEs is important at all stages of the business life cycle, enabling these firms to start up, develop and grow, and contribute to employment and growth. Despite the importance of accessing financial services, many SMEs are not eligible for financial opportunities due to their lack of transparency in financial information, lack of bankable business plans, low credit scores due to their limited time in Türkiye, and inability to meet collateral requirements.

This Snapshot details barriers and opportunities for Syrian-owned SMEs' financial inclusion. Addressing these challenges will help Syrians establish more businesses and SMEs to create more jobs, allowing individuals to improve their livelihoods, contribute to social and economic cohesion across the country, and support economic growth in Türkiye.

For more information on increasing financial inclusion for Syrian-owned SMEs, see the recommendations provided at the end of this report.

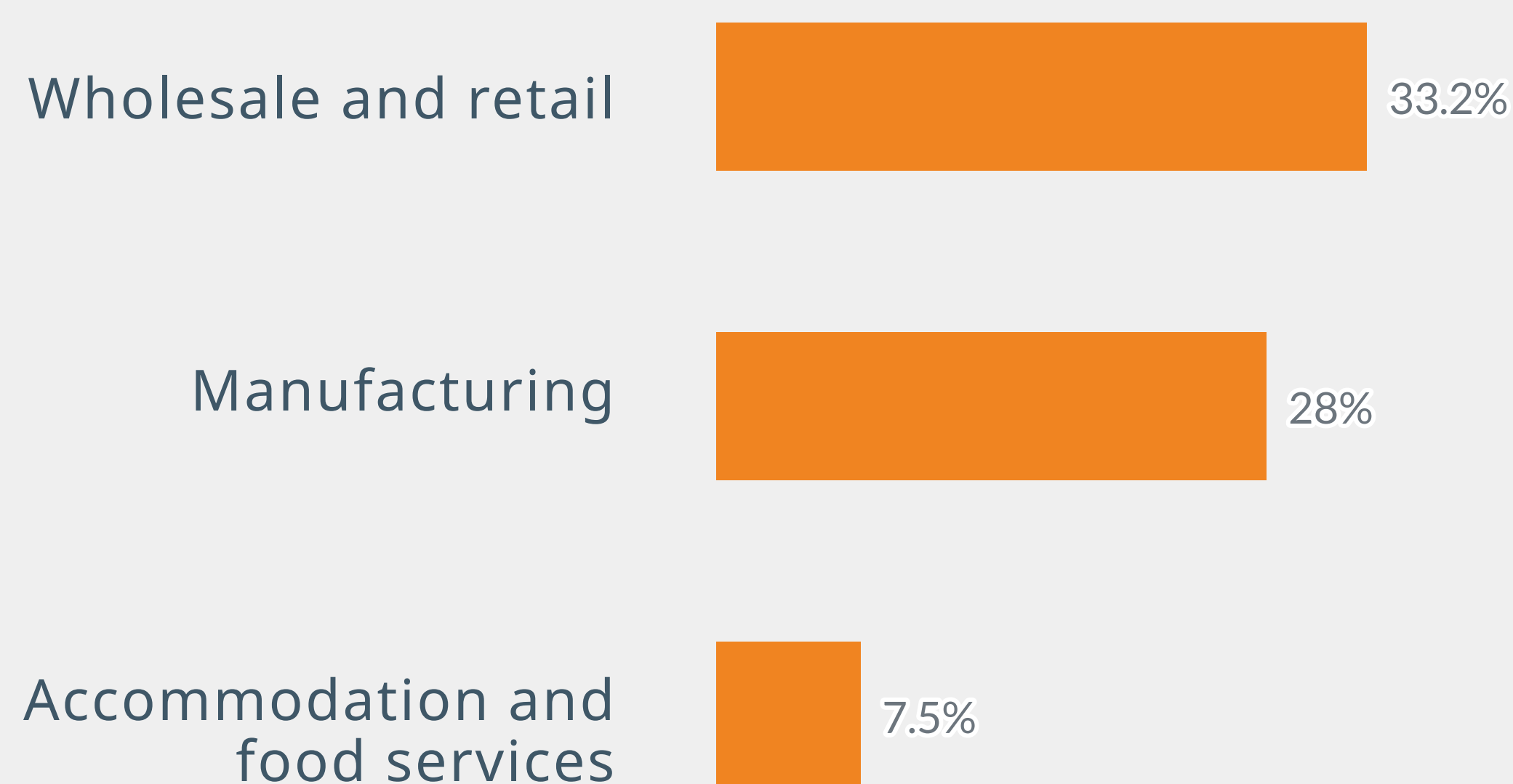
1 European Commission. 2021. "Turkey: SME Country Fact Sheet." Available [here](#)

2 TEPAV & EBRD. 2018. "Syrian Entrepreneurship and Refugee Start-ups in Turkey: Leveraging the Turkish Experience." Available [here](#)

Overview of SME Network

Building Markets' Türkiye network consists of 2,547 small and medium-sized enterprises. The three top sectors among the SME network are wholesale and retail (33.2%), manufacturing (28%), and accommodation and food services (7.5%). These businesses are primarily located in Istanbul (44%), Gaziantep (24%), and Mersin (10%). Of the surveyed firms, 75.7% are micro-businesses (<10 employees), 21.9% are small businesses (<50 employees), and 2.4% are medium-sized businesses (<250 employees).

Top sectors among the SME network



Over 60% of businesses in Building Markets' Türkiye network have had an international client in the past six months, and over 50% of network SMEs reported that they export goods or services. SMEs generally have a positive outlook on the economy, with 54.8% of businesses expecting their profits to increase over the next six months and 35.5% expecting profits to stay the same. Likewise, 47.1% of SMEs expect to increase their staff in the next six months, and 42.7% plan to keep staffing at the same level. Most businesses pay their suppliers within 30 days (66.7%).

Whether a business has a bank account is a basic financial access and inclusion indicator. Of the surveyed network, 92.5% of businesses have a bank account, and 72.9% are satisfied with their current bank. While 69% of SMEs self-report having a business plan for the next 12 months, Building Markets' technical advisors have found that these business plans are often informal and do not meet banks' compliance requirements, thus reducing the investment and credit readiness of the business.

Businesses employ different approaches to financial management. The majority of Syrian enterprises do not hire a finance professional. The most common approach for SMEs in the network is for owners to manage their finances (77.8%).

In comparison, 17.4% of sampled SMEs have full-time staff for financial management, 1.5% have part-time staff for financial management, and 0.9% outsource these responsibilities to third-party companies or consultants.

Are interested in taking out a loan for working capital or capital

54.7%

Median loan amount desired

\$22,267 USD

Current Challenges



92.5% of Syrian-owned SMEs surveyed have a bank account, of which 99% have not received a formal loan from a financial institution.



The majority (66.7%) of businesses pay their suppliers within 30 days.

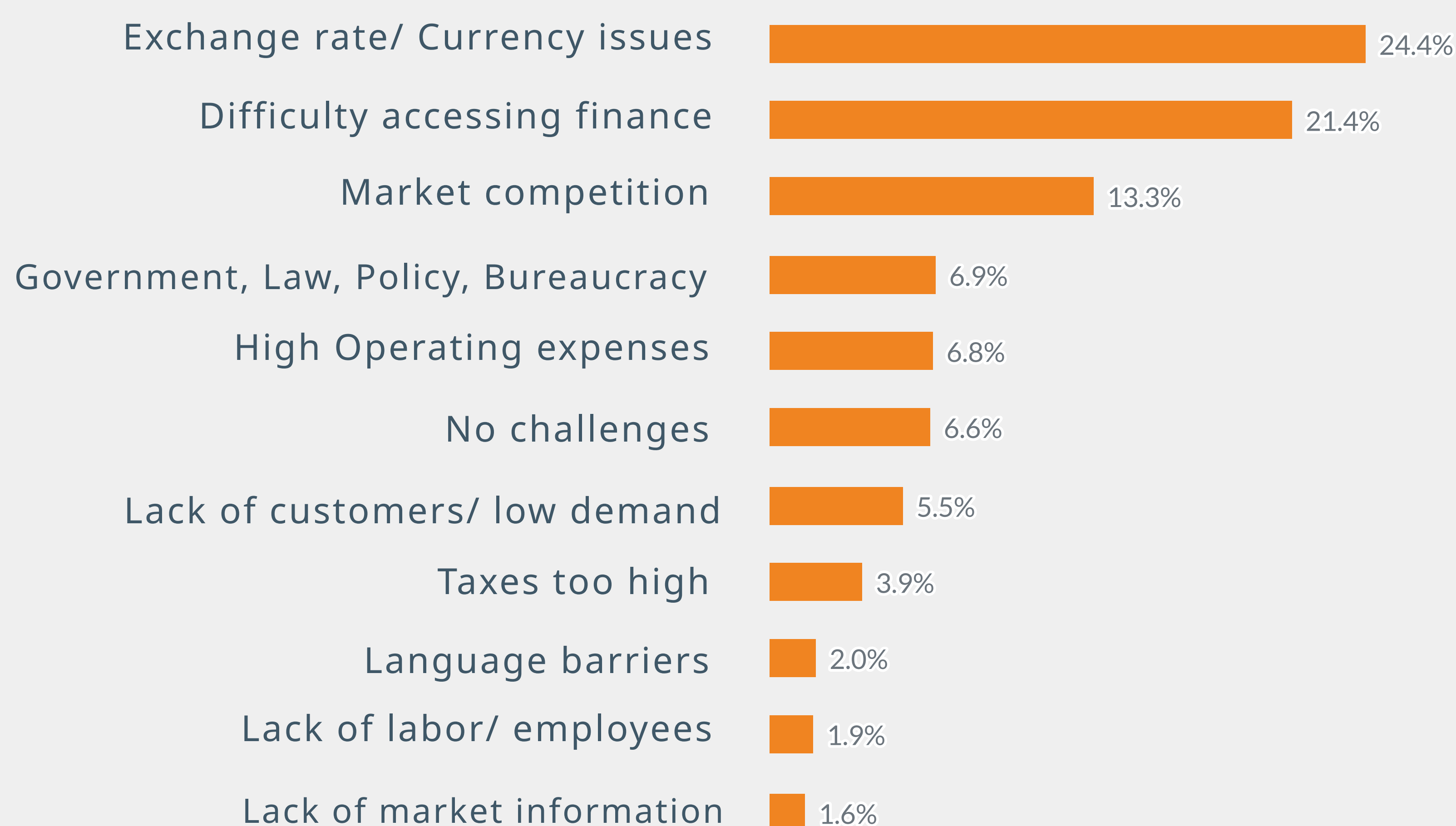


The most common financial management approach for SMEs in the network is for owners to manage the finances, adopted by 77.8% of the SMEs.

The most significant challenges Syrian-owned SMEs face are financial. The most reported challenge in the coming six months is Türkiye's currency crisis, followed by difficulty accessing finance. Steep losses in the value of the Turkish lira and rising inflation have led to higher costs of production, drastic increases in prices, including fuel, materials, and technology, and hampered local demand due to the decline of real wages. [3]

Given the current economic crisis and ongoing recovery from the COVID-19 pandemic, in early 2022, Building Markets found that SMEs were cash-constrained and unable to achieve sufficient cash flow to cover operational costs. [4] The inability to access finance for working capital and capital investments poses significant financial difficulty for businesses. In fact, over 20% of SMEs reported significant constraints to their normal operations as a result of failure to access finance.

Biggest challenge in the next six months



3 Turak, N. "Turkey's inflation tops 85%." CNBC. 2022, November 3. Available [here](#)

4 Building Markets. 2022. "The Impact of COVID-19 on Syrian Business in Turkey: Navigating Recovery." Available [here](#)

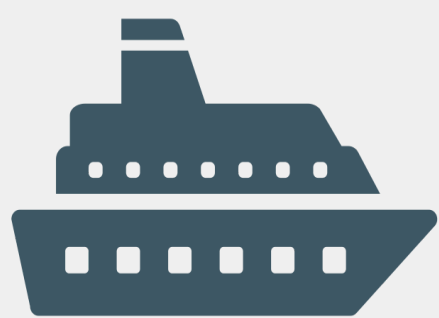
Interest in Financing

Among the entire network, 54.7% of SMEs expressed interest in taking out a loan, with the majority interested in short-term working capital. A small number of SMEs are interested in longer-term capital investments. Of the businesses interested in loans, they were interested in a median loan amount of US \$22,267 for a term of fewer than three years (27 months).

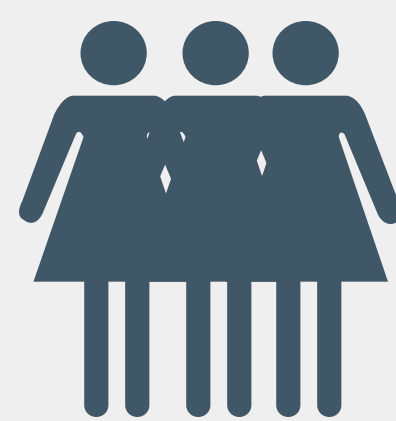
Did you know?

Despite officially-reported inflation of over 84% in Türkiye in 2022, most businesses report having a positive market outlook and expect an increase in profits and hiring additional staff in the next six months [5]

From a gendered perspective, 71.5% of the SMEs owned or managed by women are interested in loans, while this percentage is lower for the businesses owned by men (52%). The businesses most interested in obtaining loans are exporters (54.5%) who require working capital. This represents an untapped potential to contribute to Türkiye's export market.



Over half of businesses interested in loans are exporters.



Interest in loans is higher among women-owned businesses compared to men-owned businesses.



The most common loan purpose is to pre-finance contracts or projects.

Only 1.1% of businesses reported ever receiving an average loan of around US \$36,000, only a tenth of those successful were women, indicating significant unmet demand for access to financing. The most common purpose of a loan is to pre-finance contracts or projects or to cover normal operating costs. SMEs are also interested in loans to purchase additional inventory inputs, update or repair equipment, expand geographically, and hire more staff.

Without access to formal loans, Syrian-led SMEs are underfunded and credit constrained, and they employ various channels to finance their operations without formal credit lines from banks. Micro and small businesses tend to rely on trade credit and informal sources of finance from relatives and acquaintances to bridge funding gaps. However, less than 3% of SMEs reported receiving loans from family or friends (2.9%) or an informal lender (<1%). Medium-sized firms are sometimes able to attract short-term investments from individual investors.

5 Turkish Statistical Institute. 2022, December 5. Available [here](#)

Challenges in Accessing Finance

Several barriers prevent access to finance, such as banks' reluctance to work with Syrian clients due to their lower credit ratings that stem from a lack of credit history because of their limited time in the country and SMEs' lack of investment readiness. In addition, the current volatile economic environment in Türkiye has caused high commercial interest rates, making loans less attractive financial instruments that have impacted SMEs' ability to borrow confidently. Despite the apparent demand for loans reported by the SMEs surveyed, the interest rate charges on the loan facilities are still considered high compared to neighboring countries. The current lending rate provided by various banks for SMEs largely exceeds their current deposit rate leaving these loans unattractive for most SMEs.

1 Banking

Businesses in Building Markets' network face several difficulties while attempting inclusion into the banking system in Türkiye. Despite regulations allowing Syrians to operate commercial bank accounts, according to some SMEs, some bank branch managers only allow personal accounts for Syrians, not commercial ones, while others refuse service to Syrians altogether. The banking sector accounts for 70% of the Turkish financial sector, [6] meaning some reports of banks' hesitation to work with Syrian-owned SMEs has an outsized impact on their ability to access financing.

Banks' reluctance is informed by regulatory standards around Know Your Customer (KYC), which require financial institutions to verify customer identity and assess and monitor customer risk to prevent money laundering and terrorism financing, as well as fraud, strongly applies to the context of immigrants and refugees. Failing to meet KYC regulations is a risk for financial institutions.

Syrian-owned SMEs face additional perceived risks from banks and other financial service providers because they often have a limited track record in raising credit.[7] Regarding investment, their lack of experience creates the risk of not being able to provide suitable returns to investors. In addition, there is a perception that Syrians are short-term residents in Türkiye, therefore, are perceived as a "flight risk" though business owners have been settling in Türkiye since the start of the conflict in Syria over a decade ago and have assets in the country.

Surveyed businesses report banking with Ziraat Bank, Albaraka Türk, and Kuveyt Türk Katılım. As banks established by partial investments and partnerships with financial institutions from the Arab gulf area, Albaraka Türk and Kuveyt Türk Katılım are welcoming to the Arabic-speaking community in Türkiye. This is demonstrated by their Arabic-speaking employees and mobile applications that support the Arabic language. Ziraat Bank is one of the three state banks in Türkiye. Businesses in the Building Markets network shared that it does not offer the appealing ease of access mentioned above (Arabic-speaking employees and mobile application), although it welcomes temporary protection status holders more than other banks.

6 President of the Republic of Turkey Investment Office. "Financial Services in Turkey: May 2019."

7 SPARK. 2021. "Access or Non-Access to Finance." Available [here](#)

2 Volatile Economic Environment

Commercial banks are not a favorable source of financing for Syrian or Turkish entrepreneurs due to the high cost of commercial borrowing. Commercial interest rates averaged 18% in 2022, down from an average of 23% in 2021, though the actual lending rate varies per borrower.[8] In addition, regulations and compliance requirements are challenging for businesses to achieve. Finally, collateral requirements for loans may be cost-prohibitive for entrepreneurs in the Building Markets network. At the same time, the Central Bank recently enacted measures that make it more difficult for banks to provide financing.[9]

3 Lack of Investment-Readiness

To qualify for financial services, SMEs must enhance their readiness to obtain credit, loans, or other types of financing. Most businesses in the network are unable to demonstrate their readiness due to a lack of knowledge about the basics of financing a business and a lack of knowledge about local regulations and procedures. SME owners often do not have sufficient knowledge about financing, cannot carry out operations such as a feasibility study or financial plan necessary to obtain credit, and cannot employ specialists who can do these because of their limited budget. Information gaps about the market and availability of credit resources prevent Syrian enterprises from identifying business resources and opportunities, such as available financial services provided by public, private, and civil society organizations. Furthermore, information on laws, regulations, and government incentives is not easily accessible to Syrian-owned SMEs in Arabic, resulting in uncertainty for entrepreneurs who do not speak Turkish.

Potential Finance Providers for Syrian-Owned SMEs in Türkiye

Development Banks
Grants from International
Development Organization
Commercial Banks
Crowdfunding
Microfinance Institutions
Venture Capital
Impact Investment
Government Incentive Programs

8 Devranoğlu, N. "Targeted Turkish credit policies benefiting SMEs." Reuters. 2022, October 12 Available [here](#)

9 Tuncay, E., Devranoğlu, N., and Çağlayan, C. "Exclusive: Furry of new rules leave Turkish banks struggling to lend." Reuters, 2022, September 12.

Available [here](#)

10 Yılmaz, G. "Küçük Ve Orta Ölçekli İşletmelerin Kredi Sorunları Üzerine Muğla İlinde Yapılan Bir Araştırma." Sosyal ve Beşeri Bilimler Araştırmaları Dergisi 17, no. 36 (2016): 67-82.

Case Study - Noontek

Noontek was founded in 2013 in Gaziantep. Building on 20 years of experience in the hardware and electronics sector, the company provided maintenance services to organizations, which helped them gain visibility among potential clients. Soon after launching, they started applying for and winning contracts, allowing their business to expand. Since 2017, Noontek has ventured into e-commerce, creating the first electronic platform for exporting and selling Turkish technological products.

The company follows a niche business strategy focused on customization and providing customer-focused IT services. Experience has taught the team that even if your product is the best, not paying attention to details can mean losing business opportunities. Often, clients evaluate the company more than product pricing because what matters, in the end, is receiving the product at the right time and with the appropriate specifications.

When Noontek first joined the Türkiye network, Building Markets supported them in participating in tenders issued by various institutions and organizations and providing mentorship and advisory services to address their business challenges. “Building Markets’ services are very beneficial to us and provide us with access to business development opportunities,” says Nour Yildiz, co-founder of the company. One of these opportunities included the Arya Women Investment-Readiness Accelerator. Noontek was one of the women-led companies chosen for the opportunity to pitch their ideas to investors and grow their businesses.

Recently, Building Markets has been providing advisory services to Noontek to improve the company’s investment-readiness. Building Markets has supported Noontek by providing technical assistance, including external audit services and advisory services related to governance to enable eligibility for equity funds. As a result of these efforts, Noontek obtained a credit line of US \$2 million from a prominent Turkish venture capital fund.

Founders Mr. Abdulbasit Yildiz and Ms. Nour Yildiz explained, “Building Markets is an effective and dedicated SME support organization that provides us with the right advice and helps us create and implement our growth strategy.”



Recommendations

Syrian-owned and employing SMEs in Türkiye play an important role in the economic and social integration of refugees in Türkiye. Addressing their challenges in accessing financial services will unleash opportunities that result in more wage employment in refugee and host communities. Many stakeholders can support greater financial inclusion for Syrian-owned SMEs.

For SMEs

SMEs should pay more attention to their investment-readiness. They should prioritize learning what is required to become viable and qualified candidates to access investment and credit. In order to obtain financing, they should build their credit history, improve compliance with application criteria, and demonstrate that they meet regulatory requirements. SMEs can achieve this by following these steps:

1. Attend a [webinar](#) on Access to Finance with Building Markets to learn how to utilize the organization's Investment-Readiness Assessment Tool to identify areas for improvement.
2. After completing the Investment-Readiness Assessment, SMEs are invited to join Building Markets' mentorship and advisory services and meet with qualified mentors and advisors in a 1:1 setting that offers them bespoke advice to help them transition toward readiness, professional improvement, and competitiveness.
3. Consolidate the knowledge and skills obtained in the first two steps by applying for small business grants. New grants for businesses are announced on an annual basis. SMEs are typically required to provide a three-year business plan as part of the application to large grant schemes. Furthermore, having a five-year business plan ready shall enhance an SME's readiness to engage with non-banking financiers, such as equity investors. Building Markets' technical assistance helps SMEs strengthen their capacity to develop and refine their business plans.

Invest time in online training on a range of topics related to banking and access to finance, available on [Building Markets' Online Learning Platform](#) and [in-person](#).

In October 2022 Building Markets webinar on access to finance, 78.3% of the attendees reported that information sharing scales up their knowledge and will help them prepare stronger applications for financing in the future.

"Thanks to Building Markets' technical assistance, Health Laguna secured a 25,000 TL grant from the International Centre for Migration Policy Development's Enhancer Project focused on supporting SMEs in Türkiye."

Dania Abo Saleh, General Manager
[Health Laguna](#)

For Public and Civil Society Stakeholders

1. Support SMEs through financial literacy training, including how to open a bank account and build a credit history, to assist Syrian-owned businesses' integration into the Turkish financial sector. Provide access to information related to maintaining and demonstrating compliance with laws and regulations, and increase SMEs' knowledge of local procedures and the Turkish financial system.
2. Promote business resources and opportunities for Syrian-owned SMEs to increase their awareness about how to benefit from incentive programs. Extend technical assistance to SMEs preparing grant scheme applications.

For Banks and Investors

1. Local banks should consider best practices for meeting KYC requirements for refugee financial inclusion, including the [G20 2020 Financial Inclusion Action Plan](#), [UNHCR guidance](#) on assessing KYC/CDD regulations for refugees, and [Financial Action Task Force \(FATF\) recommendations](#) for underserved groups.
2. Financial service providers should collaborate with CSOs to better understand Syrian-owned businesses' financial needs and better understand how to mitigate the risks of working with these businesses.

How We Work:

Founded in 2004 and headquartered in New York City, Building Markets creates jobs and encourages economic growth by finding, building, and connecting competitive local SMEs to supply chains and investment. Through its model, the organization has supported more than 27,000 SMEs, assisted those businesses in winning \$1.39 billion in contracts and \$22 million in loans and investments, and helped create 74,000 full-time equivalent jobs.

In Türkiye, Building Markets has built a unique network of more than 2,700 Syrian-owned SMEs. Verified businesses access services that increase their visibility, improve their performance, and connect them to new opportunities. Since 2017, our programs in Türkiye have led to SMEs winning over \$19.5 million in new contracts and capital.

Are you a small business operating in Türkiye?

INCREASE VISIBILITY



Get verified and create a unique profile on our business directory

ACCESS TRAINING



Enroll in online and in-person courses that target your company's growth

CONNECT TO OPPORTUNITIES



Locate tenders in your sector and win new contracts and capital

Interested in Learning More?
Contact our supply chain and finance experts:

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