

A Study on SMEs in Turkey with Alternate Financial Sources from Developing Countries

Ozer AC*

Marmara University, Vocational School of Social Sciences, Istanbul, Turkey

Abstract

SMEs are the engine of economic development in developing countries so different alternative financing sources are produced for SMEs in developing countries. Financing tools for SMEs in developing countries are factoring, leasing, barter, forfeiting, venture capital, state supports and projects supports from developed countries. Although different alternative financing sources are launched in developing countries, using rates and knowledge rate about financing tools are low. In this research SMEs using rates of alternative financing sources and tools are determined. The results of the research indicates that SMEs awareness and utilization rate of alternative financing sources are low level in Turkey.

Keywords: SMEs; Alternative financial tools; Leasing; Factoring; Barter; Project supports

Importance of SMEs' in Developing Economies

SMEs in emerging markets numerically account for an overwhelming proportion of all business firms, generate 40-50% of each country's GDP, and employ 70-85% of the total workforce in each economy [1].

Small and medium enterprises account for a large share of enterprises and a large share of overall employment in the private sector of most economies. Employment in enterprises with up to 250 employees constitutes over 60% of total employment in manufacturing in many countries, which justifies the statement that "SMEs are the emerging private sector in poor countries and thus form the base for private sector-led growth" [2]. Although SMEs are important for growth in developed and developing economies, SMEs access to financing tools are limited.

Cross-country evidence, however, also shows that small and medium enterprises are more constrained in their operation and growth than large enterprises and access to financial services features importantly among the constraints. Small firms consistently report higher financing obstacles than medium and large enterprises [3].

Smaller, younger and domestic - (as opposed to foreign-owned) enterprises report higher financing obstacles even after controlling for other firm characteristics. The relationship is not only statistically but also economically significant. The probability that a small firm lists financing as a major obstacle (as opposed to moderate, minor or no obstacle) is 39% compared to 36% for medium-size firms and 32% for large firms [4].

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Alternative Financial Sources of SMEs' in Turkey

SME's alternative financial sources in Turkey are factoring, leasing, forfeiting and barter. Other alternative tools are venture capitals, state supports and international project supports like EU.

Factoring traditionally has involved the outright sale of receivables to financing institution known as factor. These arrangements involved

notification to the customer to forward future payments to the factor and transfer of receivables without recourse [1,2]. The factor assumes the risk of an inability to collect. The classical variety of factoring provides two financial services to the business [1]. It permits the entity to obtain cash earlier and the risk of bad debts is transferred to the factor [2,5].

Factoring is used in developed and developing countries around the world. In 2004, total worldwide factoring volume was over US\$ 860 billion, as the result of an impressive growth rate of 88% since 1998. In some developed economies such as the United States, its importance as a primary source of working capital finance tends to be concentrated in selected industries. In other developed economies such as Italy, however, its importance as a primary source of working capital appears to be much more widespread. Factoring is starting to emerge as a major source of financing in developing economies [6].

Barter is an exchange form for purchasing good or services. Instead of to pay money, the parties exchange goods or services. Therefore barter transactions are not outflow the cash. Barter system is a market that companies created by come together. This market is evolving in line with demand and supply of companies. In barter system, companies pay costs of purchased goods and services by selling its products to market. The purpose of the barter system is dissolution of inactive capacity and stocks. A further aim is to be reduced financing costs and to be gained new customers, new markets.

Forfeiting is to be purchased forwards assets from the exports of goods and services and to be discounted by a finance company. The seller is to be freed from the risk by selling the policy to the forfeiting company. Forfeiting is applied to forwarded assets covering the period of 3 months to 10 years.

*Corresponding author: Ahu Coskun Ozer, Marmara University, Vocational School of Social Sciences, MU Goztepe Kampüsü, 34722 Kadıköy, Istanbul, Turkey, Tel: 02163081123; E-mail: ahu.coskun@marmara.edu.tr

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A lease is a contractual agreement providing the use but not the ownership of a piece of equipment. Two parties involving in the contract are lessor and lessee. The lessor holds the title to the equipment and provides the lessee with the use of equipment, while the lessee uses the equipment for a specified period of time and pays rents to the lessor [7].

Leasing is an advantage way for SME's. According to the Association of Financial Leasing statistics, leasing transaction volume was approximately 4 million 891 thousand dollars in Turkey in 2011. It increased 54% in 2011, compared with 2010.

Another financial soruces for SME's in developing countries are EU, states aids and venture capital. Entrepreneurs are supported by EU incentives, states grants and venture capital investments.

Materials and Methods

A survey research are conducted to determine using rate of alternative financial sources in İkitelli Organized Industrial Zone in 2012. Approximately 2000 firms are contacted for survey but only 418 firm accepted to answer survey research.

Results and Discussions

Companie's level of knowledge about financial resources

In this research, firm companies officials are asked about alternative financial sources whether they know detailed information about it and whether they used it or not. 94% of the officials surveyed are stated that they have sufficient knowledge of bank loans. 30.9% of business officials participated in the research stated that they have enough information about the credit guarantee fund. 29.4% of business officials reported that they have enough information about venture capital. 80.4% of them stated that they have enough knowledge about leasing. 89% of them have enough information about factoring. 31.6% of them have sufficient knowledge about forfeiting. 61.5% of them have suufficient information about barter. 52.9% of them have enough information about state aid. 30.9% of business officials have sufficient knowledge about foreign-funded project supports (EU). 1.4% of them stated that they are informed about other financial resources (Table 1).

Using ratios of alternative financial resources

Firms surveyed using rates of alternative financial resources to solve financial problems are 59% of the firms have used bank loans, 53.6% used bank credits, 2.9% used credit guarantee fund, 7.7% used venture capital, 19.6% used leasing, 19.9% used factoring, 1.2% used forfeiting, 13.4% used barter, 20.1% used state aids, 2.9% used outsourced project support to solve financial problems (Table 2).

	Proportion of Knowledgeed Officials	
	Frekans	Percentage (%)
Bank credits	393	94.0
Credit guarantee fund	129	30.9
Venture capital	123	29.4
Leasing	336	80.4
Factoring	372	89.0
Forfeiting	132	31.6
Barter	257	61.5
State aids	221	52.9
Outsourced Project supports (EU)	129	30.9
Others	6	1.4

Table 1: Companie's level of knowledge about financial resources.

	Using rates (Users)	
	Frekans	Percentage (%)
Bank Credits	224	53.6
Credi Guarantee Fund	12	2.9
Venture Capital	32	7.7
Leasing	82	19.6
Factoring	75	17.9
Forfeiting	5	1.2
Barter	56	13.4
State Aids	84	20.1
Oustourced Project Supports (EU)	12	2.9
Others	1	0.2

Table 2: Using ratios of alternative financial resources.

Conclusion

SME's officials information levels are low about alternative sources for financing. When the alternative sources for financing are asked, it is concluded that rate of informed officials on venture capital 29.4%, state aids 52.9%, outsourced project supports (EU) 30.9%, barter 61%. The best known alternative sources of financing is bank with 94%. In second place factoring is with 89%, the third is leasing with 80.4%.

It is released that knowledge level about other alternative financial sources, except leasing, factoring and bank credits, are low. As well as the low level of knowledge, utilization rates are too low. The highest utilization rate in alternative sources of financing is bank loans with rate 53.6%. Utilization rate of leasing, factoring and barter is below 20% and also utilization rate of outsourced project supports is only 2.9%. The second highest utilization rate after bank loans which is the highest source of alternative financing, is state aids with 20.1%. At this point, policies developed by state to encourage entrepreneurship is important. As a result, utilization rates from alternative sources of financing by SMEs is low in Turkey as an emerging economy.

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