A COMPARATIVE STUDY OF DAMU (KAZAKHSTAN) AND KOSGEB (TURKEY) TO PROVIDE SME FINANCIAL SUPPORT PROGRAMS

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Abstract— Despite the importance of small and medium-sized enterprises (SMEs), there are remarkable amount of obstacles for them. One of the most significant constraint of SMEs is the access to finance. Banks are reluctant to provide financial support for small enterprises. Rather, governmentsare supposed to provide supports to promote entrepreneurial improvement. This study comparesthe state supports provided by KOSGEB and DAMU. Study findings might have political implications regarding the mutual experience interchange.

I. INTRODUCTION

Small medium-sized enterprises play a vital role in any economy through contributing to employment because they are more labor oriented than larger firms. It has been largely accepted that a large share of the unemployment reduction in many countries around the world in recent times, has been due to the empowerment of SMEs. By being source of new ideas and inventions SMEs contribute to the provision of flexibility which needed in the industry. They have better decision-making flexibility, working with less administrative and general operating expenses. SMEs creates "sub-industry" in the economy by producing inputs such as raw materials, auxiliary materials, operating materials or semi-finished products used by large-scale enterprises to complete their development.

But, they have some weaknesses such as lack of finance, technology, R&D, innovation. Moreover, inadequate credit guarantee system, lower education levels, failure to achieve to global standards,low level of cooperation, etc. are other problems associated with the SMEs. Indisputably, the most significant one is associated to the deficit of capital[1].Therefore credit and financial supports are the most frequently used tools to support entrepreneurship. Nowadays government authorities, are keenly interested in these problems of SMEs and try to develop more effective means. Every country providesa wide range of SME supports considering the socio-economic institutions of the country. Therefore, the purpose of this study is to compare thestate financial supports provided to SMEs in Kazakhstan and Turkey. To achieve its objectives secondary data was obtained from the official websites of DAMU (Kazakhstan and KOSGEB (Turkey) and qualitative comparisons were conducted.

II. LITERATURE REVIEW

2.1 Importance of SMEs

Small and medium enterprises (SMEs) are accepted as the backbone of an economy. These companies form an important source for economic growth, dynamic and flexibility in many countries(Maximilian Robu,2013).Role of SMEs is considered for a long time in the global economy. Entrepreneurial dynamism, internal flexibility, and responsiveness to changing conditions are known as the advantages related to SMEs (Yanmei Zhu & Xinhu a Wittmann & Mike W. Peng, 2011). SMEs have an important role not only in economic life but aslo in social life. SMEs are spread to every small corner of a country and maintain the economic equity among the social segments through generating employment opportunities. Successful entrepreneurs affect potential entrepreneurs, will also cause to their entering into the economy and also they will increase psychological satisfaction in a democratic environment.

For individuals, SMEs often express the first job experience, the first step in the career. It is the fact that a considerable participation of external impact of SMEs contribution in growth is not limited to the sector of SMEs of economy, it is more than that. Based on the study of "Small and Medium Enterprises in Europe 2003"researcher's assertion is small and medium enterprises serve as engine of the economic growth.The basic qualification of SMEs is creation of an important source of jobs. Two third of newly created jobs generated by SMEs (Ludovica Ioana Savlovschi &Nicoleta Raluca Robu, 2011)

2.2 Financial constraints

SMEs are hampered several types of constraints. These constraints are differentiated between region, urban areas and sectors. At the same timethere aresome other constrains which severe the situation. They are: lack of finance, inconvenience in supplying raw materials, weak distribution and marketing channels, communication problems, lack of reach up to relevant business information, low technological endowment (Tulus Tambu nan, 2008)One of the most substantial obstacles for development and survival of SMEs is the lack of access to capital. Access to finance by has been widely accepted as the main

[1]**http://www.yoikk.gov.tr/dosya/up/eng/SMEs%20IN%20TURKEY%20%20SME%20SUPPORT%20MECHANISM%20OF%20KOSGEB.doc retrieved on June 8, 2015**

driver for economic diversification and also antecedent for entrepreneurial development (Le Thi Bich Ngoc, 2013).The difficulty of access to capital is explained by the weakness of the banking system in Central Asia (Gloria O. Pasadilla, 2010).The difficulty of financing SME growth is not just a Kazakhstan's or Turkey's problem. It is a universal issue. In this regard we can take China as an example. Despite improvements, Chinese SMEs still run into serious financial problems (Junjie Wu and Jining Song, 2008). Because of unimproved financial markets in China, the financial constraints of a business enterprise are real and restrictive. Financial constraints are caused by two reasons 1. Credit-rationed firms when firms credit applications are rejected completely 2. Self-rationing borrowers when firms use high lending costs (Eddie Casey and Conor M. O'Toole et al, 2014). Various studies have contended that SMEs are financially more constrained than large enterprises and are less accessibility to formal finance.

With offering more opacity and less collateral, generally small businesses face higher transaction costs and higher risk premium.SMEs resort to informal ways to solve financing problems inexpensively. Small firms use significantly more informal finance than large firms (Thorsten Beck&Aslı Demirgüç-Kunt 2006). Access to official credit offered by banks is quite difficult since they focus on lending to large state-owned enterprises (Hung-Gay Fung, Xiaoqing Eleanor xu, Qi-Zi Zhang, 2006). Due to the perception of high risk, banks and other investors are reluctant to provide financial support (Yanmei Zhu & Xinhu a Wittmann & Mike W. Peng, 2011). However, financing from such sources is very limited. On average the proportion of investment financed using informal finance is less than two percent. Thus, the use of informal financing does little to relax financial constraints faced by small firms in developing economies.

2.3 How to support SMEs?

Without exception, every start-up has been challenged by financial problems since bank loans require high collaterals. However, start-up capital is rarely sufficient to meet even working capital needs. State grant plans and tax incentive equity plans are outstanding sources of external equity funding for inexperienced enterprises, particularly in strategically targeted sectors (Ciara´n mac an Bhaird & Brian Lucey,2010). The significance of SME development in countries growthhas been recognized by Central Asian governments. Despite large enterprises possess themost essential industries as oil, gas and metal, SMEs have yet to be found out as the real backbone of Central Asian economies. The countries have specific programs that are funded by the government to support SME sectors (Gloria O. Pasadilla,2010). Government support is very critical in SME development.Durable macroeconomic environment, policies and programmes of support, and institutional agreements (banks, business support substructure, and other financialintermediaries), legislation and regulations (effortless registration, observance of tax, social security etc.) positively affects SME development(Smallbone & Welter 2001). Firm's production process, innovation are mostly affected by the state funding, however it was statistically insignificant in its effect on reaching high level of innovativenes.(Sothea OUM, Dionisius Narjoko, Charles Harvie, 2014).

Access to finance for the formation, survival and growth of small businesses is a supreme element in the development of the SME sector. Developed nations have developed programs to improve the competitiveness of the local firms. The major purpose of state financial support is tosupport entrepreneur in order to stimulate economic (et al. Jelena Hartšenko and Ako Sauga, 2013).

Without the development of small and medium-sized enterprises, it is difficult to talk about the stability of the macroeconomic situation. Consequently, at the dawn of independence, small and medium businesses in Kazakhstan was determined as the most important sector of the economy. Today, the government takes the responsibility to finance the priority state program of development of industry, agriculture, transport, communication, as well as provide funds functioning social infrastructure. All financial measures of the government aimed not only at a direct increase in the financial capacity of businesses, but also have a stimulating character and are intended to direct their development, taking into account the national interests. The governmentdirectly supports the small and medium enterprises to enhance employment, innovation, export, regional production. It should be noted that this type of funding is very significant and important (Sadvokassova M. 2010).

Many public and private organizations provide SME oriented support and encouragement in Turkey either directly or indirectly. A great portion of SME supports are implemented by the government whereas as smaller portion is provided by private sector, various trade associations and banks.(Recep Ulusoy,Reyhan Akarsu, 2012)

III. CASE BACKGROUND

3.1 SMEs definitions in Kazakhstan and Turkey.

In Turkey, small and medium-sized enterprises are classified according to the number of employees. For example, enterprises whose number of employees are less than 250 and annual income doesn't exceed 25 million TL (10 million USD) are accepted as SMEs. Also SMEs are classified into three groups; micro, small and medium enterprises. Enterprise is called Micro if it has less than 10 employees and $0.5 million annual turnover, Small if its employees less than 50 and turnover less than $4 million and when enterprise's employees less than 250 and its annual

turnover does not exceed $10 million it is defined as Medium enterprise.

In Kazakhstan, small businesses are individual enterpreneurs without a legal entity and legal entities engaged in private enterprise with annual average number of employees not more than 50 persons and annual doesn't exceed 60000times the monthly calculation index(MCI) (0.6 million USD) established by the law of the Republic of Kazakhstan on the budget for the corresponding fiscal year. Enterprise is called medium-sized if it has less than 250 employees and annual income up to 325000 fold MCI (3.5 millionUSD).

Table 1-Classification of SMEs

	Kazakhstan		Turkey	
Scale	Number of employees	Annual Turnover (USD)	Number of employees	Annual Turnover (USD)
Micro	-	-	< 10	≤ 0.5 mln
Small	< 50	≤ 0.6 mln	< 50	≤ 4 mln
Medium	< 250	≤ 3.5 mln	< 250	≤ 10 mln
Note: Compiled by the author from the official websites[2]				

3.2 Key indicators of SMEs in Kazakhstan and Turkey

In the figure 1 below, it is examined comparative indicators of Kazakhstan and Tukey which include the shares of SMEs in GDP, employment and total number of enterprises. Shares of SMEs in GDP gives very nearly result in both countries makes approximately 30%. In 2013, analysis shows noticable gap in the share of SME-employed population comparing to total number of employment is 31% and 76% in Kazakhstan and Turket respectively. At the same time, there is similar parameter in the contribution of SMEs in the total number of all businesses of Kazakhstan 95% and Turkey 99%.

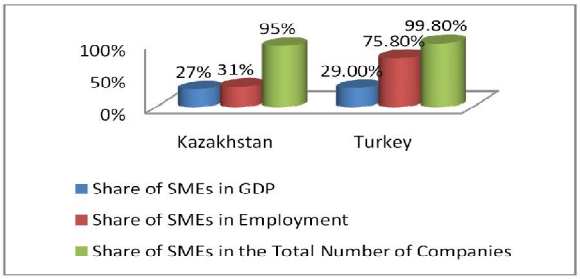


Figure 1 SME Indicators of Kazakhstan and Turkey

Source: Compiled by the author from the official websites of www.tuik.gov.trand www.damu.kz

3.3 Data Collection

Data used in this study is taken from the official sites of DAMU and KOSGEB.Also some analytic infromations are obtained from the Statistical sites of the countries www.tuik.gov.tr , www.stat.kz and also used Geo-informational system of Damu JSC. Consulted with member of instituions in some cases when informations are incoherent. After collecting the data,established following table 2.

V. ANALYSİS

5.1 Support details

By collecting detailed information regarding the SME supports from the offical websites of Damu an KOSGEB the following table has been compiled.

Table 2 – Support details

Damu	KOSGEB
1. Leasing: Up to: 84 months İnterest rates Manufacturing sector 8% Other sectors 14%	**1.Leasing:** Up to 48 months Special interest rate for each SME upon agreement
2.Loan Interest Support Programme Loan term up to 48 months Support type: DAMU pay 70% of interest	**2. Loan Interest Support Programme** Loan term up to 48 months Support type: KOSGEB pays 100% of interest, main debt
3.Microcredit Support Up to 60 months Interest rate . 8%	**3. Microcredit support** Due to providing manufaturing oriented supports, KOSGEB doesn't offer micro credits
4. Manufacturing support İnterst rate 8% Max limit of financing 750 mln KZT Period of crediting up to 84 months • Damu's loan portfolio is established 38% of manufacturing support.	**4.Manufacturing support** KOSGEB doesn't have specific support only for manufacturing • Nevertheless KOSGEB's loan potfolio is made up 16.9% of manufacturing support
5. SME project support program[3] Up to 84 months Support upper limit $ 810.000 İnterest rate 14%	**5. SME project support program** Up to 24 (+12) months Support upper limit $ 60.000 Support ratio 50% / 60%
6. R&D, Innovation and Industrial Application Support Damu doesn't have significant support for R&D and innovation	**6. R&D, Innovation and Industrial Application Support** R&D and Innovation Programme 12-24 months Industrial Application Programme – up to 18 months Upper limit of support is equal to $ 80.000
7. Cooperation Support Program Not available	**7. Cooperation Support Program** Project period : 6-24 months (+12 months) Support upper limit is $ 80.000 Support Ratio: 50% 60%
8. Emerging Enterprises Market SME Support Not available	**8. Emerging Enterprises Market SME Support** The upper limit of the support $40.000 Support ratios 75% and 100%
9. Micro crediting of women entrepreneurs Annual EIR not more than 14% Up to 36 months • Shares of women in SMEs 40%	**9. Micro crediting of women entrepreneurs** Not available • Shares of women in SMEs 22%

Source: www.damu.kz and www.kosgeb.gov.tr

5.2 Finding and discussion

Leasing is one of the main important supportsfor SMEs.This is offered by both institutions but program of Damu is more explicitly manufacturing oriented than KOSGEB since the main purpose of KOSGEB already to providessupport for manufacturing firms.

As seen in the loan interest support program, KOSGEB covers up 100% and DAME covers up 70% of the interest expenses for the firms. It is interesting to note that the limit of DAMU is 8.5 times greater than KOSGEB[2]. This is due to the differences between risk bearers. In particular, DAMU loans are approved and given by an intermediary bank, wherease KOSGEB loans are directly given by the organization. In other words, KOSGEB bears all the risks associated with the future risks, but DAMU diversifies the risk to a bank. Besides, all credit screening costs are paid by the applicants in Kazakhstan, the same costs are paid the KOSGEB. In fact, this increase the real cost of DAMU loans.

Micro credits constitutes only 0.2% DAMU programs.There is not a special micro credit program offered by KOSGB. However, a micro-credit might be granted if the applicant has a manufacture-oriented project.

Despite a special manufacturing support program of DAMU, share of manufacturing support does not exceed 38%. For KOSGEB, there is not a special program for manufacturers,but 47% of the support is provided for the sector. This is due to the foundation principles of the organizations. KOSGEB is already manufacture oriented, but aim of DAMU is to support any SME, regardless of its sector.

Research and Development, Innovation and Industrial Application Support Programme constituted 16% total support of KOSGEB. Also Cooperation-Leaguing Support Program is one of the main program offered by KOSGEB. Experience of these programs could be transferred.

Regarding this issue, KOSGEB has specific database for its member firms. Such a database could be very effective to connect the Kazakh firms on a digital platform. Such network might enable the firms to tackle with supplier, marketing and selling problems.

CONCLUSION

It has been understood that the key to success for SMEs is government support programs. We have compared support programs of two different countries. After analogizing datas which are selected from the websites of funding instituions, we have found that,there is resemblance and discrepancy among the supports that are provided by Kazakhstan and Turkey. The significant reasons which are composed this discrepancy is the consist of variation in the socio-economic culture, development level of countries, economic situations,different policy. We argue that closer collaboration will enable the institutions to exchange their experiences.

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[2]Upper limit of supports: DAMU-$1.285.000; KOSGEB-$150.000