



FINANCIAL LEASING IN MANUFACTURING AND PRODUCTION SECTOR: THE CASE OF TURKEY

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Abstract:

Financial leasing is the transaction in which a property needed by an investor (lessee) is leased for a contractual specified period of time through purchasing by a financial leasing company. A financial leasing takes place with a contract made between an investor and a financial leasing company. The advantage of financial leading for an investor is that they can use the significant amount of money they have to allocate when they purchase the property in more strategical investments. Financial leasing is commonly used in the world and is also important for developing countries. Financial leasing transactions are carried out in Turkey, which is one of the developing countries with a legislation. Most of the sectors in which financial leasing transactions are made in Turkey are manufacturing, service and agriculture. The aim of this study is to determine the differences between the state of financial leasing in Turkey and in the world by evaluating the operation, advantages and disadvantages of financial leasing.

Keywords:

Financial Leasing, Manufacturing Industry

JEL Codes:

M41, M48, G39

1. Introduction

The history of financial leasing can be dated back to 2000s BC when Sumerians leased the agricultural tools in Mesopotamia. In the modern sense, the history of the leasing in the world dates back to decades ago. Financial leasing is a type of leasing. It is used in today's world as a significant alternative financing tool with the advantages it provides to the entrepreneurs.

The sale and lease back used by companies as a funding method is the process of leasing back the properties subject to amortization registered on the company after selling them to the leasing company. The basis of lease back is that lessor obtains the property of the lessee and directly presents it for lease. Therefore, a company provides money with lease back guarantee (Kolpak, p.128).

Financial leasing consists of direct and return. Direct financial leasing is used when the most common lessee needs to renew its current technical capacity. In this case, the lessor only provides financing that is obtained in the financial leasing of the property.

Financial leasing takes place with a contract made between lessor (financial leasing company) and an investor (lessee) as seen in figure I.

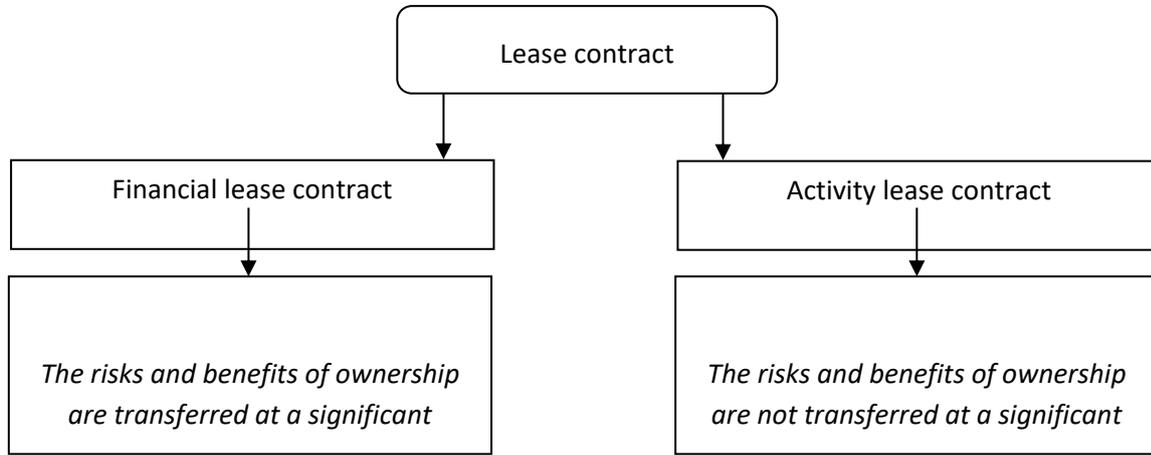


Figure 1.1. Lease contract

Source: Stanislava Pancheva, 2015, p.117

The terms and conditions of financial leasing and beginning and end dates of this operation are stated in the contract. Financial leasing contracts cover a period of more than one year (Şişman,2017, p.148). Attributions such as borrowing contract can be added to a contract under financial leasing by evaluating it under German and Swiss laws (Tunçsiper,2011,p.35).

2. Literature Review

Gürol (2018) study calculated the financial rates of three financial institutions determined according to 2014, 2015, 2016 sector financial tables in his study and obtained performance rankings by years by analyzing them with the TOPSIS analysis method. The conclusion of the study demonstrated that the most successful year for financial leasing and factoring sectors is 2016 and the most successful year for financing companies is 2015. Among the three institutions, financial leasing sector has shown a stable performance increase.

Şişman & Şişman (2017) study examined the reasons why the form of financial leasing attracted interests in financial arbitration for economy after the 2008 global crisis in their study and they determined that leasing finance form is directed with the tax advantage in countries it is commonly used in the world (Australia and Canada) for SMEs and reduces the asymmetric information.

Çağlar, Kılıç & Başer, (2016) demonstrated in their study that farmers benefiting from VAT advantage will be able to renew their machines at more economical rates and therefore the costs of using the machines will be reduced. Farmers will be able to produce with less cost and debt pressure by benefiting from the advantages of financial leasing. Thus, the demand and created added value for investment goods will increase.

Yılmaz, Atalay, Aksoy & Aslantaş, (2015) examined in their study the transaction volume, growth and penetration rates of the financial leasing sector in Turkey by years drawing on the statistical data published regularly on the websites of Financial Leasing Association (FIDER) and Financial Institutions Union (FKB), of which financial leasing companies in Turkey are members.

Şit & Şit, (2013) examined the development of financial leasing sector between 2008 and 2012 and concluded that financial leasing sector has grown in parallel with the financial services sector, however, the desired results couldn't be reached as a consequence of the effects of 2008 crisis and VAT rates applied in financial leasing.

Akel, Ergül & Dumanoglu, (2010) study evaluated the financial leasing method as a financing technique by conducting financial analysis of financial leasing companies whose financial tables could be accessed in 2005 - 2008 registered on Istanbul Stock Exchange.

3. Financial Leasing in Turkey and in the World

Financial leasing is widely used around the world. Financial leasing is a direct alternative financing technique in developed countries. Leading financial leasing countries in the world are as follows: Leasing emerged in 1950s in United States of America (USA) and equipment leasing reached a significant amount in 1980s. International Leasing Finance Corporation was founded in 1973 in USA and turned into a public company in March 1983. In the UK, leasing has shown an important development after the introduction of tax exemptions in 1970. In France, leasing is very common as opposed to purchasing. In France, aircraft and helicopters, ships and barges, transport equipment, containers, computers, medical supplies, printing, large-scale industrial equipment leasing is being developed. In France, movable goods leasing began in 1960 and Leasing Act was adopted in 1966. Immovable goods leasing was determined by the law of 1966. There are many leasing companies in Germany. 57 of them are German leasing associations. Leasing contracts made in accordance with the established norms allow the use of certain tax profits. Leasing operation volume in the world has increased over the years, except for financial crisis periods. Appendix 1. shows the increase amount of world leasing operation volume in percentage.

Turkey ranked 21st among the first 50 countries with an amount of 7.93 billion USD on the basis of operation volume in 2017. It has seen that at the regional distribution in financial leasing operations, North America has the largest share. This region is followed by the European region and Asian region.

Financial leases are important for developing countries. The main reason for this is the financing problems of the developing countries. Financial leasing tool contributes to the growth and development of the economies and revitalizing markets when used as an alternative financing tool by the institutions of developing countries. "Financial leasing has a demand creating impact in the economy. Companies with insufficient purchasing power will be able to use their investment property through financial leasing method. For this reason, financial leasing has an extending effect in the country's economy. Financial leasing sector is accepted to be one of the key indicators of revival or recession in the country's economy." Thus, the importance of financial leasing is increasing for developing countries.

As a developing country, Turkey is applying financial leasing to revive and enlarge its economy. In order to achieve this, legal regulations were established and financial leasing practices were introduced in Turkey at the end of 1970s. Appendix 3 shows the comparison of Turkey's financial leasing volume to the world's financial leasing volume between the years of 2003-2017. Turkey's financial leasing volume reached 7,93 billions of USD in 2017. The change rate was 17,80 compared to the previous year. In Turkey, financial leasing is applied most in manufacturing (light and heavy industrial production areas), service (construction, wholesale and retail trade, etc.) and agriculture (agriculture, animal husbandry and forestry) sectors. The growth rate of manufacturing industry in Turkey has fluctuated significantly between the years of 1999 and 2015 and the annual average growth rate has been 3,8 percent. Manufacturing (production) sector in Turkey has continued to grow in recent years. The manufacturing industry in Turkey is one of the sector in which most financial leasing is done with a 10.305.172TL gross operation volume and 46,4% gross operation volume rate. With the service sector (construction, wholesale and retail trade, motor vehicles services, real estate commission, leasing and operation activities, health and social services, transportation, storage and communication, hotel and restaurants (tourism) services, etc.) in the period of .01.2018-31.12.2018 . Gross operation volume during the same period was 10.724.240 TL and gross operation volume was 48,3%. In the period, textile and textile products industry ranked first with 3.099.698 TL gross operation volume and 14,0% gross operation volume rate in the manufacturing industry. It was followed by main metal industry and processed material production with 1.597.799 TL gross operation volume and 7,2% rate. And they were followed by other industries with less gross operation volumes and gross operation volume rates in the manufacturing industry.

Doing business by purchasing the machines to be used in the manufacturing (light and heavy industrial manufacturing fields) increases the investment costs of the investor. Financial leasing is a viable option for the entrepreneur by providing an alternative long-term payment facility instead. Considering that small and medium sized industrial enterprises are facing financial problems in Turkey, the importance of financial leasing is especially increasing. Using financial leasing, small and medium sized industrialists will be able to make payments much easier without purchasing them by not delaying their investments.

The advantages of financial leasing are as follows: The investor can use the significant amount of money they have to allocate when they purchase the property they leased in more strategical investments. Financial leasing reduces the investment risks of the investor when the risk rate is compared to the possibility of purchasing goods with high

commercial credit. Financial leasing provides long-term financing. It supports liquidity. It does not affect credit facilities. It provides scale economy advantage. It provides protection against interest rates and inflation. In addition, financial leasing has VAT advantages, Exemptions, Tax advantages, Security and cost advantages, Maturity and cash flow advantage and Investment incentive advantages.

The disadvantages of financial leasing are; all risks and benefits depend directly on the provision of certain items. All risk of the goods subject to the lessee is transferred to the lessee. In practice, the lessee is held responsible for the damages that the leased property will incur. It may cause the lessee to be deprived of the scrap value of the property at the end of the lease period, cause restriction of the right to use and decrease in the possibility of providing credit.

4. Conclusion

Financial leasing is a good alternative to investing in ventures with a lack of available financial resources. Thus, entrepreneurs do not postpone their investments. It allows a very expensive commodity to be included in the structure of enterprises and/or individuals to easily obtain. It reduces the investment risk of enterprises.

Financing shortage in manufacturing industry can always be experienced. In particular, small and medium-sized industrialists need to finance in order to grow in the sector and make the necessary investments for this. The financing requirement in question allows an industrialist to invest in a financial leasing company in a much more riskless way. It can be seen from the rates of the financial leasing tool in the investments of the sector companies, textile industry has got a gross transaction volume of 14%.

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Appendix1. Volume of World Leasing

Year	Volume(Million USD)	Change %
1990	331,6
1991	345,3	-4,13%
1992	323,3	-6,37%
1993	309,6	-4,24%
1994	356,4	15,12%
1995	409,1	14,79%
1996	428,1	4,64%
1997	405,8	-5,21%
1998	432,5	6,58%
1999	473,5	9,48%
2000	499	5,39%
2001	476,7	-4,47%
2002	461,6	-3,17%
2003	511,3	10,77%
2004	579,1	13,26%
2005	582	0,50%
2006	633,7	8,88%
2007	780,4	23,15%
2008	732,8	-6,10%
2009	557,3	-23,95%
2010	594,5	6,68%
2011	796,7	34,01%
2012	868	8,95%
2013	884	1,84%
2014	944,3	6,82%
2015	1.005,30	6,46%
2016	1.099,80	9,40%
2017	1.282,80	16,64%

Source: https://www.fkb.org.tr/Sites/1/upload/files/Dunya_Leasing_Islem_Hacmi-1714.pdf

Appendix 2. First 50 Countries Based on Operation Volume

Rank	Continent Code	Country	Volume (Million USD)	Change in 2016-2017 (%)	Penetration Rate
1	NA	U.SA(AMERICA)	410,35	6,9	21,6
2	A	CHINA	265,68	20,42	6,8
3	E	ENGLAND	92,45	5,18	32,4
4	E	GERMANY	78,32	7,29	17,2
5	A	JAPAN	60,47	-2	5,3
6	E	FRANCE	49,78	8,69	16,1
7	E	ITALY	33,63	12,89	15,2
8	ANT	AUSTRALIA	31,49	2,1	40
9	NA	CANADA	26,46	2,7	38
10	E	SWITZERLAND	24,88	10,5	27,1
11	E	RUSSIA	20,06	46,68	n/a
12	E	POLAND	19,11	15,72	25,1
13	E	SWITZERLAND	13,59	0,27	12,3
14	A	S.KOREA	12	5,3	8,9
15	E	DENMARK	11,95	0,31	29,4
16	A	TAIWAN	11,83	8,08	9,9
17	E	SPAIN	11,15	8,76	6,2
18	NA	MEXICO	9,06	9,7	n/a
19	E	AUSTRIA	8,85	7,85	13
20	E	NORWAY	8,77	13,88	12,9
21	E	TURKEY	7,93	17,8	n/a
22	E	BELGIUM	7,73	-3,49	10,1
23	E	NETHERLAND	7,71	7,64	7,3
24	SA	COLOMBIA	6,44	6	n/a
25	E	CZECHOSLOVAKIA	5,58	5,59	13,6
26	E	FINLAND	5,1	-6	16
27	E	PORTUGAL	4,47	16,08	17
28	SA	CHILE	4,37	-16	n/a
29	SA	BRAZIL	3,26	20	n/a
30	E	SLOVAKIA	3,16	6,59	17,8
31	AF	SOUTH AFRICA	3,11	-2,9	n/a
32	E	HUNGARY	2,8	18,35	10,3
33	E	ROMANIA	2,5	2	1
34	E	LITHUANIAN	2,36	23,66	32,1
35	E	SLOVENIA	1,75	8,73	21,9
36	SA	PERU	1,7	-7	n/a
37	AF	MOROCCO	1,63	9,35	n/a
38	A	MALAYSIA	1,58	35,65	n/a
39	E	ESTONIA	1,45	9,88	31,6
40	A	IRAQ	1,32	5,4	4
41	E	BULGARIA	1,17	9,19	11,9
42	A	INDIA	1,08	8,5	0,5
43	E	LETONIA	1	13,02	18
44	SA	ARGENTINA	0,89	68	n/a
45	E	GREECE	0,63	65,32	2,9
46	AF	NIGERIA	0,51	5	n/a
47	E	UKRAINE	0,46	33	n/a

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48	A	HONG KONG	0,4	2,6	n/a
49	AF	EGYPT	0,4	23	n/a
50	SA	PORTO RICO	0,36	23	n/a

Source: https://www.fkb.org.tr/Sites/1/upload/files/Islem_Hacmi_Bazinda_Ilk_50_Ulke_2017-1711.pdf

Appendix 3. The comparison of financial leasing volume between Turkey & the world (2003-2017)

Year	World (Million USD)	Turkey (Milyon USD)	Share %	Penetration Rate
2003	511,3	2.166	0,42%	5,06
2004	579,1	2.921	0,50%	4,24
2005	582	4236	0,73%	4,96
2006	633,7	5.271	0,83%	5,37
2007	780,04	8.203	1.05%	6,73
2008	732,08	5.303	0,72%	4,47
2009	557,3	2.197	0,39%	2,7
2010	594,5	3.183	0,54%	2,95
2011	796,7	4.891	0,61%	3,61
2012	868	5.360	0,62%	4,14
2013	884	6.990	0,79%	5,68
2014	944,3	11.008	1,17%	3,83
2015	1.005,30	9.492	0,94%	3,74
2016	1.099,80	9.454	0,86%	3,69
2017	1.282,70	10.663	0,83%	3,68

*Penetration rate refers to the division of the financial leasing operation volume into fixed investment expenses of the private sector.

Source: Resul Umut Çağlar, Osman Kılıç and Uğur Başer p.35