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DETERMINANTS OF FINANCE METHODS TO SUPPORT SME'S PROJECT IN SYRIA

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ABSTRACT:

The aim of this study is twofold purposes, the first purpose is to analyse the relationship between Finance Methods; namely Leasing finance, Bank financing, Trade credit, Government Financial assistance, and Capital Market, on the dependent variables; namely Financing SMEs projects in Syria. In addition, the second purpose is to assess the moderation effect of accounting standards on the relationships between Leasing finance, Bank financing, Trade credit, Government Financial assistance, and Capital Market, with Financing SMEs projects in Syria. The findings revealed that the relationship between Leasing finance, Trade credit, Government Financial assistance, and Capital Market with Financing SMEs projects in Syria were found to be strong and significant, while the direct effect of Bank financing came out to be insignificant. Furthermore, findings revealed that the accounting standards moderates the relationship between Leasing finance, Trade credit, Government Financial assistance, and Capital Market with Financing SMEs projects in Syria positively and strongly, while it was found in this study that accounting standards do not moderate the relationship between bank financing and Financing SMEs projects in Syria. Further theoretical, managerial, and policy implications were discussed.

RESEARCH BACKGROUND

Small and medium sized enterprises (SMEs) in Middle East, like any business, are facing plenty of problems that need to be addressed, the most important problem is financing their projects and finding a source of funding to ensure the growth of their businesses (Alasadi & Abdelrahim, 2008; Ibeh & Kasem, 2011). Since the start of the Syrian conflict in 2011, no recent studies have been conducting as number of changes happened to the Syrian economy. In this modern era, there are many financing methods that could be studied and implemented in Syria (Valliappan Raju & Poh Phung, 2019). Most of the traditional financing methods have been affected by the Syrian conflict, an

empirical study is required in this context (Lababidi, 2020; Robicheau, 2014). Furthermore, in past decade, leasing finance has not been studied as a concept, not only in Syria, but in the Middle East and North Africa Area (MENA), as leasing finance, as a term, was absent in the published literature, as many reports and studies (Al-Sugheyer & Sultanov, 2010; Elbannan, 2011; Pearce, 2011). Moreover, the Scarcity of the studies of the relationship between bank financing and financing projects in Syria was the major gap this study is designed to bridge, there are no noted publication that target this important relationship, even though the published literature on it is wide in the neighbor countries such Egypt, Jordan and Palestine (Awad & Al Karaki, 2019; Boushnak et al., 2018; Qudah, 2017).

In addition, the financial assistance of the government is a crucial factor for the small and medium-size enterprises (SMEs) success. It is not clear in the published literature what kind of effect of the government financial assistance has on the SMEs projects' financing. To bridge this gap, an empirical study is required to understand the relationship between government financial assistance and SMEs projects' financing (IFRS, 2016; Matar & Kadri, 2016; Robicheau, 2014). Additionally, speaking of trade credit as a concept of projects financing, there were no studies mentioning how trade credit have an effect on the plan of financing the SMEs in Syria. This gap has not been highlighted in the published literature (Mousa et al., 2018; Soylemezoglu, 2010).

Moreover, post-conflict Syria has been a discussed subject in many researches, as Syria's war is on the brick of its end (Raju, 2018). Many studies were determined that small and medium enterprises (SMEs) and their businesses are the best solution to rehabilitate a healthy economy for Syria. As much as it looks interesting to study such projects, finding a source of finance is still not discussed academically yet, which create a big gap that need to be filled for the future of Syria (Alnafrah & Mouselli, 2019; Zidan, 2013).

The role of capital market on financing SMEs projects has been studied in many Middle Eastern countries, like Jordan, Egypt, and Saudi Arabia, but no studies were conducted in Syria. Capital market may include bonds, stocks, currency and foreign exchange markets. (Elsaman & Alshorbagy, 2011; Mahayni, 2013; Mardini et al., 2013). In addition, Many researches stated that International Financial Reporting Standards have not been yet adopted in Syria, while the official reports of the IFRS stated that the standards compliance are the commitment of jurisdiction bodies, which that this field deserve an empirical study about Financial and accounting standards in Syria and the effect of them on the SMEs (IFRS, 2016; Zehri & Abdelbaki, 2013).

To overcome the problems discussed above, the researcher have designed this study, on which the researcher will attempt in this study to explore the relationship between a number of financing methods (namely, Leasing finance, Bank financing, trade credit, Government financial assistance, and Capital Market) as independent variable, and financing SMEs projects in Syria as dependent variable. However, in order to expand the dimensions of this

study by including the adoption of accounting standards as moderating effect on the relationship between the aforementioned variables.

LITERATURE REVIEW

Syria, according to FITA, is a member of the IASB (International Accounting Standards Board), and the Syrian Ministry of Economy provides information on the Syrian Certified Accountants Association (FITA, 2015).

In the past 10 years, many researchers studied the Syrian case. First, Katrib and Rahman (2014) found that the companies of the general industrial sector in Syria concentrate on the use of traditional management accounting tools, and ignore the modern management accounting tools (Katrib & Rahman, 2014). Al-Taweel (2014) collected financial data from 42 Syrian Corporations listed in the Syrian Commission of Financial Markets and Securities (SCFMS) to argue that the structure of cost accounting leads to a higher quality of costing reporting attributes, results support the theoretical argument in management accounting literature that more functional accounting systems provide a better reporting quality (Al-Taweel, 2014). Furthermore, Ali, Khiyata, & Soulyman (2013) concluded a significant effect of each of the relevance and reliability of accounting information in the effectiveness of liquidity risk management at the Industrial Bank of Syria (Ali et al., 2013).

1.1 *Leasing Finance*

Evidence about access to and the use of leasing by small firms is scarce (Kwarteng & Li, 2015; Neuberger & R  thke-D  ppner, 2013). Entrepreneurial activities undertaken by the SME sector companies very often require that the gaps in resources are filled by means of external sources of financing, such as leasing. Thanks to such approach it is possible to obtain a series of benefits, including e.g. increase of flexibility in actions, innovativeness and competitiveness, as well as positive influence on financial liquidity and enterprise's tax obligations (Matejun & Popecka, 2013). Thus, it can be hypothesized that:

H1: There is a relationship between Leasing Finance and Financing SMEs Projects in Syria.

1.2 *Bank Financing*

For SMEs to support economic growth, individual firms need to grow, which means their access to bank finance is vital. As a result, understanding the issues that SMEs face in funding growth and other business activities can have considerable economic value (McCarthy et al., 2017). Bank loans (or more generally private loans) follow a negotiation and intermediation logic, which runs contrary to the market logic of bond financing or financing using commercial paper (Ross et al., 2016). Thus, it can be hypothesized that:

H2: There is a relationship between Bank Financing and Financing SMEs Projects in Syria.

1.3 Trade credit

Trade credit is the loan extended by one trader to another when the goods and services are bought on credit. Trade credit facilitates the purchase of supplies without immediate payment. Trade credit is commonly used by business organizations as a source of short-term financing (Nielen, 2018). Suppliers offer credit to remain competitive; in many industries, the terms of credit include a cash discount for paying within a certain period (Ross et al., 2016). Thus, it can be hypothesized that:

H3: There is a relationship between Trade credit and Financing SMEs Projects in Syria

1.4 Government financial assistance

Peter et al., (2018) recommend that government should exercise renewed commitment towards driving the overall development of the SMEs. Specifically, government should eliminate all unnecessary bureaucratic bottle necks and favoritism, establish strategic and robust venture capital sector, crowd funding and other forms of financial institution to make funds available at affordable rate to critical sectors such as agriculture and manufacturing (Peter et al., 2018). In addition, Marri et al. (2011) business owners/entrepreneurs often manage things to grow business but, sometimes they need the necessary support to operate business smoothly. Therefore, government can help SMEs in areas like technical support, financial support, economic and social support to run enterprises in smooth way (Marri et al., 2011). Thus, it can be hypothesized that:

H4: There is a relationship between Government financial assistance and Financing SMEs Projects in Syria.

1.5 Capital Market

According to Oladepo and Ajoseh, (2015) their study recommending that using the capital market to finance SMEs in a developing economy should not be a matter of choice, but rather a part of the operating environment in the nation's financial system, especially in this contemporary regime of fairer trade in goods and services (Oladepo & Ajoseh, 2015). Thus, it can be hypothesized that:

H5: There is a relationship between Capital Market and Financing SMEs Projects in Syria.

1.6 Accounting standards

The paper of Son (2011) revealed that SMEs' compliance with accounting standards is limited. An analysis of empirical evidence finds that compliance with accounting standards was largely a legal issue and SMEs perceived little benefits from that. Legal requirements and perceptions of external uses of accounting information were the main drivers of the companies' compliance with accounting standards (Raju & Phung, 2019). The perception of cost-benefit relationship and the management and accounting skills had a limited impact on SMEs' compliance with accounting standards (Son, 2011). Thus, it can be hypothesized that:

H6: There is a relationship between Accounting Standards and Financing SMEs Projects in Syria.

1.7 The moderating role of Accounting Standards

The moderating effect of accounting standards adoption was mentioned in many previous studies. Isuru, Anna, and Aslam (2019) investigated the moderating effect of IFRS adoption on the relationship between FDI and conditional accounting conservatism. They found that a moderating effect of IFRS adoption was noticed on the relationship between FDI and conditional accounting conservatism in South Asia (Isuru et al., 2019). In addition, the results of the study conducted by Salah (2020) reveal that the transition from local GAAP (Generally accepted accounting principles) is justified by the value maximization theory which claims that the disclosure of IFRS-compliant financial statements by firms will lead to the maximization of the value of the firm and increase profitability ratio (Salah, 2020). Thus, it can be hypothesized that:

H6a: There is a moderating effect of Accounting Standards on the relationship between Leasing Finance and Financing SMEs Projects in Syria.

H6b: There is a moderating effect of Accounting Standards on the relationship between Bank Financing and Financing SMEs Projects in Syria.

H6c: There is a moderating effect of Accounting Standards on the relationship between Trade credit and Financing SMEs Projects in Syria.

H6d: There is a moderating effect of Accounting Standards on the relationship between Government financial assistance and Financing SMEs Projects in Syria.

H6e: There is a moderating effect of Accounting Standards on the relationship between Capital Market and Financing SMEs Projects in Syria.

Based on that, the Figure 1 below will describe the proposed research framework:

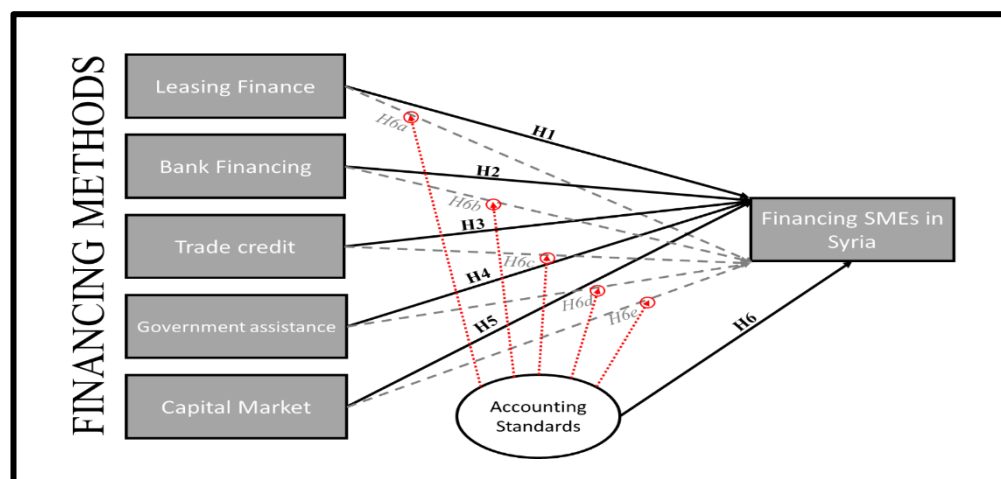


Figure 1: Research Conceptual Framework

METHODOLOGY

1.8 Research population

1.9 The Council of Ministers have issued a resolution number (35), 2017, to define the criteria for the limitation of the sizes of micro, small and medium enterprises as illustrated in Table 1(*Resolution 35 / CM for the Year 2017, Which Includes the Minimum and Maximum Sizes for Each Type of Small and Medium Projects*, 2017).

Table 1:Criteria for the sizes of micro, small and medium enterprises

Sector	Micro Enterprises	Small Enterprises	Medium Enterprises
Agriculture	1 – 5 staff	6 – 20 staff	21 – 100 staff
Industry	1 – 5 staff	6 – 26 staff	26 - 150 staff
Trade	1 – 5 staff	6 – 10 staff	11 – 30 staff
Services	1 – 10 staff	11 - 25 staff	26 – 75 staff

Based on this criteria, the National Institute of Administration in Syria (2017) have used the statistics issued in 2010, because there are no up-to-date studies or reports on the recent changes on the total amount of small-medium enterprises in Syria(National Institute of Administration, 2017). The numbers shown in Table 2.

Table 2: Number of SMEs in Syria by 2010

Type of enterprises	(N) of staff	(N) of enterprises
Small enterprises	11 - 50	2547
Medium enterprises	51 - 250	395
Total usable population	2942 enterprises registered in Syria by 2010	

Source: National Institute of Administration in Syria (2017)

According to the above and to the Krejcie and Morgan (1970) sampling formula, the sample size needed for any research with a population of 2942 (3000) is 341(Krejcie & Morgan, 1970).

1.10 Data collection

1.11 Research instruments

Development of Instruments were carefully made to reflect the nature of the study. Questionnaire was developed including 16-items for this study. The variables were measured using the 5-point Likert Scale, with 5 being 'Strongly Agree' and 1 being 'Strongly Disagree'. Because respondents were Arabic-speakers, it was vital that the questionnaire be precisely translated from English to Arabic (Raju & Poh Phung, 2020). Validated instruments shown in Appendix A were adapted from related previous studies to measure the variables of this study.

FINDINGS AND DISCUSSION

In order to analyses the data, Statistical Package for Social Sciences (SPSS) 26.0 was applied. In addition, IBM AMOS 24.0 was used to test the construct validity and the goodness of the model fit. The final usable survey questionnaires were 395 after deleting the outliers.

1.12 Respondent profile

The first segment of the instrument compiled information on background profile of the respondents which comprises of the Firm Size, Production Sector, Province and State, Firm age, and Firm Maturity. The characteristics of each demographic profile are described below in Table 3.

Table 3: Respondents' profile

Items	Options	Frequency	Percent
Size	Micro enterprise (1 – 10 staff)	34	8.6
	Small Size enterprise (11 – 50 staff)	184	46.6
	Medium Size enterprise (51 – 250 staff)	177	44.8
Sector	Information Technology (IT)	12	3.0
	Trading	52	13.2
	Media	28	7.1
	Heath and Medical Sector	34	8.6
	Engineering and landscape design	22	5.6
	Financial and Audit institution	30	7.6
	Real Estate	58	14.7
	Food and beverage	43	10.9
	Agriculture	39	9.9
	Industrial Sector	20	5.1
	Tourism	49	12.4
	Other	8	2.0
Province	Aleppo	139	35.2
	Damascus	164	41.5
	Homs	24	6.1
	Hama	16	4.1
	Latakia	43	10.9
	As-Suwayda	9	2.3

Firm age	1-3 years	172	43.5
	4-6 years	88	22.3
	7-12 years	105	26.6
	13 years and above	30	7.6
Maturity	Start-up	173	43.8
	Growing	189	47.8
	Decline	33	8.4

1.13 *Construct Validity*

For this study, construct validity was assessed to ensure the survey questionnaire items that were adopted and adapted really measure the intended concept. To assess the construct validity, the research will conduct the test of the goodness of model fit.

1.14 *Convergent validity*

As depicted in Table 4 Leasing Finance, Bank Financing and Accounting Standards scored low AVE for .481, .417, and .382 respectively, which are below the cutoff point for the AVE (0.5). Therefore, a modification was performed, where items LGF 3, BKM1, and AGS4 in order to achieve satisfactory level of AVE. Overall, all of the variables have achieved the cutoff point of AVE.

Table 4: Convergent Validity

Construct	Items	Factor loadings	CR	Cronbach alpha	AVE
Leasing Finance (*)	LGF1	.356	.895	.869	.601
	LGF2	.872			
	LGF4	.878			
	LGF5	.865			
Bank Financing (*)	BKM2	.714	.887	.822	.534
	BKM3	.679			
	BKM4	.767			
	BKM5	.760			
Trade credit	TEC1	.896	.994	.711	.702
	TEC2	.844			
	TEC3	.869			
	TEC4	.837			
	TEC5	.735			
Government financial assistance	GFA1	.927	.967	.803	.759
	GFA2	.830			
	GFA3	.847			
	GFA4	.885			
	GFA5	.866			
Capital Market	CLM1	.681	.922	.737	.576
	CLM2	.769			
	CLM3	.762			

	CLM4	.803			
	CLM5	.776			
Accounting Standards (*)	AGS1	.762	.879	.861	.520
	AGS2	.589			
	AGS3	.731			
	AGS5	.788			
Financing Projects	FIN1	.745	.913	.814	.548
	FIN2	.759			
	FIN3	.746			
	FIN4	.730			
	FIN5	.722			

(*) LGF 3, BKM1, and AGS4 have been deleted due to low AVE

Conditions:

CR > 0.7 recommended by: (Hair et al., 2010)

Cronbach Alpha > 0.7 recommended by: (Hair et al., 2017)

AVE > 0.5 (Hair et al., 2010)

1.15 Goodness of the model fit

The RMSEA should score at less than 0.08, and the CFI of approximately 1 and above 0.90 (Hoyle, 2016). The details are as shown in Figure 2 below, on which it showed that CFI and RMSEA were achieved (0.930 and .057 respectively).

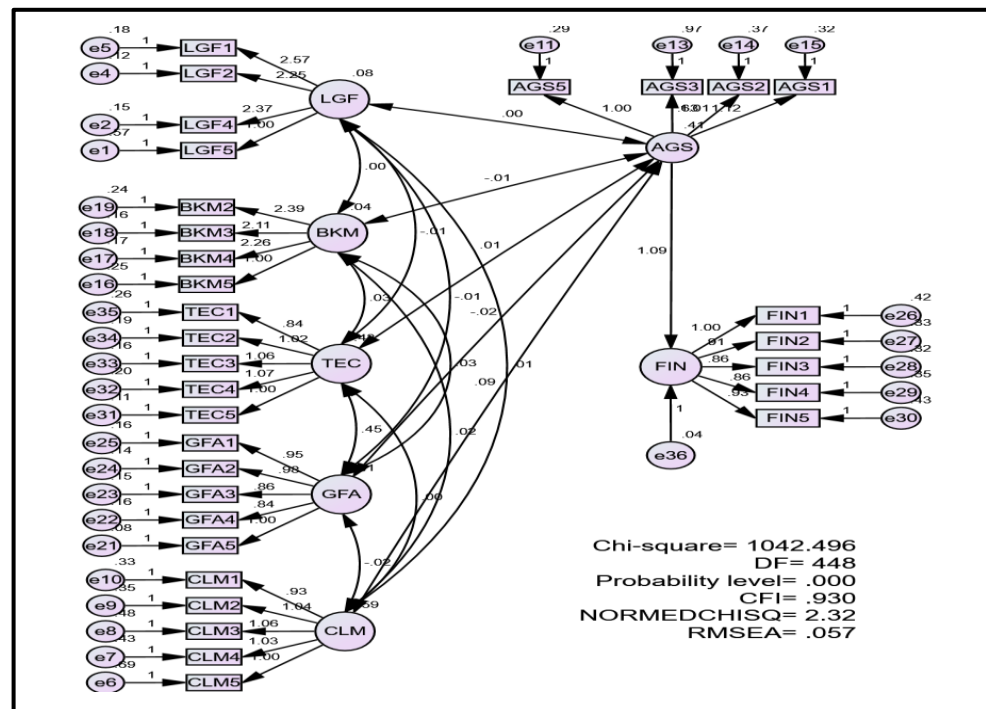


Figure 2: Goodness of the Model Fit

1.16 Multiple regression Analysis

A multiple regression analysis is performed in order to assess the influences between the factors in the proposed research model. All hypotheses test indicates some influences between constructs.

Table 5: R Square statistics

Model Summary^b

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	Durbin-Watson
1	.784 ^a	.614	.608	.365584	2.062

a. Predictors: (Constant), GFA, BKM, LGF, CLM, TEC, AGS

b. Dependent Variable: FIN

In this study, (see Table 5 and Table 6) the regression model R^2 value obtained for the dependent variable Financing projects (FIN) is .614. This indicates that 61.4% of the total variance in Financing projects (FIN) is described by the regression model. Additionally, the value obtained (.614) is regarded as high (Hair et al., 2017). As such, the regression model's power is considered as good. This implies that the model is significant statistics-wise ($F=41.244$, $p<0.05$).

Table 6: One way ANOVA

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	82.475	6	13.746	102.848	.000 ^b
	Residual	51.857	388	.134		
	Total	134.332	394			

a. Dependent Variable: FIN

b. Predictors: (Constant), GFA, BKM, LGF, CLM, TEC, AGS

The researcher presents the summary of Research Hypothesis in this section. Initially the summary is presented in a tabular form as shown in Table 7 below.

Table 7: Hypotheses testing for direct effect

H	Path	Unstandardized	Standardized	T-value	P-value	Decision
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		Coefficients		Std		e		
		B	or	Beta	Err			
H	LGF →		.04			7.04		Supported
1	FIN	.316	5	.330		2	.000	
H	BKM →		.03					Rejected
2	FIN	.008	4	.008		.226	.821	
H	TEC →		.06			3.98		Supported
3	FIN	.249	2	.206		6	.000	
H	GFA →		.02			2.34		Supported
4	FIN	.064	7	-.081		9	.019	
H	CLM →		.05			6.85		Supported
5	FIN	.348	1	.325		7	.000	
H	AGS →		.04			7.04		Supported
6	FIN	.316	5	.330		2	.000	

1.17 The moderation effect of accounting standards

The study used the analysis of Hierarchical multiple regression analysis first introduced in the work of Cohen (1983) for testing the effects of moderation of the moderators hypothesized. The interaction of moderator variable with independent variable in a manner that affects the dependent variable is illustrated in Figure 3 (Cohen, 1983).

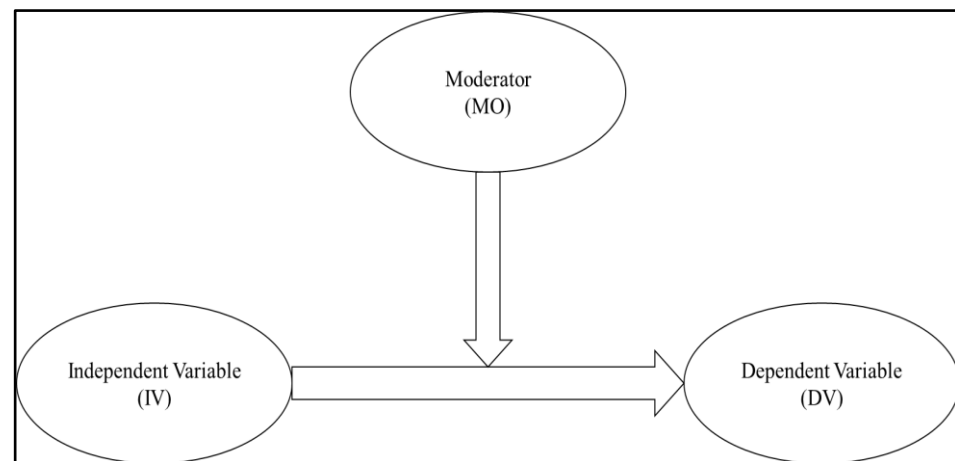


Figure 3: Illustration of a Moderation Design

The moderator effect has to be determined in terms of its significance. For this purpose, a two-step hierarchical regression was performed. Firstly, estimation was made on the effects of standardized independent variable and standardized moderating variable on the predicting of the standardized dependent variable. The effects and the model in general (R^2) should both demonstrate significance. In the context of the second model, the interaction effect ($Z_{IV} * Z_{MV}$) was included to the former model. The following sub-sections

highlight the moderation analysis outcomes for hypotheses H6a, H6b, H6c, H6d, and H6e respectively.

Table 8 the moderation effect of Accounting Standards

H	Path	Model	Z-IV (P-value)	Z-Mod (P-value)	Interaction Z-IV*Z-Mod (P-value)	R ²	ΔR ²	FΔ	Moderation level	Results
H6a	LGF*AGS -> FIN	1	.212 (.000)	.597 (.000)	.142 (.018)	.586	.002	91.866	Moderation effect existed	Supported
		2	.210 (.000)	.586 (.000)		.588				
H6b	BKM*AGS -> FIN	1	.047 (.162)	.751 (.000)	.093 (.006)	.368	.008	36.157	No Moderation	Rejected
		2	.060 (.074)	.748 (.000)		.376				
H6c	TEC*AGS -> FIN	1	.436 (.000)	.386 (.000)	.277 (.000)	.411	.102	25.087	Moderation effect existed	Supported
		2	.421 (.000)	.356 (.000)		.513				
H6d	GFA*AGS -> FIN	1	.351(.000)	.508(.000)	.245(.000)	.567	.026	47.648	Moderation effect existed	Supported
		2	.351(.000)	.481(.000)		.593				
H6e	CLM*AGS -> FIN	1	.115(.000)	.121(.000)	.099(.000)	.362	.069	7.448	Moderation effect existed	Supported
		2	.148(.000)	.156(.000)		.293				

RESULTS DISCUSSION

Table 7 depicted the hypotheses (H1, H2, H3, H4, H5 and H6). First, the p-value and Beta value of Leasing Finance (LGF) with Financing SMEs Projects in Syria (FIN) were .000 and .330 respectively. Therefore Leasing Finance (LGF) is concluded to be significant for Financing SMEs Projects in Syria (FIN). Thus, H1 was supported. The obtained findings are in consistent with the previous literature (Forkouh & Li, 2015).

Moreover, the p-value and Beta value of Bank Financing (BKM) with Financing SMEs Projects in Syria (FIN) were .821 and .008 respectively. Therefore Bank Financing (BKM) is concluded to be statistically insignificant for Financing SMEs Projects in Syria (FIN). Thus, H2 was rejected. The obtained findings are in consistent with many researches (Abdulsaleh, 2015; Aborampah, 2012).

The significance of the moderating effect of Accounting Standards (AGS) was assessed further by way of a graph (refer Figure 4), if the two lines were nearly with intersection, it denotes NO violation of the presence of moderation effect of Accounting Standards (AGS), while if the two lines were nearly

parallel, it denotes violation of the presence of moderation effect of Accounting Standards (AGS).

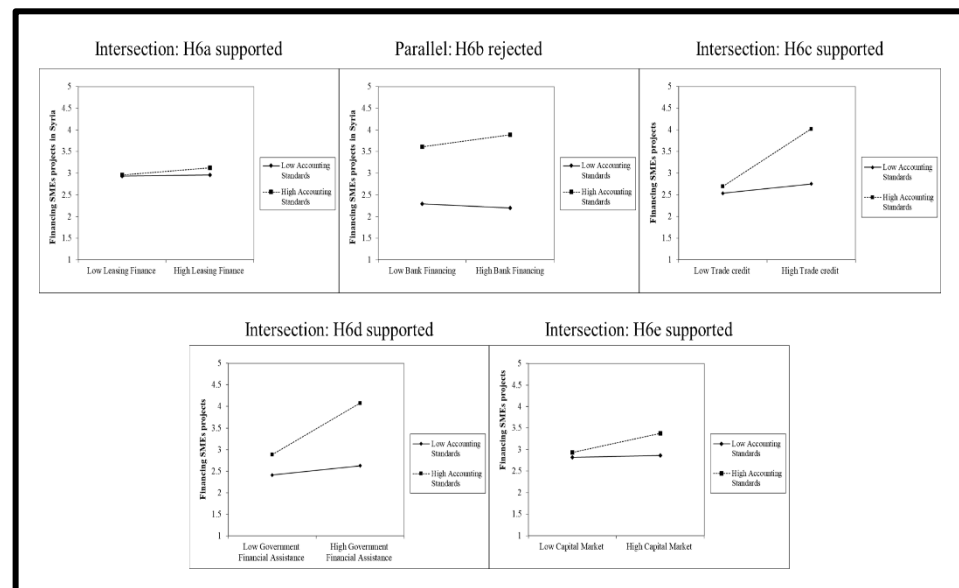


Figure 4: Moderation Effect of Accounting standards

RESEARCH IMPLICATIONS

As found in the data analysis, the first segment of this research was studying the relationship between leasing finance and financing SMEs projects in Syria. The findings suggest a strong significant relationship between leasing finance and financing SMEs projects in Syria. Thus, leasing finance on the country level is considered to be a cornerstone of the SMEs projects financing, emphasizing the role of leasing finance is the first implication of this study. Leasing finance could be crucial in many fields; it could provide the firm with a source of fund from real estate leasing and facilities leasing.

Second, the research has studied the relationship between Bank financing and financing SMEs projects, which was observed as insignificant relationship. Therefore, the results of this study could be important of personnel-in-charge of planning in SMEs audit firms in Syria to achieve source of funds by knowing that financing the projects from the bank is observed as non-important factor.

Third, Trade credit is observed in this study as a significant factors that plays a crucial role on influencing financing SMEs projects. Buying commodities in trade credit method would be a great approach to sustain the financial liquidity in the firm by making the payment due dates on long term, which will help the firms to survive the test of time and provide the firms with a proper solution to the huge financing commitments.

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