

The leasing as a financing tool for small and medium-sized enterprises (SMEs) in Algeria

A case study of the Agricultural and Rural Development Bank

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Received: 29/02/2020

Accepted: 29/07/2020

Published:18/11/2020

Abstract:

The study aims to explain the reality of SMEs in Algeria, highlighting the most important problems that hinder this type of enterprises, and the study concluded that the financing problem is one of the most important barriers hindering these enterprises, especially in light of the presence of major competing enterprises. The credits required for financing require great guarantees and the access opportunities are almost impossible, so the leasing came as an alternative financing solution, but it is not considered an ideal solution for all SMEs.

Keywords : leasing; SMEs; financing; credits.

Jel Classification Code: M41.

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1) Introduction:

In light of the fundamental changes that have taken place in the international economic system, and the growing trend of globalization of international accounting standards, small and medium-sized enterprises have emerged as a strong alternative to many global economies. These enterprises have worked hard to adapt its development plans in many overlapping fields with the aim of creating employment, increasing exports and achieving economic growth rates, but the growth of this type of enterprises and the rapid increase in their number remain related to the extent to which they exceed the financing problem that remains the main determinant of its investment decisions and competitiveness.

The problem of financing is one of the most important hindrances to the development of small and medium-sized enterprises in the starting stage, through the expansion stage, in order to survive and compete, especially since relying on private and self-financed funds as the internal financing source, which is not sufficient to cover the various needs of the enterprise through the stages of its activity, notably those related to investment projects of various kinds. Therefore, it becomes imperative for the enterprise to find a supplementary financing source in the form of credits, which are usually associated with many risks, the most important of which is the inability to pay in the specified deadlines.

Based on the foregoing, the researcher believes that the internal and external financing methods are linked to a large degree of risk in many cases, but at the same time the presence of a supplementary financing source such as the leasing proposed by the banks, for small and medium-sized enterprises, reflects the role of banks in opening the way for this type of enterprises to expand, and the ability to compete in order to ensure continuity, and therefore

we are trying through this research paper to highlight leasing as an alternative financing model for small and medium-sized enterprises in Algeria and its role in achieving economic development. The problem we are studying is: **Can leasing solve the financing problem for small and medium-sized enterprises in Algeria?**

In order to answer the above problematic, we suggest the following hypotheses:

- Leasing is an ideal financing technique that suits the financing needs of small and medium-sized enterprises in Algeria;
- The financing modes proposed by banks, including leasing, do not cover the needs of all small and medium-sized enterprises in Algeria.

This study aims to:

- Demonstrate the fundamental role of SMEs in the economies of countries, including Algeria;
- Highlight the most important difficulties facing this type of institutions.
- Identify the appropriateness of the leasing as a solution to some of the obstacles facing small and medium sized enterprises in Algeria;
- Learn about the techniques of leasing and the process of its application in Algeria.
- **Anterior researchers point of view:** There are studies that are focused on the reality of small and medium sized enterprises, and other studies that have considered leasing as an alternative of financing to normal loans, but studies that connect these variables are few, so we tried with this research to highlight the leasing as an alternative technique for financing SMEs in Algeria.

Among the studies that are close to our topic, we mention:

- BEN HARRATH Hayat, (2013), 'Funding Policies for the Small and Medium sized Enterprises Sector in Algeria', PhD thesis, University of Abi Bakr Belkaid Tlemcen, Algeria. The researcher has tried to provide a comprehensive study on the reality of the SMEs sector in Algeria, as well as to clarify the important impact of these institutions on the national economy on one hand, and show the state interest in them through the different tools and mechanisms established to support and finance them on the other hand.
- TALHI Samah, (2014), 'The Role of Modern Alternatives in Financing Small and Medium sized Enterprises - Referring to the Case of Algeria', Ph.D. Thesis, Arbi Bin Mahidi University Oum Bouaghi, Algeria. The study attempted to identify the most important modern alternatives in solving the problem of financing small and medium sized enterprises in Algeria, highlighting at the same time the reality of financing this type of institutions and the financial difficulties they face.
- DABAH Manal, Hassiani Abdelhamid (2019), 'Accounting treatment of leasing contracts by SCF and IFRS 16 at the tenant, case study of ' the Onivar détergents corporation'', scientific article published in the Journal of Economics, Management and Business Sciences, Issue 02, Algeria. The study attempted to present the legal texts concerning the accounting treatment of leasing contract in accordance with the financial accounting system and financial reporting standard No. 16; the study found that it is necessary to keep up with developments in the accounting field for this type of contracts in order to increase Transparency in the financial statements of companies.

2) Introduction to the leasing in Algeria:

The leasing is considered an alternative form of financing for small and medium-sized enterprises, although this method does not differ in principle from the regular credit, but the fundamental change was clear in determining the nature of the financing relationship between the two parties to the financing contract, and this form is the most traded by investors due to the various concessions provided to them. Accordingly, we are trying in this part to shed light on the most important general concepts of leasing as well as small and medium-sized enterprises in Algeria.

2-1) General concepts about leasing:

The definitions of the leasing have multiplied, and the concept remains in the same context, so that the leasing is one of the financing methods, whereby the financier (the lessor) buys a capital asset that is determined and set its specifications with the knowledge of the tenant, who receives the asset from the supplier to perform a specific rental value, fixed to the lessor each period of time against the use and operation of this asset.

2-1-1) Definition of leasing according to the financial accounting system:

The financial accounting system defined the leasing contract as “an agreement whereby the lessor waives to the tenant for a specified period of time, the right to use an asset in exchange for a single cash payment or multiple payments”.

According to the financial accounting system, the accounting treatment of the leasing is now appearing in the description of financial position instead of the results calculation table. (Council, 2013, p. 157)

- **According to IAS 17 International Accounting Standards:** The original International Accounting Standard 17 defines the leasing contract as an arrangement whereby the lessor transfers the right to use a specific asset in exchange for a rent payable by the lessee. We note here that the revised International Accounting Standard 17 replaced the term “rent” with a payment or a series of payments. (Union, 2003, pp. 3-4)

- **Economic definition of leasing:** A leasing is defined as “a contract through which one of the parties (the lessee) commits to pay the other party (the lessor) a series of periodic payments in exchange for the use of a specific asset. These payments exceed the total price of buying the asset, object of the contract, and usually extend to cover the greater part of the economic life of the acquired asset. (BOURAS, 2008, p. 24)

From the foregoing, the researcher believes that the idea of leasing is based on the financing of the party who gives the leasing (lessor) to finance the purchase of the capital asset that is determined and set by the specifications of the leasing party (the tenant).

Accordingly, the process of financial leasing takes place between the parties who are joined by two legal associations: (HAMZAOU, 2000, p. 428)

Financial institution / lessee = lease contract

Financial institution / supplier = sales contract

2-1-2) Leasing parties: The sequence of the leasing process (leasing) requires the intervention of three parties, which we summarize in the following points:

- **The lessor:** i.e. the rental credit institution that accepts the financing of the process, and which is characterized by the legal ownership of the asset, object of this contract, this institution carries out a dedicated financial activity, given that the lessee bears all the technical obligations related to the asset. (Ibadi, 2010, p. 279)
- **The lessee:** A party who seeks to acquire and obtain the asset by negotiating with the supplier about the price, cost, and duration. The lessee is the one who chooses the asset and determines its privacy according to its needs.
- **The supplier:** It is the party that receives the asset required by the lessor, according to the criteria and standards agreed upon between him and the lessee. As for the asset, object of the lease, it may be a real estate asset or a moral or material movable.

2-1-3) Practical steps for the leasing: The leasing goes through four main stages, which we summarize as follows: (Ibadi, 2010, p. 280)

- **Practical study:** At this stage, the lessee submits an application to the bank with the aim of leasing equipment or a commodity, so that this request is attached to the following documents:
 - An economic feasibility study on the project whose equipment is to be funded;
 - The nature and source of the equipment or goods;
 - The proforma invoice for the price;
 - The guarantees provided to fulfill its obligations to the bank
 - The supporting documents of the lessee's financial position;
 - The tax card and the trade register.

We point out here that attaching the application to all supporting documents does not mean accepting the application, so that the bank studies and evaluates the file, investigating the customer and the commodity in question before expressing its final approval of the financing.

- **Executing the process:** After studying and evaluating the file, and the customer obtaining the initial approval of the leasing, the task implementation stage begins according to the following steps:

- The bank purchases the equipment or goods and this is paid in full for the purpose of ownership and transfer of ownership thereof;
- The bank may grant a power of attorney to the lessee for receiving the equipment or goods subject to the credit and finish all matters related to it with the administrative authorities
- After the lessee has verified the equipment and complies with the required specifications that he previously specified, he will issue a receipt report to the bank;
- After the receipt record, the two parties sign the lease contract, because at this stage the ownership of the equipment or goods has actually transferred to the bank and it can actually be leased to the customer.

Follow-up: At this stage, both parties (lessee and lessor) fulfill the obligations imposed on him throughout the term of the financing contract, whereby the bank is obliged to hand over

the asset to the lessee for the purpose of benefiting from it, and the lessee is obliged to pay the rental installments within the specified deadlines agreed with preparing periodic reports on follow-up.

- **End of the process:** At the end of the agreed lease term, during which the leasing is not subject to termination, the lessee will have three options:

- Return the leased asset to the bank;
- Requesting re-rent on new conditions;
- Buying and owning the leased asset.

2-2) Accounting treatment of leasing: Considering that the leasing is a contract whereby an asset is leased and rented, the accounting treatment of the latter applies to all the accepted provisions that apply to fixed assets:

Depreciation will be made according to the enterprise's practices for similar items;

Conducting a periodic evaluation process;

Upon assignment or exit of the asset, it is treated as an ownership of the enterprise.

Accordingly, the accounting treatment for the acquired assets through the leasing is as follows:

2-2-1) Lessee registration: The lessee performs the following accounting registrations (Republic, 2009, pp. 45-64)

Upon acquisition: we register fixed assets as debtor and debts arising from the leasing as creditor.

At the payment of the installment (principal and interest): we register the debts arising from the leasing, the state tax turnover and the other financial charges as debtor and the bank as creditor.

Registration of depreciation: we register the provisions for depreciation, supplies and losses in value of non current assets as debtor and depreciation of fixed assets as creditor.

In the event of a value loss, we will register the provisions for depreciation and supplies and losses in value of non current assets as creditor and loss of value over other in-kind fixed assets as debtor

- **The case of choosing the purchase option:** If the lessee decides to keep the asset at the end of the lease term, he must pay a last benefit, contractually agreeing to choose the purchase option, and this amount must be equal to the balance of the debt account resulting from the leasing to liquidate it.

- **The case of not choosing the purchase option:** we register the debts arising from the finance lease as debtor and the recuperation for impairment losses as creditor.

2-2-2) Lessor registration:

- **When the lessor is not the manufacturer or is not the distributor of the asset:** The accounting treatment is as follows:

When recording the registration of the asset acquisition we write the credits and debt arising from the leasing contract as debtor and the recuperation for impairment losses as creditor.

When collecting payments from the lessee we write the credit and debt arising from the leasing contract as debtor and the contract and the recuperation for impairment losses a creditor.

- At the end of the contract period, if the lessee decides to choose the purchase option, the lessor records the last payment received from the credit in the same previous form for the final balance of the credit amount. If the purchase option is not chosen, the following registration will write the bank as debtor and the credits and debt arising from the leasing contract as creditor.

- Status of the manufacturing lessor: The accounting treatment is as follows:

Upon taking out from the enterprise's stores we write stocked production or diminished stock as debtor and production stocks as creditor.

- In case of collecting the payments from the lessee, we register the bank as debtor and credits and debt arising from the leasing contract and the recuperation for accounts payable as creditor.

- At the end of the contract period, if the lessee decides to choose the purchase option, the lessor records the last payment received from the credit in the same previous form for the final balance of the credit amount. If the purchase option is not chosen, the following registregistere record the fixed assets or the stocks as debtor and the credits and debt arising from the leasing contract as creditor

3) Definition of small and medium-sized enterprises in Algeria:

Small and medium-sized enterprises receive great attention by economic policy makers, whether in developed or developing countries, and this is due to the large importance played by this type of enterprise, as it is the first polarizer of the labor force in addition to contributing very large proportions to innovative goods and services. We try through this part of the research paper to shed light on the concept and importance of these enterprises through the points below.

3-1) Definition of small and medium-sized enterprises in Algeria:

Small and medium-sized enterprises, whatever their legal nature, are defined as enterprises that produce goods and / or services that operate from one (1) to two hundred and fifty (250) people, and their annual turnover does not exceed four (4) billion Algerian dinars or the total annual turnover does not exceed one billion (1) Algerian dinars, and they must meet the criterion of independence. (republic, 2017, p. 5)

Table No. (01) Below summarizes the criteria for classification of small and medium-sized enterprises in Algeria according to the law No. 17-02 of 10/01/2017.

Table No (01): Criteria for Classification of Small and Medium-sized Enterprises in Algeria

| | Small Enterprise | Small Enterprise | Medium-sized Enterprise |
|----------------------------|-----------------------------|----------------------------------|--------------------------------|
| Number of employees | 1-9 | 10-49 | 50-250 |
| Turnover | Less than 40 million dinars | Not exceeding 400 million dinars | Not exceeding 4 billion dinars |
| Annual outcome | Less than 20 million dinars | Not exceeding 200 million dinars | Not exceeding 1 billion dinar |

Source: The Directive law No. 17-02 of 10/01/2017, P 06, for SMEs.

We point out here that Directive Law No. 17-02 issued additional classification-related provisions that we summarize as follows:

- The enterprise cannot be reclassified to a higher or lower class unless it meets the conditions of the new variety for two consecutive years;
- The financial nature prevails over the criterion of the number of workers during classification.

3-2) Characteristics and importance of small and medium-sized enterprises:

Through this section, we try to shed light on the characteristics and importance of small and medium-sized enterprises through:

- The characteristics of small and medium enterprises:

SMEs are characterized by several characteristics that we summarize as follows:

- Easy to constitute and relatively small size of capital compared to large corporations;
- Combining management and ownership, as the manager of the enterprise is often the owner;
- The ability to directly meet market requirements for goods and services, which contributes to expanding the production base;
- Capacity for rapid innovation and development;
- The ability to produce commodities as raw materials for other enterprises. (ASSAF, 2012, p. 84)

3-3) The importance of small and medium-sized enterprises:

The importance of SMEs is represented in their significant developmental role at the individual and social level, according to the following:

- SMEs meet the need of their owners to prove themselves and embody their creative ideas in the field;
- This type of organization creates opportunities to employ a large number of unemployed and give them an opportunity to employ their technical capabilities;

The ability to attract foreign investment, reduce imports and develop exports;

- Supporting large corporations, in addition to being a source for obtaining the raw material from these corporations, as they contribute to providing them with a qualified workforce that has gained experience as a result of their pre-employment in this type of corporation. (HANNAOUI, 2004, p. 64)

3-4) Problems and difficulties of small and medium-sized enterprises:

Small and medium-sized enterprises in Algeria face a range of problems and difficulties, which are:

- **Funding problems:** It is the biggest problem facing any project, because the idea can be devised and developed, but the difficulty of obtaining financial support precludes its embodiment, and the main reason is due to the bureaucracy of the banks that prefer financing large corporations that have previously been dealt with, given the large size of the guarantee provided by it, and the shortage of the organizational and administrative expertise of owners of small and medium-sized enterprises on the other hand, and we find the problem of high interest rates that are difficult for owners of small enterprises to bear.

- **Administrative problems:** In other words, the failure of owners of small enterprises to manage the project optimally, especially in light of the confusion between private and project properties, as well as the problem of a lack of qualified labor is one of the most important obstacles facing this type of enterprises administratively.
- **Marketing problems:** The problem of marketing or the absence of a marketing culture appears in the presence of major enterprises competing in the same markets in which small enterprises are active, and which are able to bear huge marketing costs compared to those enterprises with a view to managing their products.
- **Technical problems:** These problems can be summarized in the following points:
 - Relying only on the experience of the project owner and not benefiting from other previous experiences;
 - Using of non-sophisticated rudimentary equipment in order to reduce costs;
 - Inability to produce internationally competitive goods;
 - Difficulty in obtaining advanced information or technology;
 - Insufficient required training for enterprises' owners. (JAWHAR, 2011, p. 85)

4) The importance of leasing to small and medium-sized enterprises:

The leasing is extremely important for economic enterprises in general, and small and medium-sized ones in particular.

It is an effective tool and has a significant return on financing various investment projects. The importance of this technology for small and medium-sized enterprises can be summarized in the following points:

- The leasing helps small and medium-sized enterprises to obtain modern equipment and tools that are necessary to conduct their activities, especially in light of their inability to obtain bank credits;
- The cost of leasing the asset is less than the cost of purchase that is difficult to acquire with the own funds of enterprise;
- The enterprise that deals with the leasing pays the fees for the added value in the form of periodic installments and not in cash and in full value;
- The speedy acquisition and exploitation of the asset;
- Reducing the huge financial burdens on the enterprise, which gives it the opportunity to make more investments;
- Contributing to eliminating the self-financing deficit. (HASSANI & KHOUNI, 2008, p. 130)

5) The Field Study: A case study of the Agricultural and Rural Development Bank, agency of Tipaza 448

Through this part of the research, we are trying to address the applied aspect of leasing in financing small and medium-sized enterprises, so that the study was done at the Agricultural and Rural Development Bank, agency of Tipaza 448.

5-1) The required documents in the leasing contract with the Agriculture and Rural Development Bank:

The Bank of Agriculture and Rural Development relies on the leasing technique in financing the structures and all activities related to the agricultural sector, including small and medium-sized enterprises, as this technology is among the main activities in the bank, but the only drawback in this process is the limited availability of goods represented only in agricultural tractors and its support vehicles.

- **Farmer lessee ID:** The document below represents a general card to identify the farmer lessee with the bank according to the leasing technique:

Document No (01): the farmer lessee ID.

| | |
|--|--|
| Identification of the farmer (the customer) | Name, first name, date and place of birth |
| Headquarters | It refers to the residential and professional address |
| The professional ID number of the agricultural investor | xxxxxxxxxxx |
| Card issued on | ../../ Y |
| Approved interest rate | 9% (6% paid by the lessee, 3% paid by the public treasury) |
| Duration of the contract | Limited to 5 years |
| Number of rents | The number of installments that are usually paid annually (5 installments) |
| Date of contract | The date of leasing contract |
| Amount of the equipment | Tractors (..... DZD), and its support vehicles (..... DZ) |

Source: internal documents of the Agricultural and Rural Development Bank.

- The file required to obtain the leasing related to the agricultural activity:

The file required for obtaining an agricultural leasing can be summarized as follows:

| | | | |
|---|-----------------------|---|---|
| Request a consultation from risk assessment center | Specifications | Proforma invoice of the equipment | Approved application from the commercial enterprise that owns the equipment |
| Credit approval letter | Birth certificate | Leasing application | TVA Exemption Certificate |
| Copy of ID card | Residence certificate | Decision to benefit from support from the Agricultural Administration Directorate | |
| A contract proving the exploitation of a plot of land | The farmer's card | A tax-free certificate | Technical document for the project |

- **Processing the lessee credit file and its duration:** The leasing file for the Agriculture and Rural Development Bank is handled at 3 levels as shown below.

- **At the level of the local agency for exploitation:** At this stage, the file submitted by the lessee customer is validated, then saved and numbered, and a deposit receipt is delivered to the customer so that the process ends with sending the file to the regional exploitation group to complete the study of the file and complete the data. We point out here that the costs of studying the file at the local agency level are estimated at 10,000 dinars, and the maximum period for studying the file at the local agency level is 15 days.

- **At the level of the regional group for exploitation:** at this stage, all the documents submitted by the local agency are reviewed, with an emphasis on studying the credit file with the aim of expressing an opinion of approval or rejection with explanation within a period not exceeding 15 days, so the stage ends with the stamping the acceptance visa for funding in the event of acceptance, then transferred a copy of the file to the Finance Department for monitoring.

- **At the level of the administration related to financing:** This step is the last time that the file is studied in order to mark the validity of previous studies that ended with the acceptance of financing the credit within a period not exceeding 15 days.

5-2) Accounting treatment for the leasing from the Agricultural and Rural Development Bank and the lessee:

Through this part of the study, we are trying to find a case study of a customer who obtains a leasing for agricultural equipment from the Agricultural and Rural Development Bank, with the aim of identifying the accounting registration mechanisms in accounting for both parties.

- **Accounting rules used by the lessor (BADR Bank):**

- The customer pays 10% of the value of the asset upon concluding the contract and is included in the personal contribution account;

- The lease term must cover the greater part of the asset’s useful life;

- The lessee assumes all risks related to the exploitation of the asset with the right to buy or return the asset at the end of the contract;

- The lessee is entitled to calculate the depreciation installment for the asset.

- **The stages of the leasing accounting treatment for the lessor:**

Here is the amount for the asset being studied.

Table No (02) : An illustrative example of an asset funded using the leasing

| 1. Tractor | | 2. Support vehicles | | Total |
|---------------------------|--------------|---------------------------|--------------|--------------|
| Tractor amount | 6.450.000,00 | Vehicle amount | 1.225.000,00 | 7.675.000,00 |
| Personal contribution 10% | 645.000,00 | Personal contribution 10% | 122.500,00 | 767.500,00 |
| Bank financing 50% | 3.225.000,00 | Bank financing 60% | 735.000,00 | 3.960.000,00 |
| State contribution 40% | 2.580.000,00 | State contribution 30% | 367.500,00 | 2.947.500,00 |

Source: internal documents of the Agricultural and Rural Development Bank.

- **Calculate the rent amount (TA): “I” represents the interest rate and “n” is the contract duration**

$$\text{Actuarial rate} = \text{credit} \times \frac{i}{1-(1+i)^{-n}} = 3.960.000 \times \frac{0,06}{1-(1+0,06)^{-5}} = \mathbf{940.089,74 \text{ DA}}$$

The following table represents the method for calculating the amortization of the leasing loan from the Agricultural and Rural Development Bank:

Table No (03): The schedule of amortization of the leasing:

| Years | Interest rate 6% | Credit amortization installment | Rent amount | Remaining capital |
|-------|------------------|---------------------------------|-------------|-------------------|
| 2019 | 237.600,00 | 702.489,74 | 940.089,74 | 3.960.000,00 |
| 2020 | 195.450,61 | 744.639,13 | 940.089,74 | 3.257.510,26 |
| 2021 | 150.772,26 | 789.317,48 | 940.089,74 | 2.512.871,13 |

| | | | | |
|-------------|------------|------------|------------|--------------|
| 2022 | 103.413,21 | 836.676,53 | 940.089,74 | 1.723.553,65 |
| 2023 | 53.212,62 | 886.877,12 | 940.089,74 | 886.877,12 |

Source: prepared by the researcher.

Note: If the customer decides to acquire the asset at the end of the contract, the remaining value of the latter equals the purchase value.

- Registration in the bank journal: The following restrictions are recorded in the bank journal as shown below:

| Debtor | Credtiior | description | Debtor | Credtiior |
|--------|----------------------------|---|------------|---------------------------------------|
| | | 01/15/2018 | | |
| 101110 | 220120 | Cash Customer Proof of opening the customer's account Deposit number | 10.000 | 10.000 |
| | | 12/31/2018 | | |
| 208113 | 263389 | Leasing Provisions bank cheques Proof of granting the credit to the customer File No ... | 3.960.000 | 3.960.000 |
| 220122 | 263389 | Customer Provisions bank cheques Deposit personal contributions / Deposit N°... | 767.500 | 767.500 |
| | | 01/31/2019 | | |
| 220120 | 208113 702030 341147 | Customer Leasing Bank products Tax on bank operations Regular credit payment N° | 940.089,74 | 702.489,74 199.663,86 37.936,13 |

- In the event that the lessee is late for payment for a period of 3 months from the date specified and set for 01/31/Y, the registration shall be as follows:

| | | | | |
|--------|--------|--|------------|------------|
| | | 03/31/2019 | | |
| 280123 | 208113 | Pending receivables Leasing Proof of account transfer Transfer number.. | 702.489,74 | 702.489,74 |
| 681212 | 290113 | Provisions Pending provisions receivables Proof of the provision constitution of 30% of the credit amount | 210.746,92 | 210.746,92 |

- In the event of delaying the payment of credits dues for more than 6 months, the installment due will be converted into a doubtful debt account, the accounting registration will be as follows:

| | | | | |
|--------|--|----------------------|------------|--|
| | | 06/30/2019 | | |
| 280133 | | Doubtful receivables | 702.489,74 | |

| | | | | |
|--------|--------|---|------------|------------|
| | 208123 | Pending receivables Proof of account transfer N° | | 702.489,74 |
| 681212 | 290113 | Provisions Pending receivables Proof of the provision constitution of 50% of the credit amount | 351.244,87 | 351.244,87 |
| 280143 | 208133 | 01/31/2020 Receivables will not happen Doubtful receivables Proof of account transfer N° | 702.489,74 | 702.489,74 |
| 681212 | 290113 | Provisions Pending Provisions Proof of the provision constitution of 100% | 702.489,74 | 702.489,74 |

- The stages of the leasing accounting treatment for the lessee (the customer):

| | | | | |
|------------|------|--|-----------------------|------------|
| 215 | 167 | 01/02/2019 technical installations, equipment and tools leasing debts Proof of entry of the asset under the control of the lessee | 3.960.000 | 3.960.000 |
| 167 661 | 512 | 12/31/2019 leasing debts charges Financial benefits Bank Proof of payment of the leasing installment | 702.489,74 237.600 | 940.089,74 |
| 686 | 2815 | Provisions for depreciation and supplies and losses in value Depreciation of technical installations, equipment and tools Proof of depreciation installment free of tax | 641.520 | 641.520 |

- Calculation of depreciation installments for the lessee:

$$\text{Depreciation} = \frac{\text{tax free Credit}}{n} = \frac{3.960.000 - (3.960.000 * 0,19)}{5} = 641.520 \text{ DA}$$

5-3) Evaluating the leasing technique as a tool for financing small and medium-sized enterprises:

Leasing technique is among the appropriate solutions that motivate small and medium-sized enterprises to open new investments with new equipment, without the need to obtain huge credits at great interest rates. The Agriculture and Rural Development Bank considers that this method is ideal for this type of enterprises, especially in light of support granted by the state, whether in terms of repayment of the credit amount or the interest rate, but the only problem that we have seen in this bank is the limited available assets, it is limited to only two products, namely the agricultural tractors and the support vehicles, but in return we noticed that the process as from the application until the last installment of the

credit, was done easily without any complication despite the large number of documents required during the application.

The continuous rise in the prices of machines and equipment constituted a major barrier for most owners of small and medium-sized enterprises in Algeria, which led to increased interest in leasing technique as an alternative to the huge credits needed to own those machines necessary for the activity of enterprises. We point out here, that the Agriculture and Rural Development Bank seeks, through this technique to renew and modernize agricultural equipment on the one hand, and to encourage investment and development of the agricultural sector on the other hand, all this by investing the deposited funds and recycling the available capital in order to achieve profits and promote a good economic position. The same applies to the rest of the financial institutions that deal with the leasing technique, which offers various and diverse assets that contribute to facilitating the activity of this type of enterprises.

6) The study approach:

Based on the fact that the identification of the subject is what leads the researcher to the approach to employ, and in light of the theoretical data through which we will try to study the reality of SMES in Algeria on one hand, and to show the concept of leasing and the process of its application by Algerian banks on the other hand,

We will use the descriptive, analytical method during our theoretical part of the study, and for the practical one, we will rely on both inductive and deductive approaches, in order to describe the phenomenon and analyze the relations between the problems facing SMEs in Algeria and the suitability of Leasing technology to reduce this type of problems.

7) Conclusion:

The economic and social roles of SMEs, including creating job opportunities and absorbing unemployment as well as providing innovative and modern products and nutrients to large corporations, have made them a pillar of economic development plans throughout the world, including Algeria, which have adopted them and given them great attention, through the establishment of a ministry and structures specializing in their promotion and development and creating a suitable work environment, but in return these enterprises face several difficulties, including those falling within administrative, technical, marketing and even financing scope, despite the multiple funding sources, they are not all suitable for this enterprises, which led to develop a new financing techniques to cover their needs. Hence the idea of leasing comes as an alternative solution that is falling within the interest of SMEs due to the multiple advantages it offers. The leasing is considered a complementary financing source. This source is an essential pillar for SMEs that suffer from a hardship that impedes their investment activities.

We point out here, that we devoted this research paper to addressing the financing problems of this type of enterprises, highlighting the leasing as a tool for financing them for the BADR Bank as a case study. Through the field, it was concluded that the leasing can be considered as a complementary financing tool to the previous ones, which give to SMEs

significant advantages, whether in terms of financing or even in terms of government support, in return, it is not possible to say that all funding institutions can be considered effective in this field if there is no diversity in the assets that can be funded.

Throughout the steps of the research, we came up with the theoretical and practical sections of a set of results. We begin by testing hypotheses:

Hypothesis 1: leasing is an ideal financing technique that is appropriate for the financing needs of SMEs in Algeria, especially in light of the difficulty of obtaining regular bank credits as a result of banks' fear of the failure of these projects on the one hand, and the increase of guarantees provided by large competing corporations that have previously dealt with the bank on the other hand, and accordingly the first hypothesis is correct.

Hypothesis 2: The proposed financing formulas from banks, including leasing, do not cover the needs of all SMEs in Algeria. According to BADR Bank under study, we noted that the use of the leasing has many advantages, as the public treasury contributes to paying part of the amount of the interest agreed upon with the bank, as well as a significant percentage of the credit amount under the contract, in addition the lessee has a full freedom to choose the asset and inspect it before concluding the contract and then exploiting it throughout the contracting period without the need to own it and incur expenses that are difficult for it to provide, but despite all these advantages, the leasing is not available for all SMEs, especially those that suffer from a great financial hardship Therefore, the second hypothesis is correct.

- The leasing is not an ideal technique for solving the financing problem for SMEs, as long as it cannot fully finance the value of the asset, as personal contribution sometimes stands in the way of some enterprises that suffer from great difficulty in financial terms; and also because a good financial health is the basic guarantee for adopting this technique in financing;

- The leasing is a technique that serves SMEs in terms of financing, as it provides an opportunity to own and exploit an asset throughout the contract period, in return for annual installments, without the need to pay its value in full, which is difficult for this type of enterprises to provide, especially the newly emerging ones;

- Among the positives of the leasing technique, the multiplicity of options for enterprises at the end of the contract between re-leasing on new terms, choosing to keep the asset and paying its remaining value or returning it to the bank to sell or re-lease it.

Based on these findings, we can suggest a number of suggestions and recommendations that we can summarize as follows:

- The need to encourage the Algerian people to take advantage of the leasing technique in order to develop and upgrade their investment activities;

- The interest of the BADR Bank in diversifying the options of assets that can be funded for the beneficiary enterprises and not limiting them to two assets only;

- The need to pay attention to the advertising process by the banks that adopt the leasing technique to help small and medium-sized enterprises to carry out their investment activities increases the chances of their demand, as well as stimulating the leasing market locally.

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