

SPECIFIC OF THE DEVELOPMENT OF LEASING ACTIVITY IN THE REPUBLIC OF MOLDOVA

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Abstract

This article examines the development of leasing in the Republic of Moldova in the last nine years. According to statistic data, the author has examined the evolution of the value of fixed assets transmitted in lease for three consecutive periods, each including 3 years. There was analyzed the value and structure of fixed assets transmitted in leasing in terms of categories of fixed assets, the period of payment and benefits. There are presented the most powerful leasing companies, which are in the top of carried out leasing activities. Following the analysis performed, there can be made the conclusion that in the last decade, the value of leased fixed assets is increasing if we have a look at the development of this indicator, expressed in national value. At the same time, the same indicator expressed in US dollars shows that there is no real growth. Transport means have a large share (about 90%) in the structure of leased fixed assets. The share of machinery and equipment, and special buildings and structures is approximately equal, being around 3.5 to 5.7%. Examination of the value and structure of leased fixed assets in terms of the payment deadline demonstrates that in the practice of leasing there are preferred businesses with payment term up to three years. This situation comes as a reaction to economic instability, which is very pronounced in the last 3 years. The study of beneficiaries of leased fixed assets shows that a large share belongs to individuals (about 56% in recent years), followed by the category of companies and organizations (about 33%). These indicators confirm that in the Republic of Moldova, leasing has a consumption character and finance through leasing of the economic entities has economic development capabilities.

Key words: leasing activity, finance, fixed assets, beneficiaries

INTRODUCTION

The leasing activity is a method of indirect financing applied for the purchase and getting into operation of fixed assets. This financing method can be applied to economic entities, which are not able at some point to make a big investment in machinery, equipment, construction, buildings or transport units. Leasing activity in the Republic of Moldova has begun its development after 1995. To this end, the Law on Leasing was adopted, which until now has been amended in relation to the national economic development. At present stage, this law regulates the activity of leasing companies, which provide their services to different categories of beneficiaries, economic entities, financial institutions and individuals.

MATERIALS AND METHODS

To analyze the development of leasing activity, data on the evolution of the value of

leased fixed assets have been collected from the National Bureau of Statistics) [1].

These data were examined over a period of years from 2007 to 2015. The following methods have been applied in this study: monographic, trends analysis, applying of average values, analysis and synthesis.

RESULTS AND DISCUSSIONS

Leasing is a method of indirect financing of the investment activity.

Under the current legislation, leasing represents all relationships that arise within the scope and performance of a contract where a party (the lessor) takes the obligation at the request of other party (the lessee) to assure the possession and temporary use of a good against a periodical payment, acquired or manufactured by the lessor, with the condition that when the contract expires, there should be respected the optional right of lessee to purchase the asset, extend the rental

contract or stop the contractual relationships. (RM Law, 2005) [5].

According to its economic essence, leasing is on one hand a special form of long-term lending, and on the other hand some form of rent of a good in a long-term.

Leasing and lending have some common characteristics, namely:

-There is taking place the capital investment held by the lessor in important items that are necessary, but expensive, for the economic development, for other economic agents (lessees). These are usually part of fixed assets.

-There is taking place a gradual refund of the invested capital in these objects by the periodic receive of the lease payment set for the lessee. In determining this payment, the annuity method is applied and this payment also includes the reimbursement of invested value and interest.

-The income of the lessor, as well as of the creditor is made up of the interest rate, the leasing rate.

-A determined period is set in the implementation of a leasing business.

-The beneficiary of a lease does not make measures to ensure the contracted values.

Thus, as we can see, the leasing procedure respects all principles of lending (repayment, interest, the temporary nature of the business). At the same time, leasing differs from lending.

First, when finishing the leasing operation, the leasing object may: a) be passed in the possession of the lessee; b) remains in the possession of the lessor. While in the case of credit and commercial credit, the creditor passes immediately the object in the possession of debtor.

Secondly, the sale-purchase transaction stays at the basis of the commercial lending contract. In the case of the lease, there is not obvious such a close connection with the sale-purchase business.

Thirdly, commercial credit is contracted on short-term, where leasing operations provide for long-term lending, being considered in such a way a source of long-term investment financing.

Leasing has some common characteristics

with the rent, also:

-The leasing object is put into the use of a beneficiary by the holder of this object;

-The object is put into use for a specified period;

-The object is put into use for a set payment.

-The specific of leasing versus renting is that at the end of leasing period, the ownership right passes from the original owner of the object to the beneficiary of this object.

-The leased object in the Republic of Moldova can be any movable and immovable property except:

-Goods removed from the civil circuit or whose circulation is restricted by law;

-Agricultural lands;

-Consumable goods;

-Intellectual property objects that cannot be transferred. (RM Law, 2004) [5].

-Several forms of leasing are known.

-Depending on the conditions, there is financial and operational leasing.

In the case of financial leasing there is provided:

-Transmission of risks and benefits specific for the ownership right on the leasing object to the lessee at the time of agreement on leasing contract;

-The value of leasing rates approaches the value of the leasing object. According to the legislative provisions it is at least 90%;

-The leasing contract provides for the transfer of ownership to the lessee at the end of the contract;

-The leasing period has to be bigger than 3/4 of the operating period of the leased object.

Operational leasing means operations that are not characterized neither by a provision mentioned above [7].

Depending on the form of paying the leasing rates, there are distinguished: ordinary leasing (original, currency) and material leasing.

In the case of the ordinary leasing (original, monetary, cash), lease rates are paid in cash.

In the case of material leasing, the law provides for two forms:

a) *barter leasing* - when the lessee pays the leasing rates through goods that belong to him.

b) *compensational leasing* - which involves paying the leasing rates through goods

produced with leasing objects - machinery and other fixed assets.

Depending on the initial appearance of the leasing object is known:

-*Direct leasing*, which means that the lessor is also the supplier of the leased object;

-*Lease-back* - is characterized by a situation when a subject of the business transmits to another subject the right of ownership on the object after it is leased.

Depending on the destination of the leasing object is known:

-*Leasing of production* - lease items will be used by the lessee for the production of goods and / or services.

-*Consumer leasing* - provides that the lessee is the consumer of the leased object.

Depending on the sourcing of subjects of leasing is known:

-*Domestic leasing* - leasing operation subjects are residents of the Republic of Moldova.

-*International leasing* - provides that the lessor or the lessee is from abroad.

According to its economic meaning, leasing can be compared with the rent. Here we will focus on the specific of the leasing.

First, these two types of commercial businesses are distinguished by the object. The leasing object is formed of fixed assets like equipment, transport units, etc., that are acquired in most cases at the lessee's requirement.

Secondly, the specific of leasing operation refers to the period of use of fixed assets. This period is determined taking into account the depreciation period of the leased fixed asset.

Taking into account these two points, some economists, experts, define leasing as lease of fixed assets to develop production, in a term almost equal to the full depreciation of this fixed asset (Makeeva V., 2003) [6].

Leasing as an economic operation requires the participation of certain persons appointed as subjects. Legislation of the Republic of Moldova establishes the following three categories of subjects: the lessor, lessee and seller (supplier).

The lessor is the individual or legal person who carries out a business activity, transmitting the lessee (the beneficiary), at its request, the right to possess and use an asset,

which it owns, for a certain period of time. At the end of the contract, the leased asset / object may be transmitted either to beneficiary or remain in the possession of the lessor.

The lessee is the individual or legal entity receiving on the basis of the leasing contract the ownership and use the asset specified in the contract for a certain period of time in exchange for payment of the leasing rates.

The seller (supplier) is the individual or legal entity, which sells the lessor under the contract of sale-purchase, concluded with the lessor and the lessee, the good requested by the lessee. (Law, 2005) [5]

As it was mentioned before, leasing is a method of indirect financing of the investment activity of beneficiaries (lessees). Beneficiary, by applying this method of financing has a series of advantages (Bugaian L. 2009) [3].

There is the possibility of investment in necessary fixed assets even if there is a liquidity shortage. Lessee put the asset into use, resulting in increased labor productivity, improving quality and lowering production costs. All these contribute to the increase of competitiveness of the economic entity.

The economic entity will increase the value of current assets primarily to enable fixed assets acquired through leasing;

The lessee has the option to be always in step with the scientific and technical progress by implementing new tools, machinery and equipment;

The lessee uses tax incentives, as payments for the lease goods are deductible expenses.

Leasing is done in the following two ways: financial and operational (Bruma I. 2004) [2]. Financial leasing means that the asset - the object of leasing is accounted by the lessee (the financing beneficiary). The lessee calculates the wear related to the asset, which is already included in the lessee's heritage value. According to the tax law in force, the calculated wear is a deductible expense for tax purposes. The monthly lease payment includes a share of the value of the object of leasing and leasing interest. Leasing interest is also a deductible expense.

In the case of operational leasing, the leasing

object is accounted by the lessor. The lessor receives monthly a value which includes the wear rate, calculated in accordance with the law regulations. The lessee (the financing beneficiary) records these expenses that are also deductible for tax purpose.

Leasing has begun to develop in the Republic of Moldova in the late -90s, XX century.

National Bureau of Statistics presents information about the activity of the companies working in the sphere of leasing and rent.

Table 1. Indicators of the economic activity of entities in the sphere of leasing and rental

Indicators	2014	2015
Number of enterprises	270	288
Average number of employees	629	771
Income from sales, mln. lei	148.1	173.3
Financial result before taxation, mln. lei	(11.5)	(3.6)
The number of business entities that have received profit	100	100
The financial result of the economic entities that have received profit, mln. lei	12.4	23.6

Source: www.statbank.statistica.md (accessed on 10.01.2017)

The number of economic entities, working in the sphere of financial leasing and rent, shows a small increase the last two years. But their share in the total number of registered enterprises is not quite significant - about 0.5%. The amount of revenue per an employee is reduced: from 253 lei in 2014 to 224 lei in 2015. We note that effective activity is registered at less than half the companies. Overall the sector records losses, but these losses decrease in 2015 towards 2014 with 3.2 times. So, the number of economic entities from the sphere of leasing and rental does not change, and the registered profit by these one hundred of economic entities increased approximately by 2 times.

Based on the data presented in Table 2, there are observed the following trends: the value of leased fixed assets during the years 2007-2015, expressed in national currency has increased lately by 24.5% compared to the first period.

At the same time, the average value of transport units in the years 2013-2015

increased related to the average period of 2007-2009 by 19.1 mln. lei or by 24.2%; the value of leased machinery and equipment in the third period has increased by 13.4% (7.7 mln. lei). This category of assets recorded a maximum peak to the average of 2007-2009 by 24.3%.

The value of leased special construction and buildings experience a steady growth over the nine years examined from an interval to another.

Table 2. Value and structure of leased fixed assets

Categories of fixed assets	Average on years		
	2007-2009	2010-2012	2013-2015
Total leased fixed assets, mln. lei	880.4	729.5	1,099.0
mln. \$	77.7	60.6	75.2
of which:	789.3	607.6	980.3
Transport units: mln. lei			
mln. \$	69.6	50.4	66.9
in % towards the total value	86.7	83.3	89.2
Machinery and equipment: mln. lei	55.1	68.5	62.5
mln \$	5.0	5.7	4.4
in % towards the total value	6.3	9.4	5.7
Buildings and special constructions: mln. lei	31.2	39.3	45.0
mln \$	2.7	3.2	3.2
in % towards the total value	3.5	5.4	4.1
Other fixed assets: mln. lei	4.8	13.9	11.2
mln \$	0.4	1.1	2.0
in % towards the total value	0.5	1.9	1.0

Source: developed by the author on the basis of data from Statistical Yearbook

The average value of leased buildings and special constructions during 2013-2015 is higher than the average of 2007-2009 by 44.2% (13.8 mln. lei).

Other leased fixed assets reflect a significant increase of the value. Thus, the 2009-2013 average is higher than the average of the years 2007-2009 about 3 times; so in the years 2013-2015 the value of other fixed assets falls related to 2010-2012 with 79.4% (2.7 mln. lei), being still 2.3 times higher than in the first period.

On the other hand, the analysis of these data, expressed in US dollars, allow us to conclude that there is no a real growth in this area of economic activity. The average annual value of leased fixed assets through the years 2013-2015 is lower by 3.2% (2.5 mln. USD) related

to 2007-2009. In the same proportion, the value of transportation decreased (2.7 mln. USD). The value of buildings and special structures increased in the examined period as well as in estimating in the national currency, but in smaller proportions: with 18.5% in 2013-2015 compared to 2007-2009 (0.5 mln. USD).

Other leased fixed assets increased 5 times (with 1.6 mln. USD).

Examining the structure of leased fixed assets we mention that in all years, the transports occupied the biggest share, which decreased in 2010-2012 by 6.4 p.p. compared to 2007-2009, however, maintaining the level of 89.2 in the last period. There has been reduced the share of machinery and equipment, which was a small one in the first period. The share of buildings and special constructions amounted to 0.6 p.p. in the structure of leased fixed assets but like machinery and equipment remains quite low.

Table 3. Value and structure of leased fixed assets in terms of payment period

Payment period	Average on years		
	I-st period 2007-2009	II-nd period 2010-2012	III-rd period 2013- 2015
Total leased fixed assets, mln. lei	880.4	729.5	1099.0
mln. USD	77.4	60.6	75.2
of which:	467.8	561.4	645.9
with payment period up to 3 years, mln. lei			
mln. USD	41.5	46.6	44.0
from 3 to 5 years, mln. lei	331.8	126.4	424.2
mln. USD	32.8	10.5	29.2
more than 3 years, mln. lei	80.6	41.7	28.9
mln. USD	7.0	3.5	2.0

Source: developed by the author on the basis of data from Statistical Yearbook

Analyzing the data from Table 3. we can mention that in the structure of leased fixed assets. leased fixed assets with the payment period up to 3 years are prevailing. Their share in the total value of leased fixed assets during the years 2007-2009 was 53.1%. increasing in the second period up to 77%. and lately being at a level of about 59%. So.

there was an increase in recent years in regard to the first period with 5.7 percentage points. The second place is occupied by fixed assets with the payment period from 3 to 5 years. This indicator in the period of 2013-2015 reached 38.6%. which grew insignificantly (0.9 percentage points) compared to 2007-2009. In the second period their share declined to the level of 17.3%.

Leased fixed assets with payment term more than 5 years are in a continuous decline. occupying 9.2% in the structure in 2007-2009. 5.7% in 2010-2012 and 2.6% in 2013-2015. In the structure of leasing business. there prevail businesses with a shorter period. which is connected with the unstable situation in the national economy of the Republic of Moldova and the numerous risks associated with the situation of instability and uncertainty.

Another important aspect in the analysis of leasing activity is the beneficiary of this business. Republic of Moldova records the following three categories of beneficiaries: enterprises and organizations. financial institutions. individuals.

Table 4. Value and structure of leased fixed assets in terms of beneficiaries

Categories of beneficiaries	Average on years		
	I st period 2007-2009	II nd period 2010-2012	III rd period 2013- 2015
Enterprises and organizations. mln. lei	476.0	387.1	619.5
mln. USD	41.8	28.8	42.5
Financial institutions. mln. lei MD	4.2	1.2	1.3
mln. USD	0.4	0.1	0.1
Individuals. mln. lei	400	341.1	478.7
mln. USD	35.5	28.3	32.7
Total leased fixed assets. mln. lei	880.4	729.5	1099.0
mln. USD	77.7	60.6	75.2

Source: developed by the author on the basis of data from Statistical Yearbook

Data presented in Table 4 show that slightly more than half of beneficiaries (54.1% in the first period. 53.1% in the second period and 56.4% in the third period) are economic entities in the sphere of production and provision of services. This category is

followed by the category of individuals with respective shares by periods - 35.5%, 28.3% and 32.7%. There is a downward trend in the share of individuals as recipients of funding through leasing. So, there is decreasing the share of consumer leasing, which is used by individuals by buying vehicles through leasing.

In 2015, the value of leased fixed assets amounted for 1,089.2 mln. lei or 60.1 USD. In the last three years leasing companies were facing more difficulties, but still the most important have finished the management year with profit.

According to the opinions of leasing market participants, companies have adjusted their activity to the situation of significantly decrease in the demand for leasing services by issuing pricing policy. Leasing companies have lowered interest rates. If 3-4 years ago the interest rate was set at 13-14%, in the last period of study it decreased to 7-11%. This step was made by leasing companies, which are credited from the foreign market. Besides this, leasing companies began to provide other services - such as microfinance. This diversification has allowed companies to offset the decreasing demand for leasing services (Covalenco I., 2017) [4].

At the present stage, five largest leasing operators are working on the leasing market: "Total Leasing" - that holds 21.4% of the total volume of this market; "BT Leasing MD" - 16%. "Capital Leasing" - 11%. "Finance Leasing Company" - 11% and "MAIB Leasing" - 11%. These five companies occupy 72.2% of the total value of leased fixed assets.

Overall on financial market, companies that have access to cheaper sources of external financing survive more easily. But the crisis situation in the banking system in the country does not allow foreign creditors to lower interest rates on borrowed capital by leasing domestic companies, as country risk is high.

In order to overcome the crisis situation, leasing companies hope for collaboration between participants of the leasing market. The major operators consider the need for a joint management of this market. In this context, an associative form of leasing

companies occurs that will promote the interests of leasing companies. Currently, four companies have entered into this association - MAIB Leasing, Total Leasing, Raiffeisen Leasing and Ezpress Leasing. At present time, lease is less agreed compared to bank credit because it depends on percent calculated from the value added tax. Reserve capital formed by leasing companies to ensure risks is a deductible value for tax purposes and is established at a rate of 5%, while in crisis situations, formation of reserves should correspond to actual risks. (Covalenco I., 2017) [4].

CONCLUSIONS

In the last three years (2013-2015) there is recorded a slight increase in the value of leased fixed assets.

Consumer leasing prevails, which ensures the beneficiaries - individuals, the possibility to buy easier the means of transport.

Leasing companies strive to reduce the interest rate as much as possible, and most successful are companies that have access to cheap financial resources from the external market.

Given the great needs in performing fixed assets by the domestic producers, we believe that leasing activity has prospects of development in the Republic of Moldova.

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