



ЛИЗИНГ НА ФИНАНСОВ ПРОДУКТ, ПРЕГЛЕД В АЛБАНСКАТА ИКОНОМИКА

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LEASING A FINANCIAL PRODUCT, OVERVIEW OF THE ALBANIAN ECONOMY

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**Abstract:** *In our country most businesses operate on the basis of small and medium enterprises. Their main problem lies in providing financial means to develop their activity. Precisely for this purpose, there were some financial mechanisms that are efficient in operation all over the world. The existence of leasing allows entrepreneurs to provide the main inputs of their business. This issue will analyze the growth of the leasing industry in transition countries. Leasing will help boost Albania's economic growth through benefits that extend to different sectors of the economy.*

**Key words:** *leasing, financial means, lessee, lessor*

**The leasing concept and its regularity**

The term “leasing” comes from English and means lease, the transfer of certain items for a certain period of time to payment. Leasing contracts can be divided into two categories: financial leasing and operating lease.

**Financial leasing** is a contract between the lessor and the lessee, which in most cases has a life span of several years. In such a contract, the lessee must pay a certain amount of installments to the lessor in order to have the right to use the lease facility

**Operating lease** is very different, because it provides full service to the leaseholder, and does not have much to do with financial arrangements. Operative lessors are usually specialized in the types of items they rent and have detailed knowledge of their items and their market. The item is purchased, maintained and secured by the Lessor. For the purpose of this report, with the term “leasing” we mean “finance lease” (Financial Lease), an alternative financing method, which, clearly, is not simply a lease of an object, but “Operational leasing” will be called simply “lease”. Why is Leasing so important as an alternative financing method and the leasing benefits for transition economies?

The most important contribution of the equipment leasing industry is to ensure access to finance. When leasing is unavailable, the demand for equipment remains unfulfilled, affecting all industries at every point in the supply chain of machinery and equipment. The fact that the leasing contribution is so decisive, and its impact on the economy is huge, results for several reasons:

- Leasing, as a way of purchasing equipment and machinery, affects manufacturing and service industries in every economy.
- Leasing is an important approach to purchasing different types of equipment and machinery, especially for high-tech ones, which is vital to innovation and growth.
- Leasing is used by all types of businesses, although capital requirements may differ.

Leasing is an important source of medium and long-term funding in emerging economies as well as in transition economies because leasing is an economically viable solution for purchasing items. Leasing is

particularly important in securing funding for small and medium-sized enterprises and new businesses, which play an important role in introducing innovation and competitiveness in the economy, as well as in opening up new jobs, with resources limited financial and collateral requirements, the lessee may take possession of equipment and machinery that serves to increase productivity and ability to generate revenue in transition economies, leasing is often the only means of acquiring assets for many poor enterprises.

While traditional bank financing often requires the borrower to make available collateral for the loan, the leasing does not have any such engagement. Leasing focuses intensively on the Leaseholder's ability to generate cash from the business during the lease term and does not require additional security. The cause for this change is the specific legal character of the lessor - the financier, who retains the ownership of the object during the lease term. This means that the lessor's ownership of the leased asset replaces the borrower's obligation to provide security for the loan.

Leasing brings benefits to all parties involved in the transaction so the lessor is able to access clients with different risk profiles, enabling them to finance even those non-approaching banks.

There are many advantages for enterprises that use the lease to finance the acquisition of items compared to the purchase or bank credit. It is clear that leasing is a good business opportunity for all participants in the transaction, but why should a country's government pay special attention to the development of the leasing industry? Why should appropriate conditions be created to stimulate the leasing industry?

The leasing industry mobilizes huge opportunities for increase in various sectors of the economy. Financial leasing creates healthy competition in the financial services market as it competes directly with bank credit. It encourages capital investment and develops secondary markets. Companies improve their efficiency and competitiveness by providing finance through leasing. Leasing develops small and medium-sized enterprises that are in need of financing, thus addressing their lack of capital and liquidity problems, especially in transition economies. As a result, more enterprises have access to funding, which serves to expand the activity, creating increase in employment and the tax base of the country, bringing the increase of Gross Domestic Product.

Financial leasing is ideal for small and medium-sized businesses, new businesses, and enterprises in need of modernization of their old machinery and equipment. It is widely used to finance large projects like buying aircraft, etc. if a suitable leasing facility is created, it can bring significant foreign investment from banks and leasing companies. Most of the funds of these leasing companies and banks will have a positive impact on the economy, thus increasing access to finance for important business projects. Leasing can therefore bring positive impacts on Albania's economy if it is fully accessible to small and medium-sized enterprises, which contribute to a large extent to GDP in Albania and where its development is sufficient for allowing extending beyond leasing to consumers to finance equipment and technology lines for companies.

## **LEASING IN ALBANIA**

### **1. Overview of the Albanian economy.**

For the first time in 15 years, since the establishment of market economy in Albania, Albanian companies now have a new financial tool to meet their needs for machinery and new equipment through leasing. This new instrument allows companies to renew their technological profile and become more competitive. They do not need to pay the machine at first or meet the requirements of a bank loan. The head of the "Market Adjustment Support and Treasury Promotion" project manager Gavin Jones says companies do not need to offer collateral or bank guarantees when they require machinery and equipment with leasing but enough is to have a business plan and a fair circulation of money.

SAM company in Tirana, which is exporting now clothes in Italy and France, was the first to benefit from this new scheme Leasing, supported by two-year project "Support for Market Regulation and Promotion merchant" sponsored from the CARDS Program for Albania of the European Commission and UNDP in Albania. The Export Promotion Agency (IEA) supported the process by providing information and counseling for the company through its Export Development Program.

Neritan Mullai of the Export Promotion Agency (ANE) thinks that many domestic companies can solve one of their main problems, arguing that financial difficulties have hampered a faster development of Albanian companies that are eager to compete in the market global, but also suffer from limited resources. According to research the market side, the Albanian companies enjoy the potential to increase in exports, but often lack the required technology to compete internationally. ANE can help them find the way to a steady increase within the framework of the Export Development Program.

Leasing option for machinery and equipment is expected to add value to consultancy services, enabling a more efficient planning process in the companies concerned. Adrian Dabulla of AC Partners, who assisted

SAM on behalf of ANE, said: “Leasing can provide the companies with the latest technology manufacturing by guaranteeing the fulfillment of quality and quantity requirements, thus making them better suited to market demand.

The leasing process is not limited by the price of machinery and equipment needed, nor by the length of time it is of interest to the company to use them and the observations that have been made result that the installation of the first leasing machinery occurred with December 26, 2005.

CARDS / UNDP-sponsored project experts say that soon the Albanian companies will receive a “Practical Guide to Funding Resources” so they can better respond to their vision and needs.

However, Albania remains a developing country with high investment needs. Private sector development, despite the capacity for business of Albanians, is still limited due to lack of access to funding.

The banking industry in Albania is still in the process of development. Today there are over 18 banks. Generally they are built on the basis of foreign capital. Other players continue to enter the market, making it more competitive, which is a prerequisite for the development of a healthy leasing industry. When there is competition in the financial market, banks are required to provide a broad range of services to their customers, and among them is leasing.

Financing with leasing is widespread: financial and operational. Financial leasing is similar to credit, but there are some changes in structure from the loan. A leasing financing is more flexible than the loan, as it is a vehicle financing. When dealing with vehicles with a stable secondary market, the leasing company, within the allowed risk management norms, is shown “more tolerant” than in the case of a loan. A leasing finance is “theoretically” easier to handle than a loan finance.

Meanwhile, the financial leasing structure may be different from that of the loan. In this financing, the prepayment on the asset’s value, as well as the placement of the remaining value at the end of the financing, make the financing structure more appropriate than the loan, according to the needs and solvency of the client. At the end of the financing period, the client has the opportunity to exercise or not the right to purchase the vehicle, which, unlike the loan, facilitates the asset management at the end of the period of a particular project. This kind of financing would give the client the opportunity to renew the technology periodically by staying within the leasing structure. Operational leasing, for some types of vehicles, especially for vehicles, is even more fiscally efficient compared to financial leasing or credit, although more expensive than both. In this type of lease, monthly payments are 100 percent deductible expense.

#### **Existing leasing activities.**

Leasing is a small, soft credit or otherwise known, financial lease, through which a person can benefit from a service or can buy without having all the necessary money. Currently in our country only a few companies and banks offer such a service, which in developed countries is very widespread. Only a few auto-saloons, some real estate companies, few electro-household firms, and finally three banks, have become part of the scheme where you can also lease. After the Tirana Bank and Raiffeisen Bank, Credins Bank entered the leasing market with “Credins Leasing”, offering a financing share of up to 80 percent and offering the possibility to leave a remaining value for the end of contract. Private banks thus offer customers a more affordable financial product. The leasing market has great development potential and large space in our country, so it is predicted to be just as strong on the market as the current big competitors. Leasing activity does not depend so much on the size of the company than on the way it conceives it. Leasing is a genuine business activity that depends on the quality of the product it offers and service. Even the larger the leasing company, the more it risks losing any of its service qualities. The essence is that within the law, but also within the risk management criteria, offer a product as acceptable to a greater extent as possible. Only this would be the product that would make car buyers, for example, or other equipment, to step away from buying cash and replace it with leasing finance purchases. This funding aims to make it as easy as possible for individuals to finance their assets, providing a lower cost entry cost, and providing a financing facility that allows their clients to have a monthly financing fee as high as possible affordable.

Prepayment is another important element for leasing companies, to better manage the financing risk in case of recapture of the funded vehicle. This customer’s participation in financing, creates the possibility that in case of recapture of the vehicle, resell it without a loss, or with a minimum loss in the worst case. Albania is a small market for the sale of both new and used vehicles. For those that are reimbursed by customers failing to pay, especially for large machinery or production lines, it is difficult to find buyers inside the country. This places a leasing company in the face of a small problem. Another problem for leasing is the handling of remittance cases in case of payment failure, since although the law clearly defines the extrajudicial recovery

of the item, the enforcement system is very ineffective. Currently in Albania there are leasing companies: "Tirana Leasing" shpk, "Landeslease" sh.a, "Bileasing" and "Raiffeisen Leasing" sha and "Credins Leasing". Under the legislation in force in Albania, leasing activities can be carried out directly by banks, such as the case of "Tirana Leasing" ltd, "Raiffeisen Leasing" or "Credins Leasing", or through leasing companies as in two other cases. Thus, "Tirana Leasing" Ltd, so far offers its customers through leasing only vehicles, trucks and some types of machinery and some commercial real estate. "Raiffeisen Leasing" continues to be among the first in the leasing market in Albania by offering a full package of leasing products contributing to the development of the Albanian economy through the financing of new and contemporary technology, machinery and equipment. In support of the leasing as part of a culture, as well as in the service of Albanian businesses which increasingly need to provide and use high quality equipment and machinery, is a qualified and committed staff.

Raiffeisen Leasing Sh.a operates in Albania since 2006. With regard to the rest of the banking sector it is still unclear whether the lease will become a popular instrument of financing. According to a survey on banks in Albania, some responded with a clear interest in the leasing activity and only three had leased companies through subsidiaries. Such interest is also noted by the European Bank for Reconstruction and Development (EBRD), which is supporting the development of the leasing sector in Albania with a € 1 million loan to Landeslease, which will be used by the company to Expanding its Services to Small and Medium Enterprises. In a period where businesses face limited funding mechanisms, leasing serves as an alternative source of financing for SME development, which is crucial to structural transformation of the economy. The leasing sector in Albania is still in the early stages of development, representing only one percent of the country's GDP. Established in 2005, Landeslease is the first independent leasing company in Albania. The company is focusing mainly on small and medium enterprises and has past experience in leasing vehicles, equipment and machinery. The EBRD loan line will help Landeslease expand its funding base and will support the company in its activity to provide more reasonable financing for SMEs in Albania. Also, the project will serve as a positive example for new leasing companies to consider entering the Albanian market, enhancing the leasing sector's development. EBRD's financial support was made possible thanks to Landeslease's good performance and gives a great boost to continue the development strategy aimed at providing financial solutions to meet the needs of small and medium-sized businesses in Albania. In the opinion of specialists, the biggest obstacles identified for the development of the leasing market in Albania are:

- 1) Insufficient regulatory environment with regard to accounting and taxation aspects that makes leasing less competitive than other forms of financing;
- 2) Lack of experience and skills on the part of the leaseholders - Although there are many financial institutions that possess good knowledge and experience in financial leasing and are important players in the leasing market outside of Albania, the lack of experience in leasing within Albania does not facilitate engagement in such transactions;
- 3) Lack of awareness by the lessee as leasing is less known in Albania and furthermore it is a relatively new financing method in some neighboring countries with economies in transition;
- 4) The mentality of ownership. Leasing has faced difficulties in turning into a popular financing technique in many transition countries. This is due to the ownership mentality of most potential leaseholders. Many people believe that not having an object owned is not profitable and installments are paid virtually for anything because the object is not owned by the lessee. It will take a certain amount of time for people to change their minds and realize that wealth and profit comes from using the item, rather than having it owned. In the short term, such a problem can be overcome by providing financial leasing transactions where the lessee acquires the title of ownership over the object at the end of the lease term;
- 5) Underdeveloped secondary markets, which create difficulties for the re-sale of objects repossessed by the lessee who have not paid the installments;
- 6) Unfulfilled funding requirement resulting in low competition among credit institutions and lack of need for development of services and extra products. In most leasing countries, there appears to be a high competition among credit institutions, resulting in the need to provide customers with a wide range of services, including financial leasing

All the obstacles listed above are recoverable if there is readiness by development policy makers and lawmakers to support leasing as one of the instruments for economic development.

Despite the fact that the main objective of the lease development is to provide adequate conditions for leasing machinery and equipment, the need for leasing as a financial instrument can be evidenced through the automobile purchase market. In 2003, about 740 new cars were sold by sales agencies in Albania. This number was expected to increase in 2004 to 1,000 new cars. Part of the car sales are realized through loans

to customers. Opel sold 37 percent of cars through a scheme which in reality is a leasing transaction. Opel Agent has a credit line from a local bank that they use to finance car sales to customers. Clients have to pay 36 monthly installments and at the end of the deadline they have the option to buy the car. Opel, meanwhile, retains ownership of the car during the contract period, which is transferred to the buyer at the end of the term. The car is registered in the insurance burden register. Other agents use more traditional forms of consumer credit, where the debtor becomes the owner of the car. Practices vary, from approval by the bank of credit and maintaining credit risk, when the agent acts as a guarantor for the debtor in front of the bank. This is a not very successful practice as there are cases of default by debtors and banks have difficulty obtaining the remaining debt through repossession and sale of the car.

Most car sales agents are extremely interested in leasing. However, there is an overall view that existing minimum capital requirements for leasing companies are too high for the domestic market.

#### **Existing knowledge of the leasing market in Albani**

As explained above, there is a lack of knowledge about leasing in Albania. This negatively affects its development and hampers its recognition as one of the stimulating forces of the economy. A lack of such knowledge and awareness is evident in many countries where leasing began to develop in recent years. Effective public awareness campaigns, which include TV shows, radio, newspaper articles, seminars, trainings, brought significant results. Such a campaign should target: Financial institutions - as potential leasing companies, small and medium-sized enterprises as potential leasers, representatives of state institutions, controlling and supervisory authorities, judges, arbitrators, etc. Today, there are positive examples of such work in Serbia, the former Soviet republics, and so on.

#### **Existing Plans for Leasing Activities by Stakeholders.**

It is too early to expect a great deal of interest from different parties for the leasing activity in Albania for some reason, which should be affected in order to have an effective lease development. In response to a survey conducted by SEED / IFC, few banks have expressed interest and shown signs of undertaking the steps for financial lease development as one of their products. The experience of other countries has shown that there should be some basic conditions for leasing transactions to have significant investments in this industry. During the leasing market development, most countries attach importance to creating an adequate, regulatory and supervisory environment for financial leasing. Most investors are afraid to be exposed to emerging markets unless such efforts have been undertaken by the government because they fear the negative changes in legislation. Lawmakers should strive to address this investor's uncertainty and set up a fair and effective regulatory framework for the financial leasing industry. The adoption of the Law "On Financial Q & A" by the Albanian Parliament is the first major step in this direction. On the other hand positive developments are also noted in terms of improving the fiscal system.

#### **Conclusions**

Financial leasing has very good opportunities in Albania while addressing the problems of many companies with good opportunities and high increase rates. It addresses issues of lack of resources and medium-term resources. Leasing will help Albania's economic increase through the many benefits that extend to different sectors of the economy. Greater financing opportunities allow entry into a larger number of markets than would be the case without leasing. Leasing increases capital investment and contributes to foreign capital investments. Markets are more competitive by expanding the number of market participants. The leasing industry has a profound impact on all branches of the economy. The existence of leasing allows entrepreneurs to provide key business inputs, thereby expanding the market for leased asset producers.

Due to the high capital requirements, most likely newly-created leasing companies will need external financing. Of course, this shows the need for foreign partners to participate. Some banks may return to their parent companies but may also use other sources of funding if they exist.

It is very important to adopt a comprehensive regulatory framework and other measures to ensure the lease development.

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