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Leasing as a Modern Form of Financing Firms

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Leasing represents a specific form of trade in which leasing companies (or producers) lease an object to a user for a certain period of time. The user of leasing is obliged to pay the leasing fee regularly and in the agreed annuities, and, at the expiration of the agreed period, to buy up the object at a lower price. This period usually coincides with the amortization period of the object, i.e. with the economically justified period of using it.

The period during which an object is on a lease usually coincides with the economic period of duration. The amount of leasing fee will depend on the length of this period and the value of the object. The shorter the leasing period, the higher the leasing fee. The highest fee is for the period which is up to 40% of the amortization period of the equipment on a lease. Contrary to that, the leasing fee is the lowest if the leasing period is longer than 80% of the amortization period. It is only logical if we take into consideration the fact that the risk of moral obsolescence for the leasing firm is lower if the leasing period is longer. After the expiration of the period, if the amortization period has also expired, the object becomes the property of the leasing user, but if the amortization period has not expired, the leasing user is entitled to buy up the goods at a price which corresponds to the market value from which the leasing fee for the expired period has been subtracted. Normally, the question of buying up price depends on the agreement between the leasing firm and the leasing user.

While doing the leasing calculation, the leasing firm takes the following elements into consideration:

- The annual amount of amortization,
- The amount of financial expenses (an interest on the money used for buying the equipment or, if the equipment has been bought with their own money, an interest which would be received if it was deposited in a savings bank), and
- The cost of service connected with the equipment (maintenance, replacement, and repair), premiums for risk and self-insurance, tax and profit.

The direct leasing is when a producer gives his final product on a lease. However, the indirect leasing is more and more present in the world, which means that specialized leasing firms deal with leasing exclusively, and buy the goods to be given on a lease directly from the producers. As the object of leasing is often very expensive equipment, they pay for it partly from their own funds, and partly supplying credit from banks and various insurance and pension funds.

As for the obligation to buy the used goods, there are the following types of leasing:

The term leasing, which precisely defines the period during which the object is given on a lease, as well as the obligation of the user to return it at a certain moment.

The revolving leasing, which includes the obligation to renew the usage of the object on a lease after the expiration of the previously agreed leasing period. This type of leasing also involves a clause on replacing the object on a lease by a newer model.

According to the duration of the leasing contract, leasing can be classified into a short-term (up to 3 years), medium-term (from 3 to 7 years) and long-term (over 7 years) leasing.

The international leasing has had a positive influence on developing countries or countries heavily in debt, because it is the most efficient way for them to get modern equipment and, consequently, a better technological base, without a drastic aggravation of balance of payments which would ensue under the conditions of classical purchasing. On the other hand, the countries exporting equipment and goods on a lease also have their own interest, because they gain a competitive advantage over the countries which use classical forms of export. Under the conditions of balance of payments difficulties of most developing countries and the existing debtors' crisis, a solution has been found in paying the annuities of the leasing fee with the goods produced while using equipment on a lease. An example of such a way of paying annuities is leasing the most modern fishing boats and paying with the catch.

One of the basic disadvantages is that the absolute amount of leasing user's financial obligation is even 50% to 150% higher compared with the amount which would be necessary to pay through classical purchasing. The solution to this dilemma is essentially based on assessing the profit rate of released assets, i.e. if using them we can get a bigger amount than the increased obligations based on a leasing contract, then we decide on leasing as a specific and modern method of financing. One of the disadvantages of leasing is also the fact that the first installment of leasing fee must be paid in advance. Besides, although leasing contracts precisely state that the equipment to be taken on a lease must be new and unused, there is always a latent danger of getting already used and out of date equipment. It is important to point out here that the leasing user must not rely only on the professional skill of those who give him some equipment on a lease; he himself must possess an adequate level of knowledge, so that he could assess the equipment which is being offered to him. Besides leasing companies, many countries deal with leasing as a method of financing, and they organize special agencies at a macroeconomic level which act as a logistic and credit support to their enterprises in deals connected with leasing foreign equipment and means. Such institutions existed even in the time of socialism in Czechoslovakia, Hungary and China. In Czechoslovakia, there was the Fincom leasing firm, which bought modern equipment on the Western-European market that was not produced in their country, and gave it to domestic enterprises on a lease. Today, China is the country with the highest rate of economic development; China's best solution to leasing, among all the countries which were in transition, has certainly contributed to that fact. The Chinese strategy was based on founding leasing firms with mixed capital. Thus, for example, the following firms were established: *China Universal Leasing* (mutual investments of *Dresdner Bank*, the Japanese *Sanwa Bank*, the Chinese *Bank of China*, and three Chinese foreign trade firms), then the leasing firm *Trilease International* (founded by the French bank *Société General*, the Chinese *Bank of China* and *Bank of East Asia)*, and the leasing company *China International Non-Ferrous Metals Leasing* (the project of the American *Interstate Bank of California* and *Banque National de Paris*). In Yugoslavia, there were attempts to form specialized leasing firms. One of them was founded as early as in 1968 and called *Mašinounion-Komerc*, with the intention to buy machines from the producers in the country and then to lease them to foreign partners with an option to buy them up. Another attempt was in 1972, when a leasing firm seated in Belgrade was founded, which has never started its practical work.