

## СУТНІСТЬ І ЗНАЧЕННЯ ФІНАНСОВОГО ЛІЗИНГУ В УКРАЇНІ, ПРОБЛЕМИ ЙОГО РОЗВИТКУ

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Визначено сутність фінансового лізингу в Україні, проведено аналіз ринку лізингових послуг, а також виявлено гальмівні фактори розвитку лізингу. Проаналізовано останні дослідження, публікації та законодавчо-нормативну базу.

За оцінками вітчизняних експертів, понад 50 % основних засобів потребують оновлення. Зарубіжний досвід показує, що лізинг є одним із продуктивних шляхів залучення капіталу для оновлення основних фондів підприємств. Проте, в Україні розвиток лізингових відносин значно відстає від світової практики.

Зосереджено увагу на значенні лізингу для пріоритетних сегментів економіки України, а саме сільського господарства, машинобудівної галузі, малого та середнього бізнесу. Проаналізовано рейтингу лізингових компаній, з якого можна зробити висновок про важливість створення лізингових компаній банками. Подано переваги фінансового лізингу порівняно з іншими способами інвестування, виявлено проблеми розвитку лізингу та запропоновано можливі шляхи вирішення висвітлених проблемних питань. Подано короткі висновки щодо проведеного дослідження.

**Ключові слова:** лізинг, фінансовий лізинг, лізингодавець, лізингоодержувач, лізинговий платіж, лізингова угода.

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## THE NATURE AND SIGNIFICANCE OF FINANCIAL LEASING IN UKRAINE, PROBLEMS OF DEVELOPMENT

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The article determines the purpose of financial leasing in Ukraine, includes the analysis of the leasing market and braking factors of the lease. The analysis of recent research, publications and legislative and regulatory framework has also been included in the article.

According to local experts, more than 50 % of fixed assets need to be updated. International experience shows that the lease is one of the productive ways to raise capital for fixed assets of enterprises. However, development of leasing in Ukraine lags international practice.

The article focuses on the importance of leasing for priority segments of Ukraine's economy, namely agriculture, engineering industry, small and medium enterprises. From the analysis ranking of leasing companies we can conclude about the importance of organization leasing companies by banks. We presented the advantages of leasing in comparison with other methods of investment, found problems of leasing development and suggested possible solutions to these problems. We submitted brief conclusions about our research.

**Key words:** leasing, finance lease, the lessor, the lessee, lease payment, lease agreement.

**Statement of the problem.** Nearly every enterprise has equipment that's outdated and not effective enough for today. The main reason for the difficult economic situation in Ukraine is deficiency of material and financial resources, which are necessary for renovation of material and technical base. This leads to the fall in output, low competitiveness of domestic products in the world market, decadence of product updates.

Most businesses in Ukraine need to replace worn-out fixed assets and to update existing facilities. Due to lack of equity and unacceptable long-term bank loans companies have to use new financial instruments, one of which is leasing. The growing need for domestic enterprises to update fixed assets attracts more and more attention for the development of all types and forms of leasing. Domestic and foreign financial practice prove the necessity of leasing.

**Analysis of recent research and publications.**The problems of the material and technical base of enterprises, including the role of leasing and analysis of its development in Ukraine are reflected in many publications authored by Borynets S.Y., Volkov M.V., Zagorodnego A.G., Sysoev L.Y., Slyusarenko K. B., Fayury N.D., Yaroshevych N.B. and many others. However, factors that hinder the development of leasing in Ukraine is still not fully explored.

**Statement of the purposes.**To study the importance of financial leasing in Ukraine we have set the following purposes:

- to determine the importance of the financial leasing to the priority segments of the Ukrainian economy;
- to analyze the state of the leasing market;
- to identify the causes that hinder the development of leasing in Ukraine;
- to offer possible solutions to the problem of leasing.

**Statement of main results.**There are many definitions of leasing in the financial and economic literature. We believe that the Law of Ukraine “On Financial Leasing” most accurately and completely explains the finance lease. This document gives the following definition of leasing: financial leasing – as a type of civil legal relations arising from the contract of financial leasing. Due to the contract, the lessor undertakes to acquire the ownership of a thing from the seller (supplier) according to lessee’s specifications and conditions and to give it to the lessee for a certain period of time, not less than one year for a fixed fee (leasing payment) [1].

Insufficient investment activity due to the lack of funding sources continues to be one of the major obstacles on the way to increase and stabilize the technical potential of Ukraine’s economy. Market transformations in order to improve, need to develop existing forms of financing of capital investments and search for the new ones. Leasing – is one of the new forms of financing. On one hand it brings you free financial resources and on the other it serves as a mechanism of renewal of fixed assets.

Leasing can greatly enliven the process of creation of a new enterprises and upgrading software, but the most important is that leasing allows to obtain modern equipment both of domestic and foreign production. Ukraine has established very favorable conditions for leasing development. A prerequisite for this situation is a great need to restore production capacity. A large number of businesses go in for such form of financing as leasing [2, p. 96].

In comparison with other methods of investing, financial leasing has several significant benefits, namely:

- § lease payments are fully belong to the cost of production, it reduces taxable income;
- § flexibility of payments (lease agreement provides that payments can be built in accordance with the expected cash flow of the lessee);
- § leasing does not limit the ability of the enterprise to obtain credit (leasing does not included to credit history)
- § the term of leasing is close to the term of regulatory depreciation [3, p. 228].

Leasing appeared in the United States of America in 1950. Half of the global turnover of goods shipped by leasing belongs to the USA. According to experts, without leasing USA’s economy would lose 290 billion USD annually. Leasing is part of the investment process, one of the financial instruments used in the economy of the developed European countries. For example, in Germany cost of leasing contracts amounted to 52331 million euro per year, in the United Kingdom – 47094 million euro, in France – 39716 million (fig. 1).

In most developed countries (the United Kingdom, Germany, USA) about a third of the total mass of investments falls into leasing. In Ukraine, the development of leasing significantly lags of international practice, due to the lack of development of theoretical issues and underestimate it's importance in real investment [4].

Among the ongoing finance lease contracts in Ukraine at the end of the third quarter of 2013 is dominated by agreements in the following areas: in the transport sector (72,09 % of the total lease agreements), agriculture (11,99 %), mining (5,68 %) and construction (2,29 %) (fig. 2) [5].

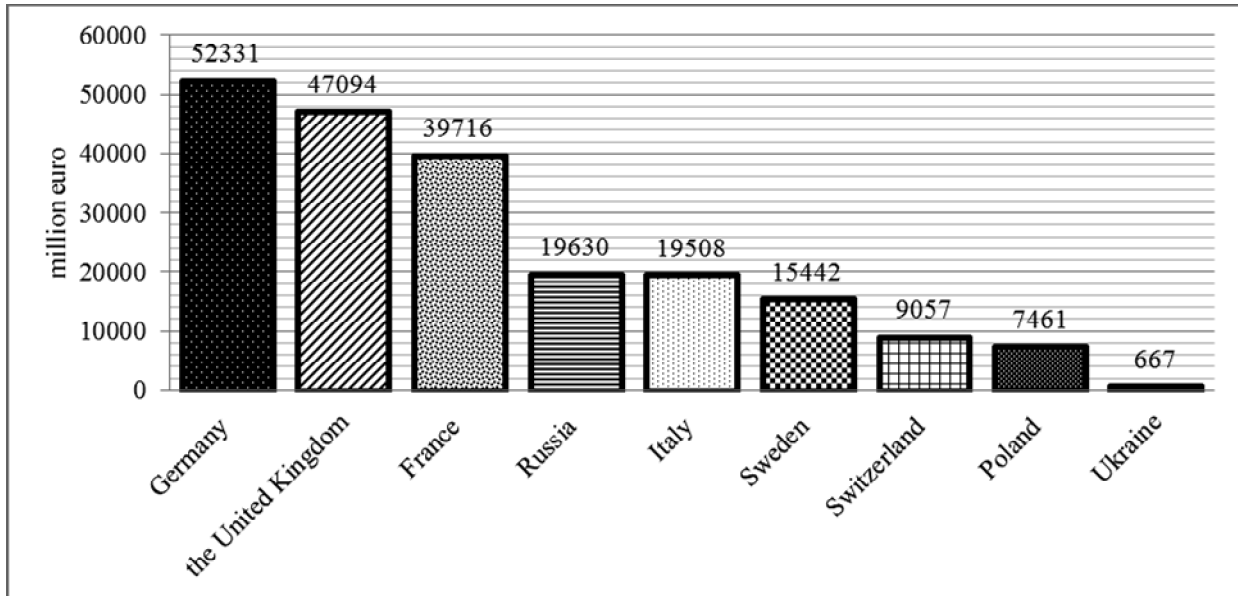


Fig. 1. The volume of leasing in Ukraine and foreign countries in 2012  
Reference: Constructed by the authors based on Leaseurope [4]

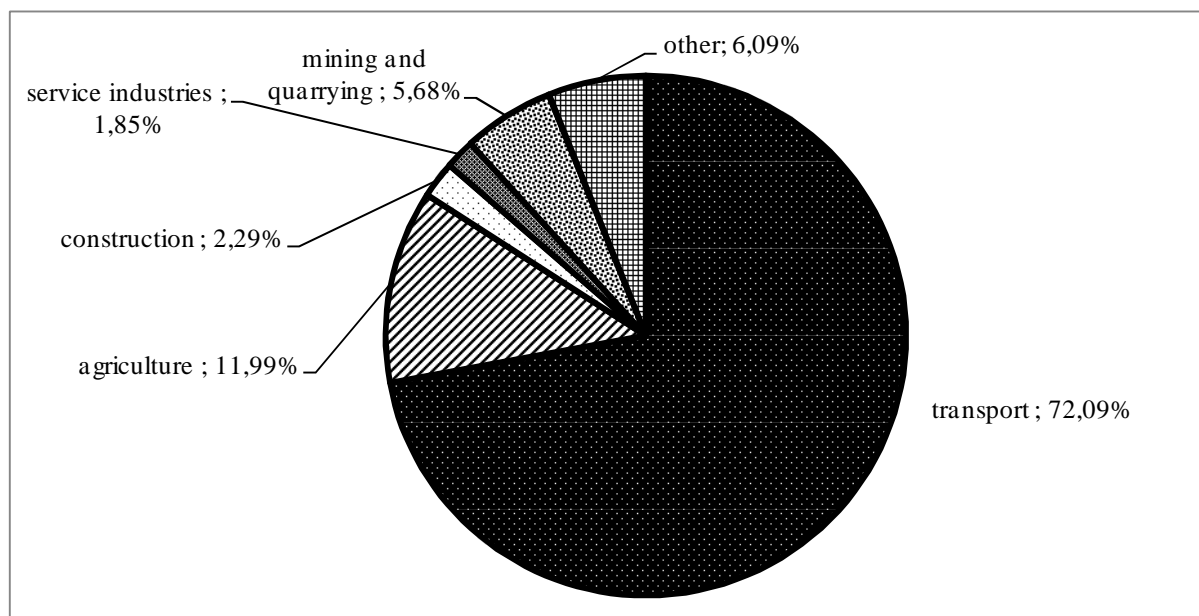


Fig. 2. The share of financial leasing agreements by industry, by the end of the third quarter of 2013  
Reference: Constructed by the authors based on Ukrainian Union of Lessors [5]

The activation and expansion of agriculture is one of the main conditions for successful and sustainable economic growth. Leasing has positive effect on the agricultural reformation in Ukraine. Firstly, it provides the population of Ukraine with high-quality foods. Secondly, the agriculture industry

has an access to raw materials. And at last but not the least important aspect, it can allow Ukraine to become a powerful exporter of the agricultural products.

The main problem of agricultural development is depreciation of machinery and equipment. Agricultural enterprises can be mainly attributed to the production of non-uniform circulation of money type, which is characterized by a certain mismatch between expenditures and revenues from sales.

The agricultural enterprises have a need for advancement of loan capital due to certain specifications of an agricultural industry. These specifications are:

- seasonality of production that result in a gap between revenues and cash expenditure;
- disparity in prices for agricultural products and logistical means is resulting in the situation where agricultural business cannot be fully provided with modern and advanced technology;
- failure of agricultural market infrastructure [6, p. 61–62].

During 2007–2012, the number of contracts in agriculture sector has increased, reaching a peak in 2012 (4190 agreements) (table 1).

Table 1

**The valuable and quantitative dispensation of the ongoing financial leasing in agriculture for the period from 2007 to the 3rd quarter 2013**

Year	The number of transactions	The value of transactions, billion uah
2007	1132	1,52
2008	1670	2,71
2009	1896	2,86
2010	2542	3,93
2011	2815	4,78
2012	4190	6,47
the 3rd quarter 2013	2675	7,44

Reference: Compiled by the authors based on Ukrainian Union of Lessors [5]

At the end of 2012 the total value of an agricultural machinery under leasing was about 6,47 billion uah. As of 31 September 2013 the net worth of an agricultural machinery under leasing attained 7,44 billion uah. Therefore, we can see a positive upward trend, although the number of contracts decreased to 2675(fig. 3) [5].

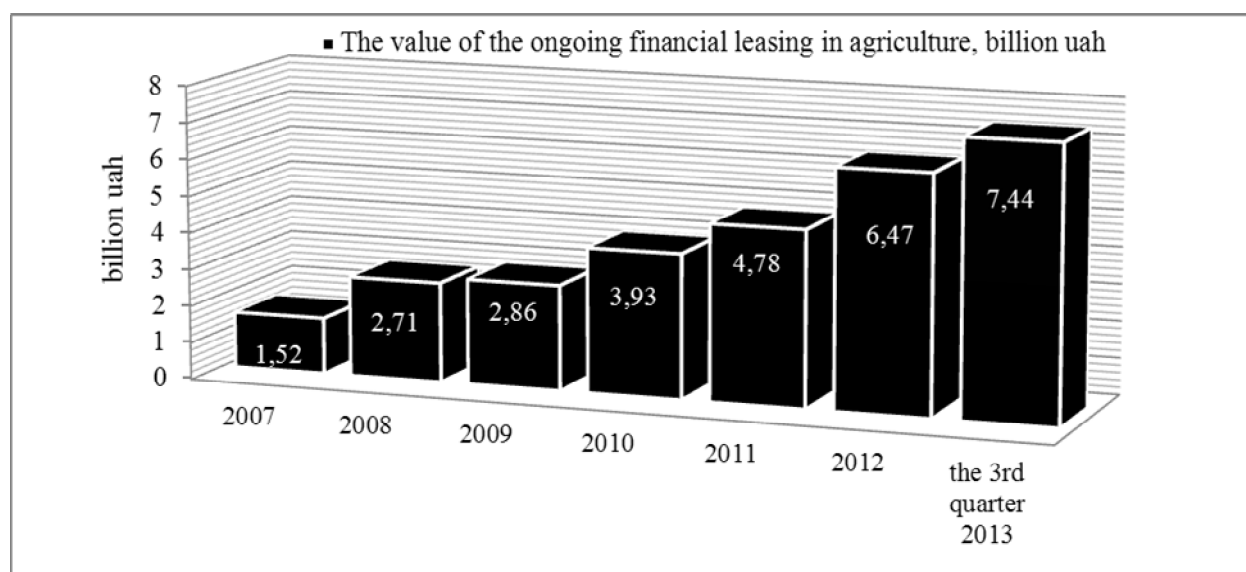


Fig. 3. The valuable dispensation of the ongoing financial leasing in agriculture for the period from 2007 to the 3rd quarter 2013

Reference: Constructed by the authors based on Ukrainian Union of Lessors [5]

SMEs (small and medium business) are important segment of the national economy. Development of SMEs provides economic, social and political stability of the country. Credit can serve as a source of additional capital the enterprise can involve in it's business actiities due to shortness of it's own capital. However, not every bank will provide a business with a loan to buy a specific product, let's say for example, construction formwork. The same situation can happen with any other special equipment or transport. Leasing can be the solution for the company's capital shortage problem. Strengthened by the bank's capital, leasing companies offer replacement of credits to businesses and individuals.

Table 2 presents ranking of leasing companies-members of the Association "Ukrainian Union of Lessors", which is made according to the size of the leasing portfolio, to the value of assets leased during the third quarter of 2013 and the the value of assets leased for the 3 quarters of 2013 (together) [7].

From table 2 we can see that "VTB Leasing Ukraine" (the size of the leasing portfolio stood at 2662,58 million USD), "Raiffeisen Leasing Aval" (2243,094 million USD) and "OTP Leasing" (1635,7 million USD) are leaders in Ukraine. "OTP Leasing" is leader on the value of assets leased during the third quarter of 2013 and for 3 quarters of 2013 together. Value of the assets "OTP Leasing" in the third quarter of 2013 is 609,034 million uhr, and for 3 quarters together – 1614,607 million uhr.

*Table 2*

**Rating of leasing companies in Ukraine by total lease portfolio in the 3rd quarter 2013**

The name of the leasing company	The size of the leasing portfolio, million uah	Assets (new business) million uah in the 3rd quarter 2013	Assets (new business) million uah for the 3 quarters of 2013 (together)
VTB Leasing Ukraine	2662,58	0	0
Raiffeisen Leasing Aval	2243,094	249,222	868,871
OTP Leasing	1635,7	609,034	1614,607
Ukrainian Leasing Fund	1298,703	178,8	1195,970
UniCredit Leasing	718,49	260,327	565,871
Porsche Leasing Ukraine	657,081	159,114	444,037
ALD Autimaotive / First Leasing Company	563,849	87,509	252,969
Scania Credit Ukraine	361,6	65	75,6
ILTA	266,1	18,6	62,3

*Reference: Compiled by the authors based on Ukrainian Union of Lessors [7]*

Another important component of the national economy is a branch of engineering, which serves as a base for scientific and technological development in Ukraine. In economically developed countries, the share of machinery typically ranges from 30 % to 50 % of total industrial output. This level of engineering provides technical retooling of the entire industry every 7–10 years. For Ukraine, this figure is lower by more than 2 times. Experts believe that this is one of the main reasons for the technology lagging of Ukrainian industrial enterprises from competing countries. The use of leasing to finance innovative projects of engineering industry will allow companies to update their material and technical base, to increase competitiveness of Engineering, to reduce the roominess of resources [8, p. 43–45].

Conducted studies show that the main constraints that hinder the use of leasing by machine-building enterprises in Ukraine are:

- § the current legislation is imperfect;
- § unavailability of leasing services (lack of long-term loans and high interest on loans prevent domestic banks to participate in financing leasing projects);
- § low solvency and financial stability of lessees and inability to use the equipment effectively and consistently pay lease payments. Enterprises, as well as banks, avoid long-term contracts because of unstable political and economic situation;
- § lack of tax incentives for subject of leasing;
- § infrastructure of leasing market is undeveloped [9, p. 236].

**Conclusions.** Falling solvency of enterprises, poor credit conditions and other factors determine the need to attract new sources of financing. Therefore, leasing becomes more popular as an investment mechanism for the fixed assets renewal. Analysis of the situation in the domestic market has shown that there are a number of obstacles that hinder the active development of leasing in Ukraine. To overcome them, we need to take the following measures:

- to develop a national program to support leasing;
- to create a leasing centers, which would specialize in serving small businesses;
- to standardize legislation on leasing with international law (join Unidroit Convention on International Financial Leasing and other conventions that contain different provisions for regulation of leasing);
- to promote interaction leasing companies with domestic enterprises;
- to simplify the procedure of international leasing operations. This will allow free access of Ukrainian enterprises to foreign markets;
- to raise awareness of features and benefits of leasing;
- to prepare a skilled workforce for the leasing market.

Leasing is one of the vital tools for the structural reorganization of Ukraine's economy. The development of the leasing market in Ukraine stimulates the process of implementation of new technology and thereby, improve the economic situation in the country. Therefore, it is necessary to extend the scope of leasing services and increase the state's role in supporting its development.

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