

DEVELOPMENT OF RURAL SECTOR WITH NEW WAYS OF FINANCING

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Abstract

The rural sector development and the business initiatives in the market economy conditions, require financial resources to realize their requirements in this regard. When the rural sector is considered a priority sector with high increased potential, it is necessary to explore new financing ways for the development of farms and rural businesses. The seasonal nature of agricultural production, highly risked due to weather conditions, the prices instability from one year to the other, the small sized and fragmented farms, the ownership issues, the difficulties in providing the collateral, are some of the reasons that have generated a strict policy by commercial banks and other financial institutions in financing this sector.

The crediting process for the Albanian economy in the recent years has experienced an increase, which was beneficial to most large businesses in financing their capital needs, while the crediting to rural entrepreneurships is limited. Crediting to the rural sector, fluctuate at 1-2%, which shows that the farmers have been facing difficulties during this period in order to have access to financing.

Referring to official statistics and financial market structure, where credit access is limited, (in addition to the contribution of the banking system), the leasing plays an important role as an alternative way for farmers' financing. In this context, rural businesses have the opportunities to provide financial resources through leasing companies; they can provide as well modern technology machinery and equipment, enabling increased productivity and competitiveness of their products and services.

Keywords: Crediting, efficiency, leasing, assets, rural businesses, productivity.

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1. INTRODUCTION

Nowadays, while the market is even more competitive, the need to increase opportunities in terms of financing entrepreneurships and business has become more evident. One of the most important problems of financing of the rural businesses is the need for capital. In conditions, when the rural sector is considered a priority sector with highly increased potential, it is necessary to explore new financing ways for farms and rural business development. Ownership problems, difficulties in providing collateral, are some of the reasons that have generated a strict policy of banks and other financial institutions on lending to the rural sector. Rural sector is one of the strategic sectors of the Albanian economy, giving 18.6%

of the GDP (Institute of Statistics in Albania, 2011).

Referring to leasing as an alternative financing tool for rural business, the process will require the commitment of all stakeholders to further encouragement of this activity.

Leasing is an important source of medium and long term financing in developing economies, playing an important role in the promotion and development of the private sector (IFC, 2009).

Financing through leasing, enables rural entrepreneurships to become competitive in the market, as well as a good potential for further growth of their business. They have the opportunity to provide through leasing companies not only financial resources, but also

machinery and equipment with modern technology (Sposeep and Sedova, 2006).

2. MATERIAL AND METHODS

The main objective of this study is to evaluate the use of leasing as an effective tool in the financing of rural entrepreneurship.

This objective is to be accomplished through the completion of several specific tasks:

- recognition with companies that provide leasing products in Albania,
- evaluation of specific weight, advantages, disadvantages of leasing compared to lending,
- rural sector financing problems,
- identifying the potential of leasing as an alternative means of financing for small rural businesses,
- Comparative analysis of leasing in Albania and European countries.

Referred to the importance of leasing activity it should be emphasized that in our country, as for the development of the business as a whole and the contribution of the banking system, there is a lack of medium and long-term financing and particularly for the rural businesses, as their access to credit is limited due to high interest rates and insufficient collateral.

Leasing aims to encourage the support of enterprises to invest in new technology in order to increase the productivity of their activities (Kloppinger, 2007).

The methodology used consists mainly in the data and information provided by leasing companies and other financial institutions, semi structured interviews with representatives and experts of the field as well as reviewing of current world practices.

Literature Review

Leasing is an economic and legal relationship of making a contract, according to which the leasing company finances the purchase of an asset, becoming owner and leases it to another entity in exchange to one or more specific payments (IAS 17.4).

Classification of leasing is based on the fact that “in what extent” the risk or benefits

from the ownership of a leased asset is related with the lesser or lessee (IAS 17.7).

Leasing is based on the benefits resulting from the use of an asset rather than ownership, and focuses on the ability of the lessees to generate cash flows from business operations to conduct leasing payments (Contino, 2006).

In Albania, leasing is legally regulated by law No. 9396, dated 12.5.2005 "For Finance Leases".

So leasing is offered on the market as a financing alternative for business needs, where the object of this activity are: vehicles, machinery, equipment and production lines, etc.

3. RESULTS AND DISCUSSION

Lending in the Albanian economy in the recent years has experienced an increase, of which have benefited the most large businesses with the financing of their capital needs; while lending to rural entrepreneurship is limited. Lending to the rural sector, fluctuates at 1-2 per cent of the total loans (Bank of Albania, 2011), which in turn proves that farmers and rural entrepreneurship have found it difficult during this period to have access in financing.

Among the main causes of not crediting to the rural sector we can mention:

- difficulties in providing collateral by farmers and rural entrepreneurship to meet the requirements of the banks.
- small size of farms, as well as ownership issues, no motivation of attracting investment in the rural sector.
- relatively high risk due to the volatility of production.

In these conditions, considering the advantages of leasing in relation to other forms of financing, it is an important to be found the financing instrument for the rural sector, promotion and further development of this sector (Westley, 2004).

For small and medium enterprises, leasing enables capital investments and increasing productivity when financial resources are few. Furthermore, it extends the range of products and competition in financial services, offering financing for all businesses

with lower cost. Rural businesses have the opportunity through leasing companies to provide not only financial resources, but also machinery and equipment with the contemporary technology (Deelen et al., 2003).

Under these conditions, considering as well the advantages of leasing in relation to other forms of financing, it is important to be found financing instrument for the rural sector and promotion for the further development of this sector.

Comparative Analyze

Leasing volume in the global market in 2011, according to data from Global Leasing Report, amounts to 724.4 billion dollars (Global Leasing Report, 2011). Leasing volume in Europe for the year 2011, according to the

Annual Report Leaseurope, is 257 billion euros (Leaseurope - Annual Statistical Enquiry, 2011). Information and data on leasing activity in Europe are taken from the Leaseurope (European Federation of Leasing Companies).

Referring to the above data turns out that the volume of leasing for all countries is increasing, with exception of year 2011 for the country of Greece .

By sectors of the economy, the volume of leasing is focused more on the sector of "Services", followed by the sector of "Construction". While the volume of leasing for the agricultural sector is relatively low (Leaseurope - Annual Statistical Enquiry, 2011).

**Table 1. Data on the volume of leasing in some European countries.
mln euro**

The penetration of leasing by country						Annual leasing volume as a percentage of GDP
No	Countries	2009	2010	2011	Outstanding 2011	2011
1	Germany	41,250	43,800	47,636	134,400	2.04
2	UK	34,589	35,933	38,144	99,306	2.15
3	France	33,356	36,415	39,623	84,727	1.29
4	Italy	28,269	29,801	27,409	118,427	1.12
5	Greece	1,772	1,189	473	7,954	0.20
6	Romania	1,307	1,013	1,242	2,297	0.98
7	Bulgaria	599	458	595	1,815	1.75
8	Albania	28	34	39	84	0.38
*	Total	141,170	148,643	155,161	449,010	

Table 2. Data for the structure of leasing according to sectors and products.

Regions	Leasing structure in percentage according sectors				Leasing structure in percentage according products		
	Agriculture	Construction	Services	Other sector	Equipment	Vehicles & Machinery	Real Estate
Europe	3	27	47	23	34	57	9
Albania	0.6	35	42	22.4	13	87	0

Leasing in Albania is in the early stages of development, but the potential for future development is very significant. Leasing practices are widespread in Albania in the recent years, but its weight is relative to developed economies; even those in the region are low. Regardless of the dynamics by which increased leasing specifically weight, in relation to other forms of financing it remains in low levels; however the market offers good opportunities for the development of this activity.

Currently in our country operate six non-bank financial entities that are licensed by the Bank of Albania to conduct financial leasing (Bank of Albania, 2011).

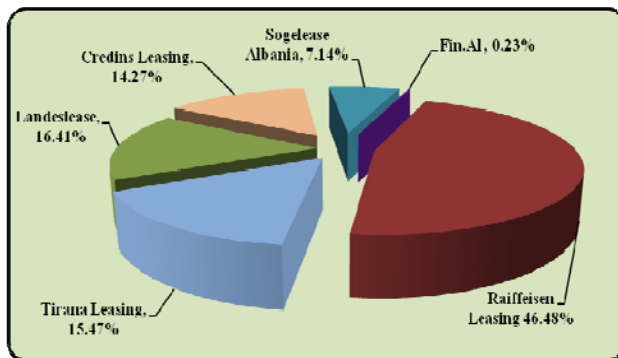


Figure 1. Leasing market in Albania - December 2011

Referring to the data from the Bank of Albania, until December 2011, the largest share of total leasing volume comes from Raiffeisen Leasing with about 46.48%, followed by Landeslease with 16.41%, Tirana Leasing with 15.47%, Credins Leasing with 14.27%, Sogelease Albania with 7.14% and Fin-Al with 0.23%.

✚ Conditions that enable further development of leasing product in our country are:

Improving the legal and fiscal framework for leasing, technical support for leasing companies to expand operations in rural areas and creation of facilities and supporting the leasing activity in rural areas.

4. CONCLUSIONS

✚ As from above mentioned we reach the conclusions:

- Leasing is an important source of financing for businesses, without additional financial resources and the requirements for collateral.
- Financing leasing creates opportunities for rural businesses to be used an assets before they have actually owned them.
- Leasing companies provide for entrepreneurs not only financial resources, but also modern technology assets.
- Leasing as a financing source, plays an important role in the promotion and further development of the rural sector.
- Lease financing is more flexible than loan, because it finances the assets.
- Leasing offers domestic and foreign suppliers a new mechanism for increasing their customers.
- Leasing increased competition as an alternative financing to the banking sector.
- Leasing represents a financing instrument, which is profitable for all actors involved in its transactions.
- Leasing companies stimulate competition and increase access to financing and services for businesses, diversifying the products offered to lease.
- Leasing as a financing way of business, has an impact on increasing the capital investment and economic development.

As a conclusion we emphasize that: in order to further promote leasing as a way of financing in Albania the legal and fiscal framework must be improved; to be considered as well the recommendations and suggestions of the representatives of leasing companies and other actors of this area for further development of this financial instrument in the future.

◆ Based on best practices and considering the problems faced by the leasing companies we recommend:

- Improving the legal and the fiscal treatment of leasing would establish the necessary rules

to encourage further this financial instrument in our country.

➤ Encouraging and motivating the leasing companies to be more flexible and competitive on the market, in offering these financial products to economic actors.

➤ Reducing the requirements for the minimum capital so that a leasing company may start its operation in the market.

➤ Diversification of products that are offered with the leasing.

➤ Increasing availability and operational support of leasing services in the rural sector.

➤ Leasing companies should stimulate competition and increase access to leasing products for rural businesses.

➤ Awareness and education of the public on leasing activity; the sensibilisation of the actors on the advantages offered by this way of financing.

➤ Creating of incentives for leasing by providing institutional support and a favorable policy for leasing activity.

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