DOCTORAL THESIS ABSTRACT

FINANCIAL LEASING IN ROMANIA IN THE CONTEXT OF EUROPEAN INTEGRATION: CURRENT PRACTICES AND AVENUES FOR IMPROVEMENT

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Nowadays, the financial leasing, due to the increase of the economic competition in all fields of activity, by the advantages it offers, has become a type of financing favoured by more and more commercial companies. The increasing need to be updated to the modernization of industrial equipment and technology, has generated the enterprises’ desire to modernize their technique, without diminishing the cash flows by consistent cash outflows. The financial leasing, through its characteristics, provides beneficiaries with the necessary object, without suddenly reducing their liquidity, provides safety and a comprehensive package of special services (maintenance, service, insurance). It provides a type of financing which protects the turnover and relieves the company from the liquidity risk, the financial leasing therefore representing an extremely important operation.

Ever since the beginning, the purpose and issues of our study have been very clear to us: **the insufficient knowledge of the financing possibilities offered by its users, the necessity to determine the efficiency of using the financing resources generated by this activity, as well as the requirements for improvement and avenues for development in the context of Romania’s integration in the European Union.**

We have established that these aspects regarding the research should be analysed in terms of the two main participants to the operation: **the financier and the leasing beneficiary.** Based on this, we formulated the purpose of the research, which, to us, was to identify the financing resources, and also to determine the efficiency of the leasing activity for the financier, as well as of using the obtained resources, for the user. We considered these aspects compulsory to be approached in terms of Romania’s European integration, because leasing too, through the financing of new technologies, may bring its contribution to this integration.

We limited the study only to the financial leasing, because, in our opinion, the operational leasing, on one hand, is nothing but an insignificant percentage in the total leasing market in Romania, and on the other hand, as a result of new legal stipulations, this is no longer perceived as a financial operation, but as a rental activity. Therefore, when we talk about leasing throughout the paper, we shall refer to the financial leasing.

In order to achieve our goal, we have considered the following **objectives:**

1. Identifying, both from the point of view of the financier and of the user of the financing, the financing resources for the development of the financial leasing, at the lowest costs;
2. The analysis of the financial leasing market, during 2005-2010, nationally;
3. The analysis of the financial leasing activity in the county of Sibiu and of the perception of this financing activity by the financing beneficiaries;
4. The economic-financial analysis of the financial leasing activity within a local leasing company;
5. The economic-financial analysis of using the financing resources through leasing for a user;
6. The analysis of the financial resources’ efficiency, from the viewpoint of the two main participants to the financial leasing operation;
7. Possibilities for improvement of the financial leasing activity, in legal, organisational and fiscal terms, as well as avenues for improving the financial leasing activity at the analysed leasing companies.

The achievement of these goals was possible by studying the following aspects:

1. Establishing the conceptual framework of the financial leasing, regarded as a special form of medium and long term financing activity in Romania;
2. Determining the characteristics of financing through financial leasing;
3. Identifying and presenting the financing resources for developing the financial leasing operations;
4. The analysis of the quantitative, structural and value evolution of the financial leasing in Romania, during 2005-2010;
5. The analysis of the efficient use of financing resources of the financial leasing activity within leasing companies and companies benefitting from this activity, in the county of Sibiu.

The paper was conceived with a vision of approach both from the leasing companies’ viewpoint, as financiers, but more especially with a strong approach from the viewpoint of commercial companies, financed through this method, as decisive actors of this operation.

The structure of the thesis is composed of introduction, five chapters, the summary of conclusions, opinions and personal contributions, bibliography, annexes. The topicality, importance, necessity and degree of learning of the researched subject are argued in the introduction, the purpose and objectives of the thesis are formulated and the elements of scientific novelty, the theoretical significance and the practical value of the thesis are presented.

The first chapter of the thesis presents the Theoretical aspects of the financial leasing, as special form of medium and long term financing in Romania. This chapter has been structured by taking into consideration the main elements of the financial leasing, with emphasis on:
1. Conceptual delimitations regarding the financial leasing;
2. The theoretical significance of the financial leasing – special type of financing;
3. Financial, fiscal and legal aspects of the leasing contract – the legal basis of the financial leasing operation;
4. The necessity of financial leasing operations, as a form of trade financing in Romanian practice;
5. The organisation and regulation of financial leasing operations in Romania;
6. The role and place of financial leasing in the medium and long term financing of trade operations;

The range of definitions found in our research is very broad. Even the specialised books currently available define the financial leasing unilaterally, without actually capturing the essence of the phenomenon. There are opinions stating that leasing is a financing operation, while others assimilate it a sale in instalments or with a pure lease (rent) agreement. Well, we do not have the same opinion, we believe that leasing is neither of these operations, but it may have close forms to either of them. Analysing the definitions given to leasing by different authors, despite some differences, we notice that, in essence, they express the same thing: the purchase from suppliers by a specialised (financial) company of some assets and the transfer of the right of use to some beneficiaries, who do not have the financial resources necessary to purchase them directly from the supplier.

In our opinion, the definition of financial leasing is the following: the operation through which one party, called lessor (financier), with property rights of an asset, transfers to the other party, called lessee (user, beneficiary), for a periodic payment, called leasing rate, the right of use over the asset for a determined period of time, and at the end of this period, it transfers it the entire property right.

The most important elements deriving from this definition and which define the financial leasing from other related operations are the following:
1. The lessor remains the owner of the asset that is the object of the lease throughout the entire period of the contract; this also implies that, in case of non-payment of the leasing rates, the
The lessor has the right to withdraw the property;

2. The lessee is entitled to benefit, during the period of the contract, of all advantages of using the asset, at the same time assuming its exploitation risks.

From the economic point of view, financing through leasing can be considered:

⇒ **An external or foreign financing**, according to the origin of the financing source;
⇒ **A long term financing instrument**, in terms of the duration of the financing;
⇒ **An investment instrument**, regarded in terms of exploiting an economic asset.

Specialists in the leasing theory and practice claim almost unanimously that, in the leasing businesses, the primary advantage belongs to the beneficiary of the leasing, who enters immediately in the possession of the financed asset. In fact, the financier, by buying the asset and financing the beneficiary, provides him with the much needed cash to carry on with the basic activities. From the point of view of the economic importance, we believe that leasing is a special type of financing and a financing alternative, as many authors consider it, in some theoretical concepts of literature even being named “financing surrogate”, in addition to the traditional forms of financing.

In our opinion, three particular functions belong to this special form of financing, namely:

1. the financing function;
2. the insurance and risk-sharing function;
3. the service function.

All these functions can be applied to any type of leasing, but we believe that these functions that are not found in any type of financing, traditional or not, induce the special form financing character of the financial leasing. In the case of financial leasing, for the granted financing, collaterals are not required, the asset itself being the collateral. The financier (the leasing company) is a financial specialised company, which has liquidity to finance a business, by the purchase of a requested asset and then transfers the right of use of the asset for a determined period, completed with the purchase of the asset. For the beneficiary, the operation is not a loan transaction, but a special type of financing of the desired asset. In the Romanian economy, leasing financings are a real breath of oxygen for the economic agents, for which investments are an essential requirement for the development of their activities. And since 99% of the economic activities require investments, funding through financial leasing should experience a steady growth. Therefore, by its simplicity, leasing has imposed in our country, too, because, while the competition environment becomes increasingly pronounced, the companies’ speed of reaction to the changes of the external environment is vital. The financial leasing, through its efficiency, meets in very short periods of time the need for investment funds of the economic agents. Moreover, through leasing, the economic agents avoid the complicated procedures of contracting bank loans, procedures involving the immobilization of certain elements from the company’s assets as collateral.

The lease is an agreement whereby the lessor gives the lessee, in exchange of a payment or series of payments, the right to use an asset for a specified period of time. From the viewpoint of the main elements established by the lease, the legislature stated that the parties may also agree to other terms, other than the ones required. This legal provision outlines even better the negotiated character of the lease, the terms established in the light of these mentioned provisions being accessories or optional clauses. We believe that the reason why the legislature has stipulated the possibility to include such clauses lies in the necessity according to which any contract has to include all necessary clauses, so as to limit to the minimum the possibility of litigation related to its interpretation.

The main feature of the lease is “its unusual character” in that it lies somewhere between the rent, purchase and credit agreement, but it should not be regarded as a combination thereof. We
also state, regarding the comprehensive, original, unusual and independent character of the lease, subject to the “sui generis” principle, determined by the characteristics of each element of the leasing transaction.

In general, contracts are carved out on the object of the leasing and on the user (the lessee). The period of the contract, maturity rates, residual value can be freely negotiated by the two parties, so that the terms of the contract meet the best interests and especially their possibilities. There are leasing contracts in which, at the end of the contract, the parties are entitled to choose either to purchase the asset at a residual value, or to extend the contract, or to give up the asset. These types of leasing are part of the financial leasing operations and they are the most popular. In essence, the lessor comes as a financier of the lessee, due to the fact that it is very likely that, even from the beginning of the contract, the lessor shall choose the permanent purchase of the leasing object. Under these circumstances, the lessor is not interested that at the end of the contract to remain in possession of the asset and we might expect the leasing rates to show this. The lessor shall cover during the leasing period all expenses resulting from this operation, and the residual value shall be much lower than the asset’s market value at the end of the contract. In our opinion, the main purpose of the leasing is to provide the beneficiaries’ liquidity, profitability and even stability and financial independence from the banks. The ultimate purpose of this operation is to provide liquidity to ensure an optimal payment capacity for the beneficiary, under the most favourable profitability conditions. We believe that it is a special form of financing, because of the essential differentiation from the traditional financial methods, such as the loan, through the mechanism and particular elements of the leasing.

As far as the object of the lease is concerned, we believe that the lack of a specific enumeration in the Romanian legislation of assets/categories of assets that may be the object of the lease is likely to provide a broad framework to the leasing operations. Object of the lease may be both an existing asset and a future asset, if this shall be produced or delivered by a seller. Since, through the lease, only the right of use is transferred, it is not imperative that the lessor is the owner of the leased asset, at the date of the conclusion of the contract.

We note the fact that the way of organisation, regulation and supervision of leasing depends on the development level of each country’s economy in part, together with the characteristics that reside in the commercial code and the generally accepted customs. The issue of organising the regulation and supervision, already settled in economically developed countries, either through specific rules or generally accepted customs, we believe that it should also be considered by the emerging economies, observing the “initial licence and then monitoring” principle. Moreover, we consider it extremely important that the too strict regulation should be avoided in the regulation activity, which can be determined by the incorrect identification of the features that differentiate at a particular moment the financial leasing from the traditional bank loan. Our opinion regarding the scope of the regulation on operational leasing should include only financial leasing operations and avoid the operational leasing regulation, which in fact belongs to the traditional rental operations.

In terms of taxation, a particularly important role in creating leasing opportunities is held by the government that, through tax incentives, might attract the financing resources by the leasing companies. The legal framework is not a stimulator for the beneficiaries of leasing operations, because, from the amount of monthly rates, only a part is tax deductible, the remainder being paid from the taxable incomes. In addition, the depreciation law is not permissive enough to facilitate recovery during the rental period of the largest party of the products’ value. Under these circumstances, a great number of lessees are tempted to resort to operational leasing, which allows
recording the entire due payment on costs. Moreover, the legislation does not clearly define movable. This is why interpretable objects have been imported in the leasing subject to such operations. The largeness of the legislation regarding the assets that can be imported led to the undermining of the internal market of national producers, which compete with foreign tax free and paid in instalments products.

The theme of the second chapter of our paper, entitled Financing through financial leasing of the trade and investment activity in Romania, and, with regard to this topic, we have presented:

1. Etymology and conceptual dimensions of financing;
2. Characteristics of financing through financial leasing, both from the financier’s and the beneficiary’s point of view and;
3. We have listed the financing resources used in the financial leasing operations, in terms of the economic content, as well as in terms of the two participants to the financial leasing operation;
4. We have revealed the costs of the financing, from both perspectives;
5. We focused on the advantages and disadvantages of this operation, in terms of the beneficiary, as compared to other types of financing. We have chosen the beneficiary’s perspective because the advantages/disadvantages of the leasing activity from the financier’s perspective is focused on the obtained profit / loss as a result of this activity;

The financial leasing allows to easily obtain the right of use of certain industrial equipment whose efficient usage leads to increased productivity for the beneficiary and ultimately to increased profitability. We have identified the main reasons why beneficiaries would choose the financial leasing as a source of forming the company’s capital through a scientific research, whose results and conclusions can be found in this chapter.

The decision to choose the financial leasing, compared to other types of financing, is based, of course, on the comparison of those sources’ costs and advantages, as demonstrated in this chapter. The selection of financing sources is complex because, besides the main reason regarding the cost for purchasing capitals, a series of restrictions regarding the access to capital market occur, the cumbersome legislation, the decision of the competent institutions to approve these sources of financing, the company’s financial situation. For example, only few companies have access to mortgage bonds, namely those who provide sufficient collateral for such a commitment, moreover, such a loan is very complicated in terms of formalities. Most companies are not listed on the stock market and therefore they cannot sell bonds on this market. Thus, there remain only self-financing or the regular bank loan, the leasing or the sale of assets. Therefore, companies can, theoretically finance themselves, choosing among the different instruments the most convenient ones in terms of costs, promptitude, efficiency, however, most often, in practice they do not get the opportunity to choose, either because of the company’s situation, or the difficult bureaucracy, the lack of time to go through all the stages requested by the financier, the costs, etc. Consequently, the financing decision can be burdensome for the company. Creating a flexible financing framework does not mean taking great risks, but giving companies the possibility to explore their potential and to choose and knowingly opt for one of the financing options.

The analysis of the Romanian companies’ capital structure, based on the studies conducted, has led to the following viewpoints:

- Romanian companies prefer firstly their own capital for financing as compared to other sources of capital, namely bank loans, leasing, etc.;
The main causes why Romanian companies prefer their own financing sources are the cost of the capital, the availability of these sources, their own financing policy, the flexibility of the financing process, the impossibility to obtain the needed capital from other sources and the correspondence with the destinations of the capital investments;

The capital raised from owned or borrowed sources has not been significantly used for productive investments in fixed and commercial assets or intangible assets, but rather for the purchase of commercial vehicles and for other unproductive destinations;

From the leasing companies’ point of view, they prefer to finance their activity from medium-term bank loans; the banking leasing companies are advantaged to get certain loans with preferential interests, the captive leasing companies choose, in addition to bank loans, the supplier’s credit (because the producers – owners of these companies – use them only to increase sales), and the independent companies depend solely on the bank loan;

The issues of bonds of the leasing companies have been sporadic and unsuccessful, due to the high level of inflation and of interest rates, as well as due to the investors’ distrust in the listed issuing companies;

There have not been any leasing companies listed at BSE that would use external financing sources raised by new issues of shares.

In our opinion, internal financing is the most spread financing principle of the Romanian companies and it requires that the beneficiary of the financing ensures its development on its own strengths. Although self-financing is a healthy and desirable policy, it is not advisable to over-exaggerate in this direction, not to exclude the beneficiary from the financial market and for a greater mobility of the capital. Fully covering the needs of economic growth from internal sources, the cost for equity may easily be overlooked as compared to the cost of borrowing, creating the misleading appearance that the first would somewhat free. The economic and financial reality shows that, regardless of its origin, the capitals’ cost is equalised, in many cases the cost of equity being even higher than the borrowed one. Thus, we cannot talk about a general optimal level of self-financing policy.

Even if it entails certain costs, the financial leasing is often preferred, because of its simplicity and its effects in time over the beneficiary’s treasury. In general, the leasing company benefits from sufficient guarantees and insurance to cover the beneficiary’s risk of bankruptcy, as against the bank. On the contrary, the bank does not grant credit but under the certain guarantee of refund.

Summarising the advantages of the financial leasing for each operation presented, we can outline them for each of the three participants to the leasing operations:

⇒ The importance for the beneficiary is illustrated by several aspects related to: negotiation mechanisms for paying the leasing rates; the possibility to use several leasing options; the access to advanced development technologies of the activity; the rigorous schedule of expenses and the lack of additional collateral; the possibility of using the asset even after the contract has expired, at lower rates or buying it at the residual value; the payment of certain taxes and excises, for the imported assets, at the residual value, and none the least, a convenient financing of assets and knowledge (know-how) at modest prices.

⇒ For the leasing company (the lessor), the importance is illustrated by aspects related to: obtaining certain additional gains from the equipment’s resale or re-hiring, after the regular contractual period; keeping the right of property of the assets under financial leasing, by guaranteeing the granted financing and facilities for their purchase, when specializing on certain assets or purchasing from the same supplier;
For the *producer* (supplier), the importance of using the leasing operations is expressed by: attracting and gaining new beneficiaries and customers; an efficient marketing technique, which, in addition to the traditional export, led to the leasing one; overcoming certain difficulties related to legislation regarding imports; promoting high quality assets and technologies at high prices and implicitly a higher rate of profitability, than with traditional sales.

As a general conclusion for chapter 2, the leasing operations are an important source of financing of the commercial companies, which allow overcoming the difficulties resulting from a sometime hostile business environment, where financings are limited, expensive and highly bureaucratic.

*The third chapter* of the thesis, entitled *The dynamics’ analysis of the financial leasing activity in the Romanian financing practice (2005-2010)* has considered addressing certain elements regarding the quantitative, structural and value analysis of the financial leasing during the mentioned period.

The analysis is a scientific research method, necessary to any science, used to learn, through the study of elements of different phenomena, processes or objects, about the factors and causes that determined their emergence and dynamics; the conclusions of these studies shall represent the basis of decisions for their future development.

From the distinct approach of the analysis’ definitions, we notice that the level of the economic life or a sector of activity, one can talk about the economic analysis, while, regarding the economic entity, we can talk about the economic-financial analysis of its activity, this aspect’s emphasis being generated by the analysed phenomena and processes.

In order to achieve the analysis of the financial leasing activity *at the national level*, we have considered the following aspects:

- The analysis of the quantitative, structural and value dynamics of the leasing activity, nationally, in the context of the Romanian integration into the European Union; at this level, only the economic analysis is used;
- The questionnaire survey of the leasing activity of 11 leasing companies and of the perception regarding the financing through financial leasing, from the viewpoint of 86 beneficiaries of financial leasing in the county of Sibiu.

We decided that the analysis would not be complete unless we approached the financial aspects in terms of a leasing company and a user (at microeconomic level). Therefore, we determined the dynamics of the analysis indicators for the financier and the influence of the financing through leasing of a user, with clear examples, such as:

- The economic-financial analysis of the leasing activity for the financier;
- The economic-financial analysis of the beneficiary.

The analysis of the *weights of forms of leasing* on the Romanian market has imposed the following conclusions: it can be noticed that the largest proportion (of over 80%) is found at the financial leasing, although other types of leasing have an upward trend, to the detriment of the financial leasing. The operational leasing has reached 14% of the total market in 2009, a significant growth as compared to the previous years. In 2007, the percentage of operational leasing was even more significant, various companies supporting this type of leasing emerging on the market, because, according to NBR, the operational leasing is not subject either to the mandatory reporting requirements, or to the compulsoriness of increasing the capital, restrictions brought by Order 99/2006.
In terms of the dynamics of the number of leasing companies at the national level, we notice that their number has increased every year during 2004-2006, followed by a gradual and abrupt decrease. This is explained by the regulation of NBR on this type of institution, on the compulsoriness to be notified as non-banking financial institutions and the mandatory increase of the capital of 200,000 euro.

Regarding the dynamics of the number of leasing companies, according to the category of the leasing companies, there have appeared and developed the ones subsidiary to the banks, because the banks were not allowed to directly engage into the leasing operations. Characteristic to this type of organisations is that, undoubtedly, they have significant resources from parent companies or other companies in the group, under preferential terms. The leasing companies subsidiary to the banks are the main operators on the national market, they control the market, being able to impose financial terms, structure elements of a complex transactions and also the market’s development rhythm.

In terms of the dynamics of the number of the national leasing companies, we may state that the number of independent leasing companies has known an upward trend, even spectacular during 2004-2007, but with the tightening of this activity’s regulation, imposed by NBR in 2007, the number of these companies began to decrease.

Captive leasing companies, affiliated to producing organisations or those that sell a particular type of products, provide generally fixed leasing schemes, flexibility being practically excluded, in favour of simplicity, volume’s optimization and the abilities to combine different production means with specialised and integrated marketing techniques. Operations carried out by specialised dealers, usually provide greater safety, being the best information source for the user regarding the object of the leasing operation.

Analysing the average duration of the leases, it can be noticed a slight constancy of contracts throughout each period, but with an abrupt decrease in 2005-2006 of those made for a period of 1-2 years. Their decrease during 2008-2010 can be noticed, as a result of the economic-financial crisis, but also the permanent increase of contracts made for a period of over 5 years. These contracts were drawn up for a longer period so that the beneficiary obtains the economic benefits resulting from this investment, and so that he apportions payments over a longer period. With regard to the analysis of the dynamics of the average duration of leases, we consider that this situation can put to the fact that beneficiary companies have understood much better the fact that the payment of leasing rates should be made according to the materialisation of benefits obtained from the investments made through this way of financing.

The average value of the financial leasing contracts made by the company has had an upward trend during 2005-2010 (contracts made during 2008 and 2010 having a positive influence over this value), but the tendency during the following years is of steady decline.

From the analysis of the qualitative structure of the leases there can be noticed the upward trend of the equipment leasing throughout the analysed period, except for 2009, when it decreases by 3% mainly because of the unfavourable economic evolution. On the other hand, the leasing of vehicles decreases from year to year, although its share in the total leasing market remains at a very high level, representing 82.4% in 2005, 75% in 2006, 68% in 2007, 70% in 2008 and 63% in 2009 and 2010. The greatest decrease is in 2009, in trend with the general evolution of the leasing market. Regarding the real estate leasing market evolution, this is constantly increasing, even in 2009, when it increased by 10% as compared to 2008. The equipment’s weight increases significantly (up to 20%), which makes us state that although in times of crisis, companies have
realised that financing through leasing of equipment should have priority over the other categories of assets.

The analysis of the leasing market’s value structure in Romania has convinced us that the market value of the financial leasing in Romania has dramatically dropped during 2009-2010, due to the difficult economic-financial situation and the restrictive legislative measures imposed by the government have not helped the leasing companies.

Most Romanian companies have diminished or suspended investment budgets since 2009, due to the economic-financial conditions. The negative impact of those constraints is the decrease of production, knowing that any reduction of productive investments leads in time to the decrease of incomes and implicitly to the reduction of production. The issue should not be overlooked by the government, since statistics show this harsh truth. We believe that certain facilities to the leasing of equipment should be considered by the administration.

Financing needs of the individuals consist mostly of leased vehicles, and during the economic and financial crisis they reduced the costs regarding these investments and they have probably given up the financing of other vehicles, preferring to use the old ones. Limiting financing through leasing of public institutions from budgetary financing, in which every investment is provided with a period of time in advance and if there is the possibility of budgetary financing, the purchase of that asset is favoured, rather than the financing through leasing. However, it can be noticed that in 2010, the public institutions’ financing percentage has doubled, although the amounts are modest in value, of only 15,6 mil. Euro, but up from the previous year, the reasons also being of budgetary order. The insufficient budgetary sources have convinced the public institutions to choose other methods of financing their investments.

As a general conclusion of the financial analysis of the leasing activity at a national level, the decrease on non-banking financing sector is based on the following considerations: VAT increase, which involved the increase of the financing costs of the purchase (for individuals) and the decrease of the beneficiaries’ payment capacity; the raised unemployment to 7,4%; the decrease of purchase power and of consumption by 2,3%; the strong decline of the fields financed by leasing: real estate (-12%), the automotive industry (-40%), service industry (-2,2%); retroactive and sometimes abusive collection of taxes to the public budget (especially customs duties for cancelled leases); frequent changes of the legislation, by retroactive enforcement of certain taxes that lead to the increase of costs for financiers and their customers; the decision of the Constitutional Court no. 458/2009 on the approval of enforcement procedure, which led to the encouragement of fraud and of an inappropriate payment behaviour, as well as the increase of provision and operational costs for beneficiaries, and also the increase of the number of leases in enforcement proceedings (over 9000 files). All analysed aspects show a shift of users’ interest towards large and long-term investments (industrial equipment, land and buildings) due to the 6% national economy’s rhythm of increase during 2005-2008. This economic growth was sustained especially by investments, which, in their turn, have also been financed through leasing transactions. Investments, as a component of the gross domestic product, have had the fastest growth in 2007, driven by the effervescence in the constructions field and the infusions of capital in national infrastructure. Foreign investment flows have been attracted to Romania, both because of the improvement of the business environment, after the adhesion to the European Union and because of the attractive flat income tax system so far.

In the fourth chapter, entitled The analysis of the economic-financial efficiency of leasing operations at the level of the financier and user (on the example of 11 leasing companies and 86 beneficiaries of financial leasing in Sibiu), we have presented several considerations regarding the
term of efficiency in terms of financial leasing. Therefore, the following aspects have been considered:

1. The conceptual definition of economic and financial efficiency;
2. Characteristics of economic and financial efficiency in the financial leasing;

aspects resulting from the two case studies, one regarding the financier and the other regarding the efficiency analysis of some companies beneficiaries of financial leasing, selected from Sibiu district.

Economic efficiency is a complex assembly of causal relationships between the economic effects (positive and negative) of an activity, obtained both by the entrepreneur of the action and also effects which are in a particular correspondence to the social need and the total costs supposed by their development. The effects and effort are comparable, the relation between them showing what effect we might get from a material and financial effort.

The paper deals with the subject of financial leasing in Romania, in the context of EU integration, thus an economic activity, whose efficiency we are considering in terms of the use of financing resources. Or, usually financing from different sources basically has in view obtaining the favourable economic effects. In our opinion, economic efficiency is the positive result (expressed in economic substance) of the comparison between the more important economic effects of an activity and the efforts to achieve this activity. We can not dwell on the definition, by antithesis, of the economic inefficiency, as the negative characteristic of an activity, reflected by the negative result between the economic effects and the efforts to achieve this activity.

By efficiency of using the financing resources we understand in fact the economic efficiency of the activity, measured after the activity. In other words, unlike the investments efficiency, which tries to determine their efficiency before their achievement, the economic efficiency of using the financing resources uses achieved, obtained, determined values.

With regard to financing companies, having as object of activity the financing through leasing, the studied period was 2005-2009, this one being the last year included in the research, because, at the date of the thesis’ drawing up, the financial statements for 2010 were not drawn up and published. As a basic factor that might influence the results’ comparability, the companies’ economic life duration was identified, selecting only existing leasing companies over the period 2005-2009, with no interruption in their activity.

The average rate of profitability for the financing companies has a tendency to decrease; during the analysed period it drops from 4.93% in 2006, to 0,04% in 2009. This tendency is caused by the increase of the assets’ value, as compared to the continuous decrease of the financial year’s gross result. During the first interval of the analysed period, companies manage to make profit (10 of the analysed companies having a positive net result). In the year, the average rate of profitability reaches 4,93%, mainly due to the increase of the gross profit from that year. But in the following years, the average rate of profitability decreases, reaching a minimum rate in 2009, due to the decrease of the gross result and the increase of total assets, as well as to the deepening of the causes determined by economic crisis (the increase of the unrecovered debts from customers, the increase of the assets generated by the recovery of leasing objects form insolvent customers, etc.). To conclude, in 2005, the economic profitability rate for financing companies was good, the generated effect (the gross result) by using the net assets being positive. In 2006, the economic profitability rate was very good; in fact, this is the best interval of the entire analysed period. In 2007, the general reasons that led to the decrease of economic profitability rate are the compulsoriness to make risk and expenses provisions, elements that have influenced in a negative manner the gross result of the financial year, by the increase of costs and possible increases of total assets, by
increasing current assets, issues noticed from the study of the three companies’ financial
documents. In 2008, the leasing market has decreased substantially, thus diminishing the demand
for these financial services, and the change of the reporting system of the financial statements
influences negatively the gross result of each company. Although the economic profitability rate in
2009 is the lowest of all analysed period, the number of companies with negative profitability is
minimal, demonstrating that the other companies have adapted to the quite harsh economic
conditions of that period of financial and economic restrictions, by developing new financial
activities (possibly short-term leases or sale of vehicles imported into the European Union), thus
demonstrating that they can survive.

The average financial profitability rate of the financing companies had a decreasing
tendency during 2007-2008, from 17.67% in 2007, to -38.14% in 2008, due to the increase of the
equity, as compared to the decrease in size of the financial year’s net income. The decreasing
tendency is caused by a reduction of the financial year’s net income as against the increase of
equity. The of 38.14% negative value in 2008 of the average financial profitability rate, shows a
financial inefficiency of the analysed companies’ activity, an investment in a bank deposit during
this period being better. In 2009, the financial profitability rate grows up to 22.96% which makes us
state that financial companies have found solutions for financial recovery, a statement that is
consistent with the conclusions from the previous chapter. In 2005 and 2006, the financing
companies’ financial profitability rate is better than the economic profitability rate, equity being
sufficiently remunerated, over the equity’s rate paid through interests on the market (%). In 2007, as
in the case of the economic profitability, the general reasons that have caused this situation might be
the compulsoriness to make risk and expenses provisions, elements which have influenced
negatively the net income of the year, by increased expenses, aspects noticed from the study of
financial documents of the three companies. In 2008, the leasing market decreased substantially (by
over 30%), thus diminishing demand of these financial services, and the change of the financial
statements’ reporting system influences negatively the gross income of any company. Although the
financial profitability rate in 2009 is quite low, the number of companies with a negative
profitability is minimal, demonstrating that the other companies have adapted to the quite harsh
economic conditions of that period of financial and economic restrictions, through the development
of new financial activities, such as short-term renting or sales of vehicles imported into the
European Union.

The average commercial profitability of financing companies has a downward trend; during
the analysed period, it drops from 65.67% in 2005 to 9.53% in 2009. This tendency is due to the
more abrupt decrease of the turnover, as compared to the increase of the net income. In the first
interval of the analysed period, most companies managed to gain profit (the average rate being of
65.67%). In the following year, the average profitability arte drops to 5.17%, mainly because of the
decrease of the turnover to 86% of that year, as compared to 2005. The commercial profitability
rate in 2005 is very good in comparison to any other analysed year, being in fact the year when
financing through leasing in Romania has had the highest value. With minor exceptions, most
leasing companies have made profit, the net income of the year being positive. To conclude, we can
state that in 2005, the commercial profitability rate was excellent, the effect (the net income)
generated through turnover being positive. In 2006, the commercial profitability rate was good, as
the other profitability rates, the leasing market already becoming mature and the financial
companies performing this activity managing to gain positive financial income. As in the case of
economic and financial profitability, the general reasons that led to this situation might be the
compulsoriness of establishing risk and expenses provisions, elements that have influenced
negatively the net income of the financial year, by increased expenses, aspects considered from the study of the financial statements of the analysed companies. In 2008, although the leasing market has substantially decreased (by over 30%) and the change of the reporting system for the financial statements which influences the net income negatively, the financial companies, by the increase of their turnover and eventually by reducing their margins have tried to counteract the effects of the financial crisis and the lack of liquidity on the market, and still generating a positive commercial profitability rate. Although the commercial profitability rate in 2009 is constant, the number of companies with negative profitability is minimal, proving that the other companies have adapted to the quite harsh economic conditions of this period of financial and economic restrictions, by developing new financial activities, such as short-term rental or sales of imported vehicles into the European Union.

We can notice that a financial profitability rate of the financial companies with leasing activities that is higher than the market interest rate has been obtained between 2005-2006, a period during which the equity invested in this field are paid above the market level, but starting with 2007, this rate begins to decrease and the equity of this activity are no longer paid accordingly. The average value of the commercial profitability rate is mostly over 5%, a reduced value as compared to the average turnover value. The commercial activity of the leasing companies is quite inefficient although the turnover average is substantial; still, the net profit obtained from their activity is insignificant.

For the companies financed through leasing, the analysed period was 2005-2009, this being the last year included in the analysis. As main factor that might influence the comparability of the results there has been identified the companies’ economic life expectancy, by selecting the existing 2005-2009 companies, without interruption in their activities, using the same reasoning as the case study regarding the leasing companies.

**The average economic profitability rate** of the commercial companies financed through leasing, there is a downward tendency; in the analysed timeframe, it drops from 8,15% in 2005, to -3,58% in 2006, with a recovery tendency in 2007. The downward trend is determined by the accelerated increase of the assets’ value, as compared to the size of the gross income of the financial year, noticing an increase of the assets from one year to the other, with few situations of asset value decrease.

**The average financial profitability rate** in the commercial companies financed through leasing has a downward trend during 2006-2009, from 94,99% in 2005 to -107,01% in 2009, caused by the increase of equity, compared to the decrease of the net income of the financial year. The downward trend is determined by a decrease of the net income of the financial year as against the increase of equity value.

**The fixed assets’ rate** in the commercial companies financed through leasing has a downward trend during the analysed period, from 1250,78% in 2005 to 642,10% in 2009, this decrease being caused by the accelerated rhythm of the fixed asset increase, as compared to the turnover. In 2009, the fixed asset rate increases as against 2008, due to the reduction of their net value, under the circumstances of maintaining a constant turnover.

**The rate of current assets** of the commercial companies financed through leasing has a downward trend during 2005-2007, from 635,87% in 2005 to 369,37% in 2007, this decrease being caused by the accelerated rhythm of the current assets’ increase, as compared to the turnover; in other words, either stocks have skyrocketed, or unpaid debts have generated a decrease of the rate. In 2008 and 2009, the current asset rate increases from 658,47% to 999,78%, due to the decrease of their net value and we can explain this phenomenon by the companies’ concern to give up stocks
and by a rapid collection of debts, under the circumstances in which the turnover decreases or remain constant.

The financial leasing is a special form of financing with major advantages, but if it is not used sufficiently or if it is used only to finance vehicles, its full potential shall not be used. We are making this statement because, from the presented analysis, a spectacular efficiency has not yet resulted from using this financing resource within commercial companies in Sibiu district. The values presented by the indicators offer a clear image of these companies’ activity, in our opinion it is unlikely to generate substantial incomes needed for future development. The obtained results cover, in some cases, only the expenses and they generate only a symbolic profit for the owners. It looks like investors have little resources to invest, and still these capitals are not properly used.

The fifth chapter of this paper, entitled Possibilities of the financing activity through financial leasing, according to Romania's European integration concludes our study through the practical solutions offered for the improvement of this financing activity.

Starting from the premise that the improvement of the financing activity is a necessary condition for Romania’s integration in the E.U., we have presented the economic and political conditions of the Romanian integration and later, we focused on the avenues to improve the financial leasing, from several important perspectives:

⇒ In terms of the legal and fiscal framework;
⇒ From the viewpoint of leasing companies;
⇒ From the viewpoint of the leasing beneficiary.

An avenue for improving the financing offered to the leasing companies, in the context of Romania’s integration in the E.U. is the attraction of capital from international financial institutions. Another possibility to improve financing of leasing companies would be the increase of the institutions financed through leasing companies’ capital, according to the European requirements in the field, where, lately its increase has been considered to the level of 1 million Euros. As the financial capacity of every leasing company is given by their capital’s value, we consider that this limit is insufficient related to the complexity of the assumed operation and the transaction risks.

The European Union suggests the need for a European legislation and of certain common standards, with regard to the leasing companies. It should be noticed that an increased emphasis is put on the implementation of the Basel II Treaty, which refers to the leasing operations so that the term of adjustment of capital becomes more and more current.

Another possibility to improve the financing of the leasing companies is to use the resources attracted from the capital market, either Romanian or European, through public issuances of bonds. This market can become an excellent financing source throughout its development. Bond issuance has a low degree of risk as compared to the issuances of the companies from other fields of activity. The funds obtained from bonds, used to make leases, whose rates cover the rates and loan interests and provide a constant cash flow (unlike other fields of activity, where the cash flow and the profitability rate are difficult to assess).

But the most important stimulating role to develop the financial leasing is held by the government, which, by fiscal facilities might attract financing resources of leasing companies. One of the fiscal methods to improve the financial leasing activity proposed by us is to change the fiscal legislation on the VAT. Therefore the VAT is paid in instalments, at every lease billing rate, and therefore it can be regarded as an interest-free financing; according to the regulations in force it
cannot be deductible (for the legal entities) at the residual value, which increases the leasing costs. For individuals, the 24% increased VAT raises the financing costs, which significantly reduces the number of contracts made by the users. We suggest that the VAT for the Romanian products (as object of the financial leasing contracts) is not paid but at the residual value of the contract. The objects of the financial leasing (equipment and machineries) manufactured in Romania, contracted by the financiers and intended to be used by Romanian beneficiaries are to be exempt from VAT payment during the financial leasing contract, and at the end this tax is to be paid only at the residual value. The proposed legislative amendment shall allow the development of the financial leasing industry and especially the increase of the Romanian equipment manufacturing.

The practical importance of the conducted research is expressed in that the ideas presented and the conclusions drawn in the doctoral thesis have been included in the published scientific articles – in a total number of 84 papers, published in scientific papers, journals indexed CNCSIS B+ and ISI (13), in scientific papers published in annals, university scientific bulletins and international conference proceedings held abroad or in Romania (23), in scientific papers published in national specialised journals and local conference proceedings (48). Our conclusions and suggestions can be useful in the improvement process of the financial leasing legislation in our country, in the contractual practice of the leasing companies or of the leasing beneficiaries, as well as in the scientific and academic activity.

No less important is the fact that the ideas and concepts presented in our thesis may serve as an impulse for carrying out further investigations and studies in the field of financial leasing operations. We hope that this paper initiates a future constructive research of the financial leasing in terms of new recommendations and our research shall be continued either at a local or national level.

As in any paper, at the end, we have drawn the following conclusion: the financial leasing is not used in Romania at its fair value. We believe – at least with regard to the financial leasing – that the experience of developed economies can be an example to be followed. Not accidentally, the economic growth of developed countries was mostly due to the encouragement of any type of leasing. Incentives, especially the fiscal ones, given to the leasing companies have led to the effervescence of the phenomenon, therefore developing a real industry. It must be well understood that eventually users shall benefit from any type of facility of the financial leasing. And the Romanian government shall also benefit from this. Unfortunately, in Romania, we cannot talk about a stimulating, legal and fiscal framework regarding the financial leasing; without exaggeration, we would like to suggest that changing this situation might be one of the ways of economical integration in the E.U.