



ALTERNATIVE FINANCING IN THE AGRICULTURAL SECTOR FINANCIAL LEASING VS. INVESTMENT LOAN

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Summary: Romania has made great strides in the context of European integration, and agriculture is a priority direction of development. Romanian agriculture is vital transformation into an engine of economic growth. The economic growth of this sector can be achieved through intense funding, where the main source of financing leasing is found. The main objective of this article is to provide a comparative analysis between financial leasing and credit financing for investment sources used in agriculture.

Keywords: finance, financial leasing, credit, investment, agriculture, costs.

Technical progress that characterized the second half of the twentieth century was necessary retooling of production lines, which resulted in finding more and more ways and financing instruments. The speed with acting wear and tear of the means of production, leading to the need to replace them with modern and sophisticated equipment, ensuring competitiveness in the national and international market. In this context it has promoted the hiring of means of production, as Aristotle said "wealth is not measured by title deeds, but through effective use of things, even if they are property of others" .

Literature classifies sources of business financing as ways of securing funding namely internal financing, external financing.

In the category we find external financing and leasing bank credit, which in the theoretical understanding, is a method of financing by nature rental credit for the movement of goods or services.



In 2015, 24% of leases of equipment were directed towards the agricultural sector, down to 2% from the previous year. There has been an increase in the financing of equipment used in construction, furniture manufacturing and printing and medical equipment.

Given that agriculture equipment finance occupies the largest segment, I consider conducting a comparative study of interest between financing through leasing and financing through bank credit by evaluating the advantages and disadvantages of the two sources of funding.

The literature claims that a comparative analysis conclusive between the two sources of funding can be achieved only if an entrepreneur has the 100% financing through leasing, and another with the same type of activity has 100% financing through loans banking. From my point of view such a comparison is difficult, therefore, the case study will examine the decision to grant an operator wishing to purchase production equipment by presenting advantages and disadvantages of leasing versus bank loan.

Analysis of financing alternatives

We consider a company operating in the agricultural sector. Working for land preparation, sowing, harvesting, etc., plans to procure a next-generation tractor to match its technical needs. Analyzing the product offerings available to the market, entrepreneurs indicated as suitable a John Deere 6175R agriculture tractor, manufacturing year 2015 amounting to 196.837 Lei.

Since the company did not have sufficient own financing sources, will be analyzed further as alternative financial leasing and credit financing for investment.

Operation cost of leasing vs. credit operation

World literature has demonstrated a keen interest in this great character of leasing considered a financing instrument in continuous development and improvement. However, a not insignificant disadvantage is the high cost of the operation, leasing is known as the most expensive form of financing. In the example shown, I will analyze in terms of costs, the two forms of finance, finance lease and loan provided by Raiffeisen Leasing Investment SME Flexi Credit, Raiffeisen Bank offer.

Using actual data, financial-banking market, we dismantled the hypothesis that an operation lease is not necessarily more expensive than bank lending. Of course, this is a unique case, the result being obtained without carrying out an analysis of the financial-banking market in Romania. Choosing banking institution or the leasing company it was made on the grounds that belong to the same financial and banking group so minded, have



the same values and the same philosophy: accessibility, efficiency and confidence. For investments, we obtained the following data:

	Financial leasing	Credit for SME investment
Value input	196.837 lei	196.837 lei
Advance	19.684 lei (10%)	29.526 lei (15%)
Financed value	177.154 lei (90%)	167.311 lei (85%)
Total Contract Value	219.486 lei	240.270 lei
Difference in favor of leasing	20.844 Lei	

Table 1.1. Tabulation

The result demonstrates the need for a thorough analysis of the possibilities of financing, as the economy is in constant development, while investors remain followers of conception, often wrong, perpetuated over time, such as the cost of the lease.

Debt financing presents a significant advantage, namely that the period of lending is longer than the lease term. The investment loan is granted for a period of up to 15 years, so if the financed amount is raised, the burden falls through a gradual long rates.

Besides cost issues and tax issues are frequently mentioned in the business practice of leasing as positive factors in shaping the costs. Indebtedness is determined as the ratio of borrowed capital with repayment period of over one year and equity as the average of existing values at the beginning and end of the period for which the tax is calculated profit.

In case, the business entity contracted and other loans, risk can not deduct interest costs from the calculation of taxable income, if exceeded the threshold set by the Fiscal Code. As a result, leasing presents a significant tax advantage to the credit because the leasing rates are recorded as expenses and VAT is charged progressively during the contract and customs duties are calculated only for the residual value of 20% at the end of the contract.

Conclusions

Nowadays, a percentage of 29% of the population is employed in agriculture, while the European average is around 5%, which illustrates a structural imbalance and a very low labor productivity. However, important agricultural areas remain fallow, while on the national, European and world demand for food is steadily increasing.

These are prerequisites requiring Romanian agriculture industrialization and modernization of rural infrastructure. The main source of financing is leasing in



agriculture, therefore we conducted a comparative analysis of actual data, on financial matters, between leasing and bank credit.

Following the analysis of the two sources of funding accounted for the agricultural sector, financial leasing has many advantages both in terms of the cost of financing and tax credit to investments. Furthermore, we have demonstrated that financial leasing operation is more expensive than bank lending. At the same time, leasing has several tax advantages sought by businesses. For example, since the payback period is less, the value of amortized greater or basis for calculating the tax decreases, given that the International Accounting Standards recommended that depreciation be done during the shorter of the lease and the period of useful life of the asset.

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