

**AREAS OF STATE REGULATION AND MARKET SUPPORT OF LEASING SERVICES****Demianchuk Marina***Odessa I.I. Mechnikov National University, Ukraine, e-mail: ma-demyanchuk@ukr.net***Rima Tamošiūnienė***Vilnius Gediminas Technical University, Lithuania, e-mail: rima.tamosiuniene@vgtu.lt***Viktor Koval***Odessa Institute of Trade and Economics of Kyiv National University of Trade and Economics, Ukraine, e-mail: koval@tu.ukr.net***Sigitas Davidavičius***Vilnius Gediminas Technical University, Lithuania, e-mail: sigitas.davidavicius@vgtu.lt***Abstract**

*In the conditions of the development and the continuous improvement of technologies, business entities have to be constantly updated to maintain competitive advantage. However, their high cost keeps entrepreneurs from investing money. The state should help to solve this problem in order to support and develop domestic economic entities of various economic activities. Taking into account the existing researches on these issues, the purpose of the study is to substantiate the directions of state regulation and support of the leasing services market in Ukraine, the achievement of which necessitated the solution of such basic tasks. Therefore, SWOT-analysis of the leasing market of Ukraine was included in this work, which shows that the advantage of qualitative characteristics of internal strengths and opportunities over weaknesses and external threats makes it possible to predict the further growth of the domestic leasing market of services in the near future. This, in turn, has revealed the advantages and disadvantages, obstacles and measures to enhance leasing development in Ukraine and to determine the objective and subjective factors of the development of leasing relations in modern business. The conducted researches have allowed establishing potentially possible directions of state regulation and support of the market of leasing services in Ukraine.*

**Keywords:** leasing, SWOT-analysis of the leasing market of Ukraine, state regulation of leasing.

**INTRODUCTION**

At the present stage of development of market relations, each organization sooner or later comes to the decision on diversification of activity, expansion of a product line, scaling of business. Domestic small and medium-sized businesses lack equity to develop, acquire new equipment and use new technologies. Therefore, it is important to choose the optimal structure of forms of financing. Business entities are financed at their own expense and raised. The high cost of bank credit resources, financial condition and insufficient level of creditworthiness of domestic SMEs necessitated the introduction of effective and affordable financing methods for renewal of fixed assets and production development, which include leasing. Therefore, with the increase of financial literacy of the population of Ukraine along with the use of universal financial services, the interest in the services

of non-bank lending institutions, such as leasing companies, has increased recently. The growing importance of the leasing services market in Ukraine is due to the fact that leasing is an alternative to bank lending and an effective tool in the process of effective renewal of fixed assets and technologies of enterprises of all areas of economic activity. An important condition for the development of the leasing market in Ukraine is to stimulate business activity of participants in leasing agreements.

Significant contribution to the formation and development of the theoretical and methodological foundations of leasing relations, the study of problematic aspects of the formation and development of the market of leasing services, leasing relations, the interaction of banks with the leasing business, organization of leasing as an independent financing instrument made by foreign and

domestic scientists, are discussed in scientific works presented by scientists Demianchuk and Nagornyy (2017), Zakirova (2015), Borisyyuk and Mishchanchuk (2014), Borisyyuk and Humeniuk (2014), Remeikienė, et al. (2016), Skvarciany and Jurevičienė (2017), Maknickienė et al. (2018), Vicianová et al. (2017) and others [1, 2, 4, 8, 12, 13, 14, 15]. However, despite the considerable amount of work on this issue, it is necessary to constantly monitor the development of this market and find ways to develop in the changing environment.

## EXPOSITION

The purpose of the study is to substantiate the directions of state regulation and support of the leasing market in Ukraine, the achievement of which necessitated the solution of the following main tasks: 1) to conduct a SWOT Analysis of the leasing market of Ukraine; 2) to reveal advantages and disadvantages, obstacles and measures of activation of leasing development in Ukraine; 3) to determine the factors of development of leasing relations in modern business.

In the process of conducting an economic assessment of the development of the leasing services market in Ukraine, it has been found that companies owned by international financial groups are stable in the leasing services market, which can count on the support of maternity entities and banks, which through leasing operations have expanded the number of their services and can faster and more profitable to solve the problem of mobilizing funds for the purchase of property that will be leased.

In modern conditions, the development of international leasing, as a modern form of international credit, contributes to the general tendency of world economic development, the processes of internationalization of production and capital, international economic integration, the reduction of circulation of liquid funds in the money market, and also promotes competition. If necessary, the implementation of projects that require more financial resources than other types, use international leasing. It is important to note that the main prerogative of international leasing is that it does not affect the country's solvency and does

not increase the country's external debt. It is leasing that enables access to foreign engineering developments, transforms advanced technologies from developed countries to countries with scarce innovation resources, and also enhances competitiveness between sources of funding and allows for changing forms of investment.

Today, leasing services are widely represented only for legal entities, and no more than 10 companies deal with individuals. Many have curtailed such operations in connection with the crisis and because of the rising cost of a resource that makes leasing operations for individuals financially unfeasible. Examining the modern aspects of leasing services in Ukraine, we can conclude that leasing is a promising industry. Given the current economic situation in Ukraine, only banking institutions can act as the most viable entities that can provide leasing services. Promising and relevant in this context is the study of the creation and development of leasing companies that are controlled by banks.

Having conducted a detailed study of the leasing market in Ukraine, it was determined that the main trends of this market are:

- decrease in the number of leasing companies actively financing transactions;
- focusing on efficient management of existing portfolio and maximizing return on previously invested financial resources;
- agricultural sector as the main client of leasing companies;
- concluding agreements on single and highly liquid items (agricultural machinery, cars);
- cooperation only with stable companies that have been successfully operating on the market for at least 3 years;
- active sale of removed items for re-leasing or sale.

For a more detailed analysis of the leasing market of Ukraine, we draw up a SWOT Analysis Matrix (Table 1). The formed matrix of SWOT-analysis of the leasing market shows that the advantage of qualitative characteristics of internal strengths and opportunities over weaknesses and external threats, which allows to predict the further growth of the domestic leasing market of services in the near future

(1-2 years), ie, the positive speakers.

companies, appropriate macroeconomic

To activate the activity of leasing

**Table 1. SWOT Analysis of the leasing market of Ukraine**

Strengths	Weaknesses
<ol style="list-style-type: none"> <li>1. State support for leasing programs in priority sectors of the economy.</li> <li>2. When implementing leasing projects, tax, customs, investment privileges and preferences are granted.</li> <li>3. Public-private partnership in leasing operations.</li> <li>4. Simplification of judicial and administrative procedures for the removal of the leased asset from irresponsible lessees.</li> <li>5. The growth of the national economy.</li> <li>6. Reducing the unemployment rate.</li> <li>7. Activation of lending by commercial banks.</li> <li>8. Rapid updating of the material and technical base.</li> <li>9. Testing of new equipment and advanced technologies.</li> <li>10. Covering seasonal needs for special technical equipment at the time of their actual operation</li> </ol>	<ol style="list-style-type: none"> <li>1. Low level of stability in the market of commercial leasing companies.</li> <li>2. Lack of "long" and "wide" money in the investment process.</li> <li>3. Lack of qualitative and reliable statistical reporting information.</li> <li>11. Very narrow base of financing of leasing companies.</li> <li>12. Obsolete regulatory framework for leasing.</li> <li>13. Discriminatory taxation, in particular VAT on leasing items.</li> <li>14. Disadvantages of the judicial system, allowing the debtor to use the car without payment.</li> <li>15. Activity in the market of fraudsters who pretend to be professional leasing companies.</li> <li>16. Absence of long-term hryvnia funding.</li> <li>17. Absence of privileges for the formation of leasing and strengthening its position in the financial services market</li> </ol>
Opportunities	Threats
<ol style="list-style-type: none"> <li>1. Use of leasing programs for effective development of strategic national, sectoral and regional development programs.</li> <li>2. Implementation of new leasing programs, products and services that are competitive with world leaders.</li> <li>3. Diversification of sources of financing of leasing activity.</li> <li>4. Creating positive conditions for active attraction of foreign investments.</li> <li>5. Improvement of the legislative framework and its harmonization with international norms.</li> <li>6. Reducing the cost of credit resources, which would not exceed 20% per annum, to ensure the effectiveness of leasing operations.</li> <li>7. Reduction of the cost of notarial services for execution of the lease agreement in order to reduce the financial burden on the leasing participants.</li> <li>8. Promoting the development of infrastructure for the leasing market.</li> <li>9. Development of a system of guarantees and insurance of leasing items.</li> <li>10. Develop a set of measures to increase foreign investment.</li> <li>11. Increasing the interest of banks through the system of long-term leasing loans.</li> <li>12. Creating leasing centers that specialize in leasing services to support start-ups and small businesses.</li> <li>13. Formation of a database of supply and demand for equipment, transport and equipment</li> </ol>	<ol style="list-style-type: none"> <li>1. Entry into the Ukrainian market of strong foreign leasing companies.</li> <li>2. Frequent changes in the leasing legislation (regulations).</li> <li>3. Instability of the national currency.</li> <li>4. Increase in inflation, which leads to a rise in the cost of attracted financial resources.</li> <li>5. Downgrading of the country on the international scene in the sphere of lending and leasing</li> </ol>

Source: compiled by the author.

conditions are required, which implies a decrease in the NBU average rate on all instruments, growth of the national economy, reduction of unemployment, activation of lending to commercial banks. In addition, appropriate institutional conditions are needed, which determines the need for deep reforms in the state policy of regulating the domestic leasing market, improving the regulatory and legal support for the protection of legal and property interests of participants in the leasing activity, accounting and tax accounting of these operations, mechanisms of bank lending to lessors.

Leasing as a way of financing has gained popularity due to a number of advantages over other forms, but despite all its advantages, leasing has several disadvantages and obstacles that hinder its development in Ukraine (Table 2).

For Ukraine, which is in dire need of updating fixed assets in all sectors of the

economy, the need to develop the leasing market is particularly urgent. For the rapid development of the leasing business, a system of organizational and economic measures should be developed and implemented to stimulate and support state leasing in Ukraine. Only in this case is possible the rapid growth of such a much needed type of business, with the help of which a dual purpose is achieved: expanding markets for production of products, reviving the activity of manufacturers of means of production, and business entities of the market, including new entrepreneurial structures, will have the opportunity to develop their production base. The active use of leasing can be a powerful impetus for technical development and contribute to the structural restructuring of the economy.

In addition, Ukrainian banks and their leasing companies face the problem of shortages and the difficulty of attracting long-

term financial resources, obtaining guarantees or insurance services. In contrast, foreign

leasing companies do not have such problems and have considerable capital and good

**Table 2. Advantages and disadvantages, obstacles and measures of activation of leasing development in Ukraine**

Benefits	Disadvantages
<ol style="list-style-type: none"> <li>1. Expansion of production without significant simultaneous costs and the possibility of periodically updating outdated equipment.</li> <li>2. Release of equity to finance production needs.</li> <li>3. Mitigating the problem of liquidity constraints, as the cost of acquiring equipment is evenly distributed throughout the lease term.</li> <li>4. Simplifying the planning of financial expenses through a fixed schedule of payments.</li> <li>5. Leasing payments, as a rule, begin after the delivery, adjustment and commissioning of the equipment, enabling the lessee to pay at the expense of the proceeds from the sale of products manufactured on this equipment.</li> </ol>	<ol style="list-style-type: none"> <li>1. The tenant does not benefit from an increase in the residual value of the equipment (in particular through inflation).</li> <li>2. If it is a financial lease and scientific and technological progress renders the product obsolete, but the lease payments are not suspended until the end of the contract.</li> <li>3. The complexity of the organization.</li> <li>4. The cost of leasing is more than a loan, but it should not be forgotten that the risk of outdated equipment lies with the landlord, and therefore he charges a large commission for compensation.</li> </ol>
Obstacles	Activation measures
<ol style="list-style-type: none"> <li>1. Limited access of cheap leasing companies to domestic leasing companies, which results in high cost of leasing services.</li> <li>2. Taxation of commissions and interest on leasing contracts with value added tax.</li> <li>3. Discriminatory provisions against the national manufacturer: equipment that a foreign manufacturer can supply to a Ukrainian consumer directly, the Ukrainian manufacturer is obliged to provide only through an intermediary.</li> <li>4. Limited access to the leasing market for leasing companies.</li> <li>5. Ineffective rates of depreciation on leased items.</li> <li>6. The inconsistency of domestic legislation with international norms of leasing legislation.</li> <li>7. The inconsistency of the legal framework of the functioning of the leasing market.</li> <li>8. Complexity of mechanisms of transfer of ownership under leasing contracts.</li> <li>9. Lack of government programs to promote leasing as a source of renewal of fixed assets.</li> </ol>	<ol style="list-style-type: none"> <li>1. Reducing the cost of credit resources to a level not exceeding 20% per annum, to ensure the effectiveness of leasing operations.</li> <li>2. Reduction of the cost of notarial services for execution of leasing contracts in order to reduce the financial burden on the participants of the leasing agreement.</li> <li>3. Provision of tax privileges for international leasing operations for the import of high-tech equipment into the territory of Ukraine.</li> <li>4. Creation of leasing centres that would specialize in servicing small businesses.</li> <li>5. Organization of departments for the formation of a database of supply and demand for equipment and equipment at regional leasing centres.</li> <li>6. Develop a state-owned leasing support program that would involve the banking sector in leasing development.</li> <li>7. Reforming tax legislation with regard to leasing incentives.</li> </ol>

Source: compiled by the author on the basis of data generalization [1, 2, 4-7, 9-11, 15].

reputation. It is likely that when the macroeconomic situation in Ukraine stabilizes and existing legislation governing these activities is improved, their presence in the regions of Ukraine will increase significantly.

In doing so, banks must obtain appropriate rights to grant their subjects leasing activities preferential and interest-free loans. In addition, the costs of insurance for the leased asset are not included in the costs, if their amount exceeds 5% of the total gross expenses in the tax period lasting one year. In our opinion, this legislative restriction should be eliminated, which will stimulate the activity of banks in the sphere of leasing business.

In order to stimulate the participation of banks in the process of financial leasing, tax privileges (on payment of income tax) should be provided to banking institutions in carrying out their long-term leasing operations for such priority and promising areas of the economy as

agriculture, transport, aviation and construction industry, oil and gas complex, food industry.

In the conditions of increasing competition in the banking services market, leasing operations by banks can become an effective means of expanding the sphere of banking influence.

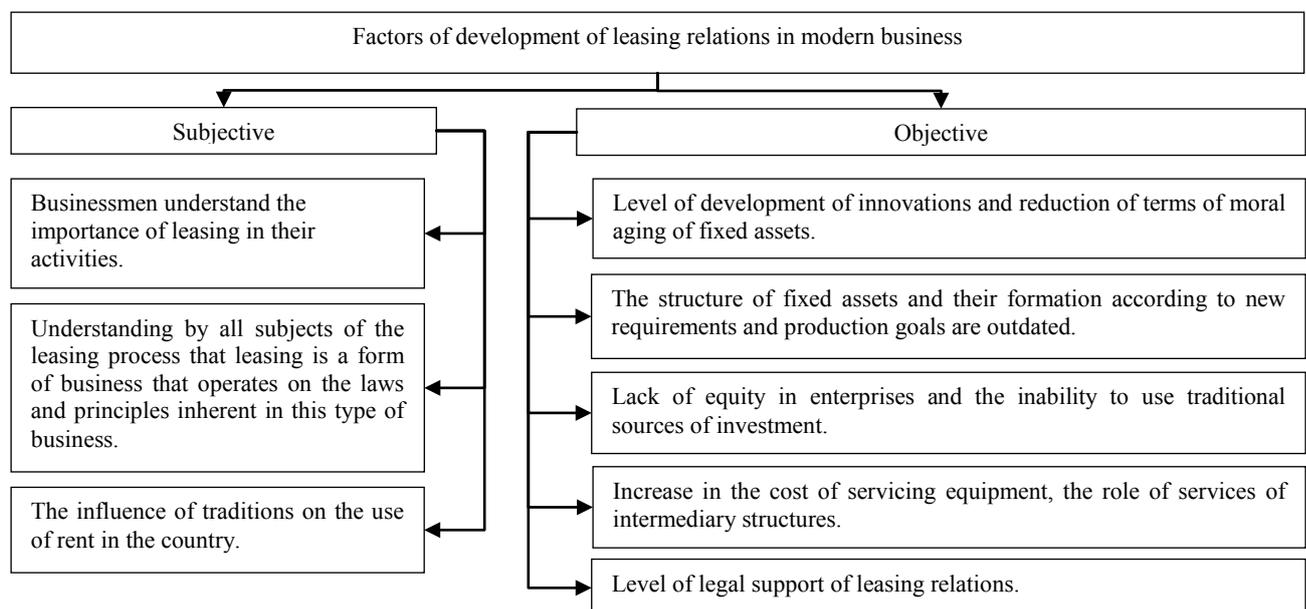
Acting as a lessor, banks can contribute to the formation of strategies and tactics for updating fixed assets determine the direction of leasing, control the situation in the leasing market. For the rapid development of the leasing business, a system of effective organizational and economic measures should be developed and implemented to stimulate and support state-owned banks in the field of leasing business. Only in this case is the rapid growth of such a branch of the banking business possible, with the help of which a dual purpose is achieved: the markets for

products are expanding, the activity of producers of fixed assets is revived, and the business structures of the market are given the opportunity to develop their production base. The banking system of Ukraine must fully fulfil an extremely important task - to promote the development of the economy of the state, to support the domestic producer, to increase the efficiency of its activity and competitiveness, including through the implementation of financial leasing.

On the other hand, the development and effectiveness of leasing relationships depend on two groups of factors: objective and

subjective. The first group of factors is related to the country's economic situation and investment policy, innovation development and investment in high technology industries. Another group of factors affecting the functioning and development of leasing relationships is related to the state's socio-economic development policy.

Formation of leasing relations on the basis of leasing operations plays an important role in conditions of permanent shortage of financial resources in the process of production activity and provision of activity with fixed assets (Fig. 1).



**Fig. 1.** Factors of development of leasing relations in modern business

Source: compiled by the author [3-5, 7, 10-12, 15]

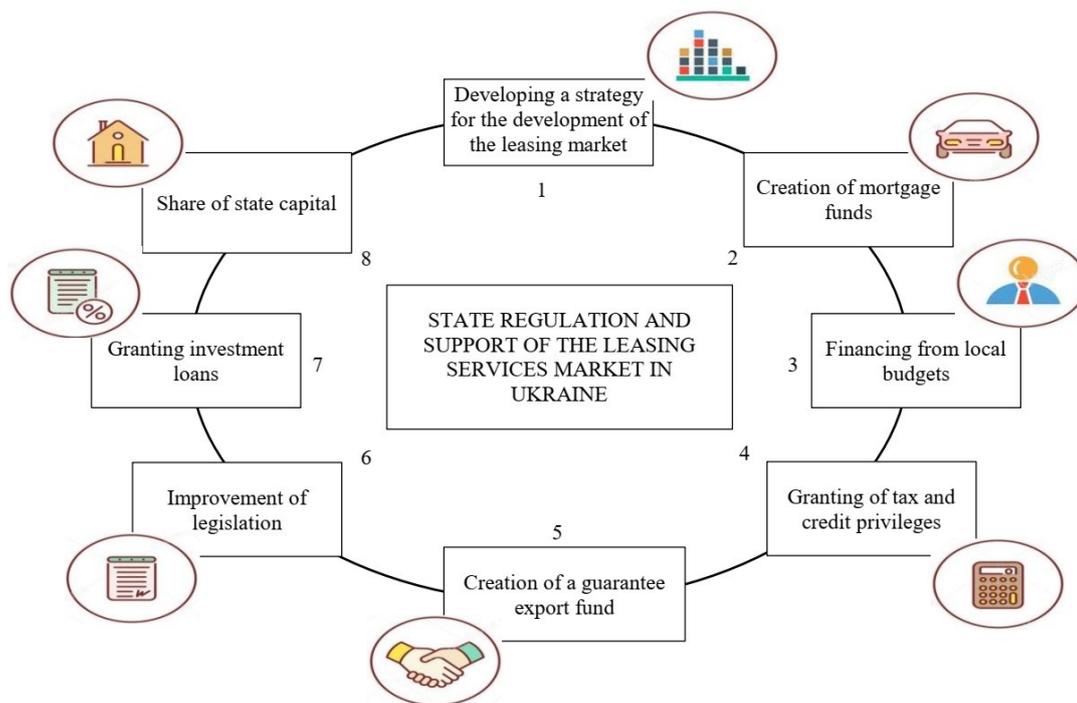
In most small and medium-sized businesses, bank credit is the most popular way of replenishing current assets and financing their production needs. And banks in Ukraine have limited credit programs, and many conditions for obtaining funds are to provide a pledge and transfer the borrower for service in a lender bank. Small and medium-sized businesses are thus too constrained to finance their business needs, since the most significant obstacles to attracting loans to small and medium-sized businesses are too high loan rates and excessive mortgage requirements.

Now there is an objective need to create a state leasing support program (Fig. 2), which would include, among other necessary

conditions, the involvement of the banking sector in the development of leasing services.

Its implementation should contribute to improving the quality characteristics of the leasing potential of banks to the level of developed foreign countries, active use in the practical activity of banks of various leasing schemes and a wide range of banking operations and services in the implementation of financial leasing.

This document should include such measures that we believe will in the future give a significant impetus to the development of banks in the field of leasing business: to introduce a differentiated approach to tax the profit of a commercial bank depending on the directions and volumes of leasing:



**Fig. 2.** Potentially possible areas of state regulation and market support of leasing services in Ukraine

Source: compiled by the author.

reduction in the case of leasing means of production to enterprises in priority spheres of economy for more than 5 years, and in the absence of such investments – to keep the tax rate unchanged; to stimulate commercial banks to invest in the authorized funds of leasing companies, by exempting commercial banks to invest in the authorized funds of leasing companies, by exempting from taxation the part of the profit which is directed to the acquisition of shares of these enterprises; to create a system of preferential long-term refinancing by the National Bank of Ukraine of those commercial banks that are actively engaged in long-term financial leasing; to introduce state reimbursement (partial) of interest rates on transactions involving the provision of financial leasing for enterprises operating in priority sectors of the economy, and to provide for appropriate amounts of reimbursement in the State and local budgets; develop appropriate mechanisms for:

- reduction of the cost of credit resources, which will contribute to the effectiveness of leasing operations;
- reduction of the cost of notarial services with execution of leasing contracts in order to reduce the financial burden on the participants

of the leasing agreement; granting tax privileges for operations on international leasing for the purpose of importing high-tech equipment to the territory of Ukraine;

- reforming the tax legislation in terms of stimulating leasing operations - introducing an accelerated depreciation rate for leasing objects, providing investment privileges when taxing corporate profits, applying a simplified procedure for returning property [7, 10, 11].

## CONCLUSION

Based on the studies conducted to identify and substantiate the directions of state regulation and support for the leasing market in Ukraine, it can be argued that the entry into the Ukrainian market of strong foreign leasing companies can be a threat; frequent changes to the leasing legislation (regulations); instability of the national currency; rising inflation, leading to a rise in the cost of borrowed financial resources; downgrading of the country on the international scene in the sphere of lending and leasing. However, the activation measures should reduce the cost of credit resources to a level not exceeding 20% per annum, in order to ensure the effectiveness of leasing operations; reduction of the cost of

notarial services for execution of leasing contracts in order to reduce the financial burden on the participants of the leasing agreement; granting tax privileges for operations on international leasing for the import of high-tech equipment into the territory of Ukraine; creation of leasing centres specializing in small business services; organization at departments of regional leasing centres of departments on formation of the database on demand and supply for the equipment and the equipment; development of a state leasing support program that would involve the banking sector in the development of leasing services; reform of tax legislation in terms of stimulating leasing operations. The revealed subjective and objective factors of the development of leasing relations in modern business made it possible to identify potentially possible directions of state regulation and support of the leasing services market in Ukraine and to propose such measures that, in our opinion, will give a significant impetus to the development of banks in the sphere in the future of the leasing business.

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