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LEASING - COURIER



CONTENTS:

NOVEMBER - DECEMBER 2001, Issue 6 (18)

OUR PROJECT

Seminars in Urals Region
Seminars in the Russian Far East

THEORY AND PRACTICE

Leasing or Credit?
Alternative Means of Financing
Leasing Transactions

LEGISLATIVE NEWS

LEASING IN THE REGIONS

Petersburg Leasing Association
Leasing Market Surveys:
Urals
Primorsky Krai
Khabarovsk Krai
Sakhalin Island

SMALL AND MEDIUM-SIZED

BUSINESS

Komanda L, Novosibirsk
Arida Press, Yekaterinburg

NEWS

Press Digest

QUESTIONS AND ANSWERS

KOMANDA L

Siberian beverage company doubles production with new leased equipment in Novosibirsk



Komanda L's daylight bottling mineral water

When Oleg Shipilov launched his beverage production line in 1995, he began with quite an interesting collection of machinery. Although Shipilov's company, Komanda L, had enough start-up capital to purchase some pieces of equipment from German and Polish factories, the funds were limited. "It was a difficult time," remembers Shipilov. "I traveled to Germany to research different equipment suppliers, but unfortunately we didn't have the money to buy most of what we needed. There was no such thing as leasing back then." As a result, Shipilov was forced to consider other ways to get his business off the ground.

He returned to Novosibirsk and worked with local factories to recreate what he had seen in Cologne. "We did what we could - for the most part, we bought used equipment and fixed it up ourselves. In some cases, we just made the parts we needed out of whatever metal we could find," explains Shipilov. At the time, the

company was producing four types of carbonated drinks.

"The quality of the machines wasn't great, of course. They weren't capable of expanding our production, and in any case they would often break down. Eventually we realized that it would be far better to purchase new, high-quality equipment, despite the expense, than to reinvent the wheel on a regular basis." Having decided to make the leap and revamp his machinery, Shipilov identified Oryol Pishemash, a Russian factory based in Oryol specializing in food and beverage production equipment, as the best supplier for the machinery he needed. He then began researching possible sources of financing.

Continued

- [Urals Regional Leasing Development Group Presentations](#)
- [LEASING DEVELOPMENT GROUP VISITS THE FAR EAST](#)

Urals Regional Leasing Development Group Presentations

Viktoria Struts,

PR Specialist, IFC Leasing Development Group

In September, the IFC Leasing Development Group and the Urals Regional Leasing Development Group jointly held seminars in the cities of Chelyabinsk, Yekaterinburg and Rezh.

The seminar in Chelyabinsk was held on September 18 and was titled "The Basis for Leasing Activity in Russia." The South Ural Chamber of Industry and Commerce provided organizational support for the meeting. Currently, there are five leasing companies operating in the Chelyabinsk region, and the industrial complex in the region includes iron, steel and non-ferrous metallurgy, engineering and metal processing, electricity production, light industry, milling, fodder production, fuel production, forestry and timber processing and chemicals and petrochemicals. Practically all the companies in these industries require restructuring and renewal of their production capacities and could potentially use leasing to finance the purchase of new equipment. Most in demand under leasing contracts are transport vehicles, computer technology, and construction, medical, trade, and printing equipment.



The IFC held a seminar in the town of Rezh for female entrepreneurs

The potential for the development of the leasing sector in the Chelyabinsk region was covered at a briefing for the local mass media, at which staff of the the Urals Regional Leasing Development Group presented their plan for developing leasing in the Ural Region. Participants in the press briefing included A. Rayevsky, Deputy Head of the Chelyabinsk Economics Committee, A. Pisarenko, Deputy Project Manager of the IFC Leasing Development Group, Y. Markova,

Team Leader of the Urals Regional Leasing Development Group, R. Karimov, Director of the leasing company Leasing-M, and V. Tolokonnikov, General Director of Vinland.

According to Chelyabinsk Economics Committee Deputy Head A.A. Rayevsky, leasing has more potential and is a more economically viable method of attracting investment than credits. The government is trying to encourage the use of leasing, as shown by the law "On the Regional Leasing Fund," which has been in force in the Chelyabinsk region for two years already. This law makes it possible for the government to acquire equipment using regional budget funds with the aim of subsequently leasing this equipment to companies that are of priority importance to the regional economy.



In Chelyabinsk, IFC specialist Elena Degtiareva consults with a local business person

The second seminar, aimed at women entrepreneurs and entitled "The Legal and Economic Basis for Leasing Activity," was held in the Sverdlovsk region town of Rezh on September 19. The Regional Fund for the Support of Women Entrepreneurs helped organize the event. According to Valentina Samsonova, Executive Director of the Fund, "The economic situation in Rezh, as in the majority of small cities in the region, cannot be considered favorable - incomes have fallen in the past years and unemployment has increased. The development of small businesses would help resolve a lot of problems. However, people simply do not have the money to buy equipment and banks rarely grant small credits. Leasing could be a way out of this situation."

On the same evening, specialists from the IFC Leasing Development Group participated in a round table discussion for managers of leasing companies in the region. The theme for the discussion was the effect of changes in legislation on leasing. Experts gave detailed information on changes in Article 25 of the Russian Tax Code and on expected amendments to the law "On Leasing." Managers from 10 leasing companies in the Sverdlovsk, Perm and Chelyabinsk regions participated in the meeting.

The final seminar, entitled "Leasing as an Effective Mechanism for Renewing Fixed Assets," was held in Yekaterinburg on September 20, 2001. This seminar was intended especially for clients of leasing companies. This is the fourth seminar to be held by the IFC in Yekaterinburg^[1].

There are currently eleven leasing companies operating in the Sverdlovsk region. Leasing is most widely used in the following industries: road construction, food production, trade, packaging, printing, computer and information technology and telecommunications. The size of deals ranges from several thousand to several hundreds of thousands of U.S. dollars. Understanding the profitability of leasing for the social and economic development of the region, the Sverdlovsk government supports leasing activity at a local level. For example, in 1996 and 1997 resolutions were passed allowing the regional government to offer "Possible benefits to financial organizations in crediting leasing operations that correspond with regional investment programs."

As part of the seminar, a press briefing was held for the local press that covered the development of

leasing in Sverdlovsk region.

Participants in the briefing included Linda Cross, Consul General of the United Kingdom in Yekaterinburg, James Gorham, Project Manager of the IFC Leasing Development Group, Y. Markova, Team Leader of the Urals Regional Leasing Development Group, Y. Vertiporokh, General Director of the Ural-Siberian Investment Company, and Y. Mazalova, Director of the planning department at Ural Mobile Systems.



As part of the seminar, a press briefing was held for the local press that covered the development of leasing in Sverdlovsk region. From left to right: V. Struts, E. Markova, J. Gorham, L. Cross, Y. Mazalova, Y. Vertiporokh.

Consul General Cross noted "This project supported by the British Department for International Development is aimed at aiding the development of business in the Ural region. We consider the development of small and mid-sized businesses to

be one of the priorities of this program, as the development of the private sector is a necessary part of the development of the regional economy as a whole. The Ural region is already implementing programs to train representatives from small and medium-sized businesses in various practical aspects of doing business. The leasing development project is a logical extension of this work and will also aid the development of small and mid-sized business in the Ural region."

At the briefing, the Urals Regional Leasing Development Group presented its 18-month program to the public. The aim of the project, launched by the IFC in August, is to distribute information and practical experience on leasing activity in the Chelyabinsk, Sverdlovsk and Perm regions and to foster a stable leasing services sector by providing technical assistance to regional partners. The development of leasing will aid the development of the private sector in the Ural region, the creation of new jobs, the improvement of the financial climate and the attraction of investment. ^[2]

^[1] (1) Earlier the IFC Leasing Development Group held two seminars in Yekaterinburg, one entitled "The Basis for Leasing Activity in Russia," for entrepreneurs in the city and region, and another entitled "Minimization of Leasing Activity Risks," in which representatives from 30 leasing companies and financial institutions from 15 Russian regions participated.

^[2] A short report on the market for leasing services in the Ural region is available on page.....

LEASING DEVELOPMENT GROUP VISITS THE FAR EAST

Four seminars entitled Leasing as an Effective Mechanism for Renewing Fixed Assets were conducted in the Far East by specialists of the Leasing Development Group at the beginning of October. Along with IFC experts, Irina Chuvileva, the head of credit and analytical services of the company RG Leasing, participated in developing and conducting the training

module. The itinerary included Primorsky and Khabarovsk territories, and Sakhalin Island, which allowed the group to take in the main economic centers of the Far East region. The IFC seminars were accompanied by press briefings for the local media.

Vladivostok

On October 1, 2001, 36 business owners took part in the seminar for Primorsky Krai. This is not the first IFC event in Vladivostok; in April 1999, the Leasing Development Group conducted a seminar here on the Foundations of Leasing Activity in Russia^[1]. Both seminars aroused keen interest among business owners, the financial sector, and the press.

In Primorsky Krai, 6 of 15 registered leasing companies are active and lease a wide range of equipment to local enterprises in the following industries: construction, printing, woodworking, logging, food processing, and light manufacturing. Equipment leased includes

shop equipment as well as motor vehicles. Leasing company experts predict a high demand in the near future for leasing services in the fishing, food processing, machine building, mining, logging, woodworking, and pulp and paper industries.



Press-briefing in Vladivostok

In the opinion of financiers, the relatively small proportion of leasing investment transactions in Primorsky Krai is connected with the lack of experience of business in using this instrument and the absence of obvious advantages in comparison with simple credits for some potential lessees...Moreover, the numerous variations for possible interaction between the lessor, the lessee, and the supplier are not simple and demand a specific business culture and responsibility on the part of business owners. Hence, the main task of the IFC's educational project is familiarization with the culture of this business.

*Novosti (Vladivostok),
October 3, 2001*

A press briefing for local press and television was held within the framework of the seminar. Speakers at the briefing included V. Lavrentsov, Head of the Department for Small Business Support and Development in the Primorsky Krai Administration, James Gorham, Project Manager of the Leasing Development Group in Russia, L. Sidyuka, General Director of DeltaLease-Far East, and P.G. Berg, a private entrepreneur. The topic of discussion was the state of and prospects for development of the leasing sector in Primor'e territory.

After acquainting local media representatives in detail with the state of the leasing services market in the territory, Larisa Sidyuk of DeltaLease-Far East, noted: "Leasing companies

working in Primorsky Krai have various specializations and operating methods. However, a lessee still has a rather limited choice. The demand for leasing services exceeds the supply to such an extent that it is still too early to talk about competition in this sector."

The Primorsky Krai Administration attaches great importance to the development of leasing. Responding to journalists'

questions as to what was hampering stimulation of the leasing sector in the regional economy, Viktor Lavrentsov, Head of the Department for Small Business Support and Development, replied, "In order to really develop leasing in Primorsky Krai, certain conditions need to be met. First, the financial component is of no small importance. Since large volumes of funds are diverted for an extended period, the state does not have the strength to participate in financing projects today. Therefore, private investments would be preferable to state investments. Second, at present, business owners are not well informed about what leasing is and how it is better than credit. Greater educational effort is needed. The third factor is lawmaking. The authorities have the right to pass favorable local laws, but proposals must come from leasing market participants."

Khabarovsk

In spite of the fact that Khabarovsk was covered with a cloud of acrid smoke from a major disaster, with burning taiga surrounding the city, the hall where our educational seminar was conducted was packed with 46 participants. This was the second seminar for Kharbarovsk (the first was held in 1999^[2]). At present, financial leasing has been actively used by small, medium, and even the largest enterprises of the territory. For example, Khabarovsk Agropromsnab has used leasing to acquire agricultural equipment. As it considers leasing to be the primary means of modernizing its tractor fleet and maintaining it in operating condition, Agropromsnab, with the support of the regional Administration, has adopted a minimum program for deliveries of agricultural machinery, according to which the number of tractors should increase by 506 units and the number of combines by 155 units by 2010. The Khabarovsk airline Dalavia has also leased two TU-214 passenger jets. In spite of the fact that these transactions are considered very large ones, the use of financial leasing at present is limited, and existing demand for leasing in the business field is far from being satisfied.



Seminar in Khabarovsk

At present, three leasing companies are operating in Khabarovsk territory: DalIF-Leasing, the Khabarovsk Leasing Center (a branch of Sakhalin Leasing Company), and DeltaLease-Far East. Users of leasing services are fuel and energy enterprises and the road construction, logging, woodworking, and food processing industries.

Participants in a press briefing dealing with questions of developing the market for leasing services in Khabarovsk territory included Yuri Gridnev, First Deputy Chairman of the Economics Committee of the Khabarovsk Territorial Administration and Head of the Department of Territorial Development and Investment, James Gorham, Project Manager of the Leasing Development Group in Russia, E. Kozlova, General Director of DalIF-Leasing, O. Barbina, Deputy Director of Economics at the Khabarovsk Leasing Center, and V. Fadeev, General Director of Far Eastern Technology (a lessee).

No one can claim that leasing is a new phenomenon for us. Today, three leasing companies providing enterprises with financial leasing of production equipment used in the most diverse fields of activity-from air transportation to printing-are operating in Khabarovsk territory. The advantages of leasing are obvious, especially in the present situation, where banks are in no hurry to invest in real production and enterprises often simply don't have the necessary funds to renew their production equipment... However, in spite of all the pluses, our market for similar services is not as well-developed as we would like. The goal of the educational seminar Leasing as an Effective Mechanism for Renewing Fixed Assets is to convince people in the Far East that the use of leasing plans will facilitate more intensive development of the regional economy.

*Tikhookeanskaya zvezda (Khabarovsk),
October 9, 2001*

Mr. Gridnev informed journalists that "In the last several years, there has been intensive buildup of the investment process; year by year, the indicators have increased by 30-40%. Without renewal of fixed assets, mainly production equipment, there cannot be an efficient economy. According to data of the Ministry for Economic Development, wear and tear of fixed assets by industry is between 63 to 78%. Obsolete equipment leaves many enterprises decades in the past. Today, enterprises are spending enormous sums on overhauling their production stock, whereas this money could have been used to acquire new equipment."

Yuzhno-Sakhalinsk

IFC's activities in Yuzhno-Sakhalinsk coincided with the visit of a Canadian trade mission to Sakhalin. Eric Yendall, Counsellor at the Canadian Embassy and Head of the Canadian Cooperation Program in Russia, took part in a press briefing, as well as in numerous meetings with business owners. It is within the framework of the Canadian Cooperation Program that projects financed by the Canadian International Development Agency (CIDA) are implemented, including the Leasing Development Project in Russia.

With the help of partner organizations, the Sakhalin Leasing Company and the St. Petersburg Leasing Association, the Leasing Development Group conducted two seminars in Yuzhno-Sakhalinsk: one on October 3 for female business owners (20 participants) and one on October 4, which was attended by businessmen and representatives of state enterprises, banks, and government bodies (60 participants).

At present, five leasing companies are operating in the Sakhalin region. These are the Sakhalin Leasing Company, LENDLEASE Leasing Company, DeltaLease-Far East, Far East Leasing Company, and Sakhalinlizingflot. The first four enterprises lease construction, printing, medical, and shop equipment, motor vehicles, and computers to regional enterprises. Sakhalinlizingflot specializes in leasing equipment and vessels to the fishing industry. The size of the leasing transactions to date are generally between several thousand to several hundred thousand US dollars. According to A. Malashich, General Director of the Sakhalin Leasing Company, the growth of the Sakhalin leasing services market will be



Eric Yendall: "Training seminars financed by CIDA further the development of this financial instrument in the region, and thus strengthens investment ties between Canada and the Sakhalin region."

between 30-50% per year, and the size of the market will increase to several tens of millions of US dollars compared to \$12 million in 2000. Potential lessees include companies in the fuel and energy, logging, woodworking, pulp and paper, and food processing industries.

The state and prospects for development of leasing on Sakhalin were the topic of a press briefing at which the following people gave presentations: A. Tulinov, First Deputy Chairman of the Economics Committee of the Sakhalin Regional Administration, Greg Alton, Deputy Project Manager of the Leasing Development Group in Russia. Mr. Yendall, A. Malashich, General Director of the Sakhalin Leasing Company, and V. Burkov, General Director of Sakhalin Island (a lessee).

In the opinion of Mr. Tulinov, the development of leasing in Sakhalin region will contribute to the development of the private sector of the regional economy, the creation of new jobs, the improvement of the financial climate, and the attraction of investments. In addition, the activities of leasing companies are highly tax-effective for the budget. For example, the amount of taxes transferred by the Sakhalin Leasing Company to the regional budget in the first half of 2001 was more than 800 000 rubles per employee. This figure is considerably higher than the one for the region's major taxpayer, Rosneft'-Sakhalinmorneftegaz.

Leasing is actually an effective mechanism for attracting investments, which Sakhalin enterprises need like they need air: depreciation of the stock of production equipment on Sakhalin and the Kurils averages 60-70%. The training programs of the International Finance Corporation, which it conducts with the financial support of the Canadian International Development Agency, will contribute to accelerated development of the leasing services market in Yuzhno-Sakhalinsk region.

***Sovetskii Sakhalin,
September 9, 2001***

Valentin Burkov remarked that today, the cost of bank credits is too high for many business owners. It was only thanks to leasing through the Sakhalin Leasing Company that his enterprise was able to acquire a supertrawler and medium- and large-capacity transport vessels. In the near future, the Sakhalin Island company plans to lease a small fishing vessel. "There's no need to convince business owners of the prospects of leasing," said Mr. Burkov. "By facilitating the renewal of fixed capital, it stimulates further business development."

The participants at the press briefing concluded that the IFC training seminars were a significant

step towards the growth of leasing on Sakhalin. Eric Yendall noted that "projects for developing the Sakhalin shelf that are being carried out with the help of foreign investment will inevitably be accompanied by an increase in demand for the services of local enterprises. As an effective mechanism for acquiring fixed assets, leasing will allow Sakhalin manufacturers to modernize production and provide services that conform to world standards. Conducting training seminars financed by CIDA furthers the development of this financial instrument in the region, and thus strengthens investment ties between Canada and the Sakhalin region."

- [Leasing or Credit?
Influence of the Tax Code on Sources of Capital Investment](#)
- [Alternative Means of Financing Leasing Transactions](#)

We introduce a new colleague:



Aleksandr Akimov, financial analyst and tax and accounting specialist. Aleksandr has been working in the Leasing Development Group since August. Previously, he was financial director of the Volgo-Vyatski International Leasing Center and worked in the Urals regional office of the Ministry of Taxes and Duties as a tax service advisor.

LEASING OR CREDIT?

Influence of the Tax Code on Sources of Capital Investment

Yelena Degtyaryova

Financial Analyst, IFC Leasing Development Group

In previous issues of Leasing Courier, we have published several articles on the effectiveness of leasing compared to borrowing. Given the significant changes in taxation since January 1, 2001 (1), we again return to this subject.^[1]

Frequently, when companies choose between leasing and credit, they compare only the leasing payments with the principle and interest payments associated with the loan. In so doing, they do not take into consideration the full tax effect of each approach, an effect that directly affects cash flows. As leasing may provide significant tax advantages, overlooking the tax impacts of various financing approaches may result in a less-than-ideal decision . This article summarizes the tax advantages of leasing, outlines how to compare and calculate the cash flows associated with leasing and credit, and presents a concrete example comparing the two.



Elena Degtiareva Financial Analyst, IFC Leasing Development Group

Tax Advantages of Leasing

The main advantage of leasing over credit is that the entire leasing payment is deductible, thus reducing profit taxes. In this way, if the lessee acquires the item at the end of the lease, then he/she can effectively write off the entire cost of acquisition over the term of the lease. Under credit (such as borrowing from a bank), the borrower can write off the item's depreciation, but over a longer period. Thus, when compared to credit, leasing accelerates the tax savings because it allows the lessee to fully amortize the cost of the equipment (and any other associated costs like insurance, delivery costs, customs taxes, etc.) over the life of the lease instead of over the life of the equipment (usually a longer period).

Leasing not only has economic advantages over banking credits, but also is widely available and is frequently the only possible official source of medium or long-term financing for companies.

Furthermore, leasing reduces the lessee's risk because the lease establishes the lessee's payment schedule in a legal contract. Should the laws change resulting in higher transaction or other costs, than the leasing company, not the lessee, must bear these costs. For example, if the parties have agreed that the leasing

company will keep the asset on its own balance sheet during the life of the lease and the property tax rate increases, then the lessor is responsible for paying the increased profit tax; the lessee has a contract stipulating the payment schedule.

Issues in Calculating Payments

The tax relief discussed above arises mainly from the right of the party in the leasing agreement that on whose balance sheet the asset remains to use an acceleration ratio of three when applying depreciation to the leased item^[2] . This provision results not only in a reduction in profit tax payments, but also in a reduction in property tax because the taxable base of the item is lower. The party with the asset on the balance sheet is also responsible for paying property taxes. In cases where the leasing company has the asset on their balance sheet, it is typical for them to simply roll property tax and any other associated costs like insurance and customs payments into the lease payment, simplifying the process for the lessee.

There are a number of issues associated with the calculation of VAT that should be discussed. Under leasing, VAT payments are spread out over the entire leasing period and included as part of the leasing payment. Furthermore, the total VAT paid by a company receiving property under a leasing scheme as part of the leasing payment is more than VAT paid when purchasing the equipment outright, as the base for calculating VAT will include interest charges. VAT paid, however, is reimbursed by the tax authorities (or offset against other tax payments). Additional costs in connection with the payment of VAT may arise if a significant amount of time passes between the payment of VAT to the supplier / leasing company and reimbursement by the authorities. If a company has sufficient taxes payable to the federal budget, the VAT offset will reduce taxes payable in the full amount. Consequently, the costs of the company acquiring

equipment through leasing contract will be reduced.

Under direct purchases of equipment through bank financing, companies purchasing equipment must pay VAT immediately in full as part of the cost of the equipment. This means that funds borrowed will have to cover the entire cost of the equipment, including VAT.

Calculating Leasing Cash Flows

Cash flows from financing capital investment by leasing in each period can be calculated as follows.

- Leasing payments, including VAT**
- + Reimbursed VAT**
- + Savings on profit tax (leasing payment X profit tax rate)^[3]**
- = Total cash flow for leasing**

Calculating Bank Credit Cash Flows

Cash flows from financing capital investment with bank credits in each period can be calculated as follows.

- Cost of equipment, including VAT**
- + Credit received**
- Debt payment**
- + Reimbursement of VAT**
- Property tax**
- + Profit tax savings ((depreciation + property tax + interest) X profit tax rate)**
- = Total cash flow for credit**

It is very important to choose a planning horizon that corresponds with the asset's depreciation period. This is because the tax shield from depreciation may continue after the loan is fully paid. With leasing this is not normally the case, as assets are usually effectively fully amortized over the period of the lease, but it is common with simple borrowing. If for some reason the term of a leasing contract is not equal to the depreciation period of the leased equipment, then tax benefits may also continue beyond the term of the leasing contract.

Finally, in order to compare credit and lease financing options, all cash flows must be discounted to their present value because they are distributed differently over time. In the example below, we have discounted cash flows using a XX%

discount rate.

Example of Cash Flows Under Credit and Leasing

The following example illustrates the advantages of leasing and the principles discussed in this article. The example establishes the cost of leasing services under the new tax regime at the current average credit rate of 15% per annum in hard currency. We assume that the company is acquiring equipment worth \$1,200,000 (including VAT) with a service life of 10 years (120 months). The average monthly depreciation norm straight-line method amounts to 0.83% ($=1/120$) and for the non-straight-line (modified declining balance) method - 1.67%.

We make the following assumptions:

1. Lease Terms:

- The leasing payments are monthly and equal.
- The advance is 20% of the cost of the equipment (paid from the company's own funds and accounted for evenly over the entire period of the leasing agreement).
- The depreciation acceleration ratio is 3 (although this does not affect the results for the lessee but for the lessor).
- The leasing term is 40 months (the period for the full depreciation of the item leased using the straight-line method with an acceleration ratio of 3).
- The item leased is included on the balance sheet of the leasing company, and at the end of the leasing agreement the property is sold to the lessee for 1 ruble.

2. Borrowing Terms:

- The loan term is 40 months.
- The cost of funds borrowed is 15%.
- The payment of debt and interest is paid in equal monthly payments.
- The total debt is \$960,000 (20% of the cost of the equipment is paid to the supplier as an advance from the company's own funds).

3. Reimbursement of VAT:

- With both leasing and credits the company has the possibility of offsetting VAT monthly in the amount paid or of having the VAT reimbursed. In actual fact, the amount of this reimbursement will depend on the amount of VAT and other taxes payable to the federal budget.

4. Company Profitability:

- The company has sufficient profit for the profit tax shield to be effective (that is, taxable profits in each period are higher than the leasing payments or deductible interest).

Table No. 1 shows the company's total costs over 10 years (the period of depreciation of the property) with capital investment financed using borrowing. The non-linear (modified declining balance) method of depreciation has been chosen as it minimizes taxable profit.

Table No. 1 Credit Cash Flows (non-linear depreciation)

<u>Month</u>	<u>Debt Pay- ments</u>	<u>Interest Payments</u>	<u>Property Tax</u>	<u>Depreci- ation</u>	<u>Property Tax savings</u>	<u>Reimbursed VAT</u>	<u>Financi Outflow</u>
							240,000
1	18,645	12,000	1,653	16,667	7,277	6,767	18,254
2	18,878	11,767	1,625	16,389	7,147	6,767	18,355
3	19,114	11,531	1,598	16,116	7,019	6,767	18,457
4	19,353	11,292	1,572	15,847	6,891	-	25,325
5	19,594	11,050	1,545	15,583	6,763	179,699	(154,272)
6	19,839	10,805	1,520	15,323	6,636	-	25,529
7	20,087	10,557	1,494	15,068	6,509	-	25,630
8	20,338	10,306	1,469	14,817	6,382	-	25,732
9	20,593	10,052	1,445	14,570	6,256	-	25,833
10	20,850	9,794	1,421	14,327	6,130	-	25,935
11	21,111	9,534	1,397	14,088	6,005	-	26,037
12	21,375	9,270	1,374	13,853	5,879	-	26,139
13	21,642	9,003	1,351	13,623	5,754	-	26,241
14	21,912	8,732	1,328	13,395	5,629	-	26,343
15	22,186	8,458	1,306	13,172	5,505	-	26,446
16	22,464	8,181	1,284	12,953	5,380	-	26,549
17	22,744	7,900	1,263	12,737	5,256	-	26,652
18	23,029	7,616	1,242	12,525	5,132	-	26,755
19	23,316	7,328	1,221	12,316	5,008	-	26,858
20	23,608	7,037	1,201	12,111	4,884	-	26,962
21	23,903	6,742	1,181	11,909	4,759	-	27,066
22	24,202	6,443	1,161	11,710	4,635	-	27,170
23	24,504	6,140	1,142	11,515	4,511	-	27,275
24	24,811	5,834	1,123	11,323	4,387	-	27,380
25	25,121	5,524	1,104	11,134	4,263	-	27,486
26	25,435	5,210	1,086	10,949	4,139	-	27,592
27	25,753	4,892	1,068	10,766	4,014	-	27,698
28	26,075	4,570	1,050	10,587	3,890	-	27,805
29	26,401	4,244	1,032	10,410	3,765	-	27,912
30	26,731	3,914	1,015	10,237	3,640	-	28,020
31	27,065	3,580	998	10,066	3,515	-	28,128
32	27,403	3,242	982	9,899	3,389	-	28,237
33	27,746	2,899	965	9,734	3,263	-	28,346
34	28,092	2,552	949	9,571	3,137	-	28,456

33	28,170	2,077	700	7,157	3,400	-	20,570
34	28,092	2,552	949	9,571	3,137	-	28,456
35	28,444	2,201	933	9,412	3,011	-	28,567
36	28,799	1,846	918	9,255	2,884	-	28,678
37	29,159	1,486	902	9,101	2,757	-	28,790
38	29,524	1,121	887	8,949	2,630	-	28,902
39	29,893	752	873	8,800	2,502	-	29,015
40	30,266	378	858	8,653	2,374	-	29,129
41			844	8,509	2,245	-	(1,401)
42			830	8,367	2,117	-	(1,378)
119			20	8,103	1,950	-	(1,929)
120			7	8,103	1,946	-	(1,940)
Total	960,000	265,782	83,299	1,000,000	323,779	200,000	1,025,302

Table 1 shows that the company's total discounted costs using credit total \$857,601. VAT offsets and reimbursements have a significant influence on the size of this indicator, as \$179,699 currency units were reimbursed in the fifth month [4]. VAT paid as part of the cost of the equipment, in the amount of 200,000 currency units, could not be offset. Therefore, VAT not reimbursed after three months was reimbursed in month five.

Table No. 2 contains leasing payments and cash flows associated with the leasing option. The flows are constructed so that total leasing costs over 40 months is equal to the total discounted spending on the credit \$857,601. In this way, we show the leasing rate (in percent terms) that is equivalent to borrowing funds at 15%. In other words, the leasing rate can be said to have an effective rate equal to 15% paid on borrowed funds.

Table No. 2 Leasing Cash Flows

Month	Leasing payment (without VAT paid)	VAT paid	Profit tax Savings	Reimbursed VAT	Financial outflow	Discounted financial outflow
advance	200,000	40,000			240,000	240,000
1	28,835	5,767	8,120	6,767	19,715	19,471
2	28,835	5,767	8,120	6,767	19,715	19,231
3	28,835	5,767	8,120	6,767	19,715	18,993
4	28,835	5,767	8,120	6,767	19,715	18,759
5	28,835	5,767	8,120	6,767	19,715	18,527
6	28,835	5,767	8,120	6,767	19,715	18,299
7	28,835	5,767	8,120	6,767	19,715	18,073
8	28,835	5,767	8,120	6,767	19,715	17,850
9	28,835	5,767	8,120	6,767	19,715	17,629
10	28,835	5,767	8,120	6,767	19,715	17,412
11	28,835	5,767	8,120	6,767	19,715	17,197
12	28,835	5,767	8,120	6,767	19,715	16,984
13	28,835	5,767	8,120	6,767	19,715	16,775
14	28,835	5,767	8,120	6,767	19,715	16,568
15	28,835	5,767	8,120	6,767	19,715	16,363
16	28,835	5,767	8,120	6,767	19,715	16,161
17	28,835	5,767	8,120	6,767	19,715	15,962
18	28,835	5,767	8,120	6,767	19,715	15,764
19	28,835	5,767	8,120	6,767	19,715	15,570
20	28,835	5,767	8,120	6,767	19,715	15,378
21	28,835	5,767	8,120	6,767	19,715	15,188
22	28,835	5,767	8,120	6,767	19,715	15,000
23	28,835	5,767	8,120	6,767	19,715	14,815
24	28,835	5,767	8,120	6,767	19,715	14,632
25	28,835	5,767	8,120	6,767	19,715	14,452
26	28,835	5,767	8,120	6,767	19,715	14,273
27	28,835	5,767	8,120	6,767	19,715	14,097
28	28,835	5,767	8,120	6,767	19,715	13,923
29	28,835	5,767	8,120	6,767	19,715	13,751
30	28,835	5,767	8,120	6,767	19,715	13,581
31	28,835	5,767	8,120	6,767	19,715	13,414
32	28,835	5,767	8,120	6,767	19,715	13,248
33	28,835	5,767	8,120	6,767	19,715	13,084
34	28,835	5,767	8,120	6,767	19,715	12,923
35	28,835	5,767	8,120	6,767	19,715	12,763
36	28,835	5,767	8,120	6,767	19,715	12,606
37	28,835	5,767	8,120	6,767	19,715	12,450
38	28,835	5,767	8,120	6,767	19,715	12,296
39	28,835	5,767	8,120	6,767	19,715	12,145
40	28,835	5,767	8,120	6,767	19,715	11,995
Total	1,353,405	270,681	324,817	270,681	1,028,588	857,601

Table 2 shows that the discounted cash flows for the leasing option are equal to the discounted cash flows for borrowing if total leasing payments total \$1,624,086 in nominal terms including VAT (leasing payment of \$1,353,405 + VAT of \$270,681). As we established earlier, this is the maximum cost of leasing services such that the lessee prefers or is indifferent to leasing over borrowing. If the leasing rate charged is lower, the lease will still be preferred. Hence a

(nominal) lease rate of approximately 23% is financially equivalent, in the case considered, to borrowing at 15% for acquisition of the same equipment^[5].

In acquiring equipment by borrowing, payment of the entire amount of VAT on the equipment occurs upfront to the supplier. In this case, it is likely that VAT paid is significantly larger than the amount of other taxes paid by the company from which the VAT can be reimbursed. If there is a delay with VAT reimbursement or the tax authorities refuse to return the amount of tax paid (not a rare occurrence in the Russian economy), the company's costs will increase.

Conclusion

In this article we have explained why it is important for businesses deciding between leasing and bank credit to look beyond the nominal interest rate differences and focus on cash flow. In many cases, leasing minimizes cash expenditures because it allows the lessee to deduct the entire leasing payment from taxable profit. In addition, leasing has other advantages over bank credits that may not be calculable in numeric terms or fungible but which are nonetheless significant and can often be decisive.

Principles for Choosing Between Credit and Leasing

- *Take into consideration all possible costs associated with each source of financing, not just interest rates.*
- *Calculate tax benefits.*
- *Determine the cash flow analysis period based on the period for full depreciation of the property, not just the length of the leasing or credit agreement.*
- *Discount all cash flows to one present value (for simplicity, one may use the borrowing rate or the Central Bank refinancing rate as the discount rate).*

The main such advantage is the availability of leasing for companies in comparison with bank credits. For many companies, bank credits - particularly long-term bank credits - are simply not currently available as a source of financing. The main reason for this is the presence of strict credit requirements at commercial banks. For example, most banks do not finance greenfield projects or projects that do not have sufficient collateral (i.e. high risk projects). Many banks refuse to finance small deals, as Russian banks prefer to work with large companies that have a stable credit history and are capable of providing sufficient guarantees. As the activity of leasing companies, unlike

banks, is not subject to Central Bank regulation, the procedure for supplying equipment under leasing contracts can be simpler and more widely available than for attracting credits.

Finally, leasing allows for some off-balance sheet financing, as parties to a leasing deal may account for the asset on the balance sheet of the leasing company or the lessee. On the other hand, if a company has property tax benefits, carrying the leased asset on its own balance sheet will lead to a reduction in the cost of leasing.

^[1] From January 1, 2001 Chapter 25 of the Tax Code «Corporate Profit Tax» will come into effect, an analysis of which was published in Leasing Courier No. 5 (17) 2001.

^[2] Article 259 p. 7 of the Russian Tax Code.

^[3] If the company receiving the leased property sells products, work or services subject to VAT, then in calculating profit tax savings the leasing payment is taken without VAT. If the company's sales are not subject to VAT, insofar as costs will involve the leasing payment with VAT, profit tax savings must be calculated based on the leasing payment, including the tax.

[4] In accordance with Article No. 176 of the Tax Code, if within three months VAT has not been reimbursed from other taxes, the remaining VAT is to be reimbursed to the taxpayer directly from the budget.

[5] The subject of how to calculate the nominal leasing rate will be the subject of a future article, but can be determined using most financial calculators. For the moment, suffice to say that the leasing schedule shown here corresponds to a lease rate of approximately 23%. It is also important to remember that leasing companies (or any other party) may quote an 'interest rate' that has been determined using some other methodology, and hence not be comparable. This is another good reason to consider the cash flows in detail when comparing different sources of financing.

Currency Regulation and Exchange Control

1. Central Bank Regulation #152-P of September 17, 2001, "On Amendments and Revisions to Bank of Russia Regulation #39 of April 24, 1996, 'On Changes in the Procedure for Conducting Certain Types of Currency Operations in the Russian Federation,'" entered into force on September 24, 2001. In accordance with this regulation, the following types of currency operations may now be executed without a Bank of Russia license. The regulation specifies the procedure for executing and accounting for these operations, as well as banks' liability for breach of the procedure.

- Transfers of foreign currency out of and into the Russian Federation as rent payment for any movable non-consumable items (other than securities) leased by residents from nonresidents or by nonresidents from residents, as well as leased aircraft and ocean-going and domestic sea vessels, provided the said items are furnished to the lessee not later than 180 days from the date of transfer (receipt) of the foreign currency, regardless of the lease term;
- Transfers of the foreign currency of resident legal entities as rent payment for immovable property leased by nonresidents from residents (other than aircraft and ocean-going and domestic sea vessels); and
- Receipt by residents and nonresidents of credits denominated in foreign currency for a term in excess of 180 days from credit agreements with authorized banks, repayment of such credits, and interest.

2. RF Central Bank Directive #1030-U of September 10, 2001, "On the Procedure for Conducting Currency Operations Involving the Receipt and Repayment by Resident Legal Entities of Credits and Loans Denominated in Foreign Currency Granted by Nonresidents for a Term in Excess of 180 Days, as Well as on the Repeal and Amendment of Various Normative Acts of the Bank of Russia," entered into force on October 1, 2001.

This document establishes a notification procedure (previously a licensing or registration procedure was in effect) for:

- The execution of currency operations involving the receipt (provision) of credits and loans denominated in foreign currency from credit (loan) agreements between RF resident legal entities and nonresidents; and
- Obligations with respect to repayment of these credits and loans.

The notification procedure, which allows for the execution of these credit operations without a license from the RF Central Bank, is not applicable to the following currency operations:

- Those involving the receipt and repayment of credits (loans) via securities denominated in foreign currency;
- Those involving the receipt and repayment of credits (loans) by authorized banks; or
- Currency operations involving the receipt and repayment of credits (loans) that credit foreign currency to the bank accounts of third parties.

The repeal of the previously system for executing these currency operations, which required a license or authorization from the Central Bank, will in our view reflect positively on the development of leasing, particularly with respect to international transactions.

Customs Legislation

RF State Customs Committee Order #702-r of July 3, 2001, entered into force on September 8, 2001. According to this document, customs payments made for the import (export) of property under the temporary-import regime are not subject to refund (credit) when the customs regime is changed to release into free circulation or the export regime.

When temporarily imported (exported) goods are processed under a different customs regime, the customs payable must be calculated based on the rates and foreign currency exchange rates as applicable on the date of receipt of the customs freight declaration. Previously, many leasing participants used the temporary import regime as a means of spreading out customs payments over a period of time. The enactment of this document significantly limits this approach.

- [News from the Petersburg Leasing Association](#)
- [Organizations belonging to the Peterburg Leasing Association](#)
- [REVIEW OF LEASING SERVICES MARKET IN THE URAL REGION](#)

News from the Petersburg Leasing Association

Tatyana Pozdnyakova

director of the Petersburg Leasing Association

One of the advantages of forming an association of leasing companies is uniting to achieve results that would be impossible to achieve separately, as well as establishing direct contacts between leaders in the sector. As an example, I can cite our own Petersburg Leasing Association^[1].

The Petersburg Leasing Association was established in 1999 on the initiative of representatives of St. Petersburg's leading leasing companies and with support from the Russian Association of Leasing Companies. The association's strategic goal is the creation of favorable conditions for the stable development of leasing in the northwestern region of Russia.

The Association's activities include supporting association member services, setting high standards for the sector, cooperating with the regional and federal authorities and other associations in order to encourage appropriate government policies for the leasing sector as a whole and in the Northwestern region in particular. The International Finance Corporation's Leasing Development Group has rendered a great deal of organizational and advisory assistance to the Association.



Tatyana Pozdnyakova
director of the Petersburg Leasing Association

The Association strives to represent the interests of all participants in the regional leasing market: leasing companies, equipment suppliers, insurance companies, banks, and other professional participants in the investment market. Therefore, the Petersburg Leasing Association is open not only to leasing companies, but also to representatives of the aforementioned sectors. The association was recently joined by a new member: NevAvtoKom LLC. This company is a supplier that sells trucks, passenger cars, and special equipment. The association now has a total of nine members.

The IFC Leasing Development Group has long been a strategic partner of the Petersburg Leasing Association. The group holds seminars on topical issues related to leasing activity, which are so indispensable for participants in the leasing market of the northwestern region. In the future, we are planning to conduct some events jointly, that is, with the participation of specialists from both the IFC and the Association. Several of the Association's specialists have done internships with the Leasing Development Group. The Group's specialists render advisory support to the region's leasing companies when they apply to the association. In order to provide the client with the most comprehensive advice in such cases, the association will often contact IFC specialists in addition to using its own resources. In turn, the experience of leasing companies that are part of the association and the information we gather on the development of the regional leasing market is used by Leasing Development Group specialists in their own work.

We are delighted with such cooperation and would like to see it strengthened further.

Sergei Siling, President of the Petersburg Leasing Association

From the time of its founding to the present, the Association has undergone a number of structural changes of which we would like to inform the readers of "Leasing Courier." In May of this year, the Association elected Sergei A. Siling, the director of the leasing company RT Leasing, as the new president. The Association elects a president on a yearly basis. The association also established a permanent executive body consisting of three members. Additionally, September saw the official opening of our new office in one of the city's business centers.

We have also expanded the range of services provided by the association. Today we offer a number of services that may be of interest, including:

- **Assistance with the professional training of leasing specialists.** We are introducing an academic training course for leasing specialists in St. Petersburg.
- **Organizing internships with leasing companies.** This is part of the professional training program and allows for leasing companies to exchange working experience.

- **Holding seminars and conferences on leasing issues.** In July 2001, the IFC seminar entitled "Leasing as an Effective Mechanism for Acquiring Fixed Assets" was held in St. Petersburg with organizational support from the Association. We intend to hold several more seminars and roundtables on leasing activity in the future.
- **Joint PR campaigns by association members.** In September 2001, the Association was represented by members at two exhibitions in St. Petersburg entitled "Small Business: Techniques for Success" and "Russian Industrialist." We also participated in the international exhibition "Leasing 2001" in Moscow, held in November. Participating in exhibitions is highly beneficial to our members because we can more fully reflect the leasing situation in the region and draw the public's attention to the companies that are part of our Association.
- **Disseminating information about our members and the leasing process to potential lessees.** This new service is aimed at providing information to potential lessees on the activity of leasing companies that are part of the Association and advising them on the application process.

We would be delighted to answer any questions you may have, as well as to see you join the members of our association.

Our address: St. Petersburg, 30 Bolshoi Sampsoniyevsky Prospekt, bldg. 2, office (Nobel House Business Center)

Telephone: (7-812) 320-20-95

E-mail: SpbAssLeasing@yandex.ru

We begin our acquaintance with organizations belonging to the Peterburg Leasing Association with three leasing companies: FC Baltinvest, Peterburg Leasing Company, and Globus-lizing. In this article they talk briefly about the content of their leasing portfolio, their founders, and their work with suppliers and customers. Information on other members of the association will be published in the next issue of LC.

Svetlana Nikolaevna Rysnaya
Commercial Director of FC Baltinvest



In the course of five years of work in the North-West market, the leasing company FC Baltinvest has shown itself as a worthy partner among small and medium business enterprises, domestic producers of manufacturing equipment, and sellers of foreign cars. The company does not specialize in specific types of equipment. In our activities, we cooperate with suppliers and manufacturers of motor vehicle equipment with the aim of minimizing delivery risks, after-sales service, and operation, while our supplier partners assume the responsibility for residual risk (for equipment sales) of motor vehicle equipment if the lease agreement is terminated. The company's philosophy is based on the development of leasing services in the most mobile sector of the economy, represented by medium and small enterprises. However, we also deal with large companies. The company was founded by Baltiiskii Bank and above all serves the bank's clients.

I will talk a little about our clients and the role of leasing in their business. One of our first clients in 1997 was the small enterprise Baltimor. This is now the widely known Baltimor brand of ketchup, but at that time the company had only begun to advance and develop a market in St. Petersburg and Moscow. In 1997, the first leasing transaction was concluded for the purchase of processing equipment for producing ketchup containers. This was

a very large and complicated leasing agreement. It was complicated because: (1) the equipment was acquired on an import contract with a long delivery period (there were problems connected with currency control requirements); (2) there were lengthy discussions on a form of payment; and (3) difficulties stemming from the August financial crisis.

However, in spite of the difficulties, the transaction was successfully concluded. A letter of credit with various repayment periods, guaranteed by a first-class European bank, was used to make the payments. The use of these financial instruments for international payments made it possible for all parties in the transaction to be confident of its success with minimal risk. Of course, this entailed additional expenses, but they were relatively small in comparison with the risks involved in concluding an international contract with a long equipment production time.

An account of how the issue of a change in the schedule of lease payments was resolved demands special attention. The lease agreement was concluded in hard currency, and after the August 1998 crisis the payment schedule became impossible for our client. Since Baltinvest was interested in the development of its clients' business and not only in the

execution of the lease agreement on the strict payment schedule, we discussed realistic possibilities during negotiations and proposed a payment schedule that satisfied all parties. To date, we have concluded nine agreements with this company and its affiliates alone, and a tenth is now being prepared. Four agreements have already been successfully completed.

In our experience, the success of a leasing transaction depends on all parties: the seller, the lessor, the lessee, and the insurance company. The only means of mutually beneficial cooperation of all parties with different interests in a leasing transaction is compromise.

**Dmitrii Valerievich Gorizontov,
President of Peterburg Leasing Company**

The Peterburg Leasing Company (PLC) was set up in January 1997 and became one of the founding members of the St. Petersburg Leasing Association.

We provide enterprises in the North-West region of Russia with a variety of equipment and means of transport using the resources of banks, insurance companies, and suppliers. For example, not long ago PLC signed an agreement with an Italian consulting company on procuring syndicated loans to finance deliveries of Italian equipment to the North-West. At present, the conditions have already been agreed upon for financing the purchase of production equipment for the woodworking industry at a cost of about \$700,000 and the delivery of heavy lifting gear from FIAT at a cost of \$650,000. These leasing transactions are unique for the low rate of the borrowed credits, at the level of LIBOR.

PLC places great emphasis on leasing commercial transportation equipment. In the entire period of its operation, the company has leased about 200 units of rolling stock to St. Petersburg enterprises. In spite of a small staff of seven, PLC is also involved in relatively small projects starting at \$10,000. These projects are mainly carried out by small enterprises and private entrepreneurs. The company's flexible operation has enabled it to conclude a number of lease agreements with enterprises in the Arkhangelsk, Novgorod, and Pskov regions.

The company's specialists have taken part in developing a number of important federal and regional legislative acts. In 1998, with the aim of expanding the scope of its activities, Peterburg Leasing Company became a member of the Leasing Confederacy of the Commonwealth of Independent States. In 1999, on the governor's instructions, PLC joined the St. Petersburg commission for development of cooperation between Russia and Belarus and headed the leasing committee.



**Mikhail Moiseevich Rybakov,
Director General of Globus-lizing**



Globus-lizing was founded in 1999. The company works with both Russian and foreign suppliers, and Sberbank funds are generally used to finance leasing transactions. In the two years of its existence, Globus-lizing has concluded more than 110 lease agreements for equipment and motor vehicles for a total amount of more than \$420,000, 1.4 million Deutsche marks, and more than 325 million rubles. We are currently leasing more than 300 automobiles.

As an example of a leasing transaction, we can cite a significant project such as the purchase of equipment for producing school workbooks. In February 2001, a lease agreement was concluded with North-Western Timber Industry Company (NWTC) for the acquisition of two production lines for lined, spiral-bound and stapled school workbooks. The equipment for the project cost more than 6 million German marks, and payments were made in rubles.

Under an import contract with the German company E.C.H. WILL GmbH, the equipment was delivered in two parts and was paid for by means of a confirmed documentary letter of credit. This payment plan is undoubtedly the most optimal one when making payments of this size to a foreign supplier, since it allows all parties to the transaction to substantially minimize risks. The equipment was installed at one of the member enterprises of the NWTC group, Kamennogorsk Offset Paper Factory (KOPF). The first line is currently already in operation, and startup of the second line is planned for November 2001. Moreover, cooperation with NWTC continues, and a new project for modernizing KOPF is being prepared.

- [Komanda L, Novosibirsk](#)
- [Irida Press, Yekaterinburg](#)

KOMANDA L, NOVOSIBIRSK

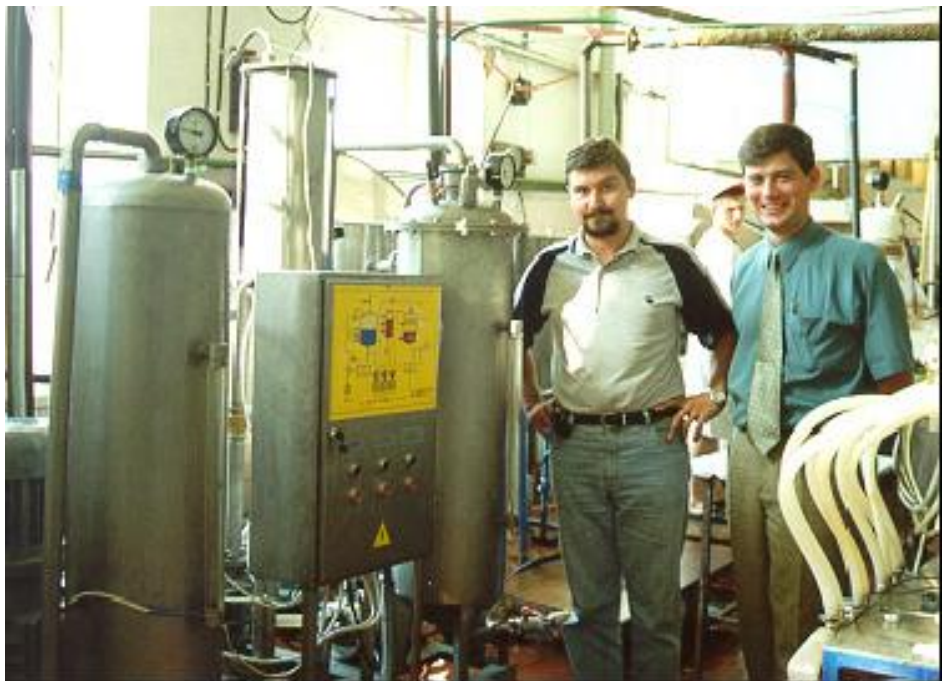
Siberian beverage company doubles production with new leased equipment

Carolina San Martin,

IFC Private Enterprise Partnership

Unfortunately, his attempts to fund the equipment purchase with a bank loan were unsuccessful. "They required so many papers, so many certificates to prove we would be able to repay the loan," remembers Shipilov. "It would have taken me more than a month to get all the paperwork together." When it became clear that applying for a loan would be far more difficult than he expected, the bank suggested he try using leasing to finance the purchase of the new equipment. That's when Shipilov approached the Siberian Leasing Center with his plan. "At the bank they told me it would be simpler to use leasing, and they were right."

In contrast to his attempts to work with the bank, in which the obstacles seemed far greater than the possibilities, leasing provided Shipilov with the flexible and efficient instrument he needed to turn his plans into reality. "He explained his situation to us," recounts Alexei Spiridinov, the Siberian Leasing Center's General Director, "and we were convinced that he would be able to pay the leasing payments." Within two weeks the necessary documents were ready, approval was received to finance the deal, and Shipilov signed a contract with the Siberian Leasing Center for three pieces of carbonation and refrigeration machinery, totaling almost \$60,000. Within a few months, the machinery had been manufactured according to the company's specifications, shipped to Novosibirsk, and production was underway.



Oleg Shipilov, Production Director at the Komanda L Beverage Company, and Alexei Mankov, Finance Director of the Siberian Leasing Center, with the new carbonation equipment acquired through leasing.

Almost overnight, Komanda L more than doubled the volume of its production with the same number of employees on the production line. "At the beginning of the year, we were making four times as much as we were making when we began in 1995," explains Shipilov. "After a month with the new equipment, we can already say that production is eight times greater than when we started. We are not yet working at full capacity, but we are already making more than double the amount of beverages that we were making a month ago thanks to the new equipment."



In addition to increasing the amount of production, the new machines have allowed Komanda L to widen the variety of beverages it makes. "One month ago we were making thirty different kinds of drinks - now we'll be making forty." Thanks in part to the increase in the number of products the company now offers, orders have gone up by 25% in just one month. Moreover, the new possibilities offered by the machines have led to a substantial contract with a supplier of juice concentrate in Israel. "Without leasing," concludes Shipilov, "none of this would have been possible. We would have been a lot worse off."

Shipilov is most proud of his new orange-carrot juice, which is composed of 30% natural juices. Not only is the combination an innovative one - the company is the first in the

region to make such a blend - but also Komanda L is the first to use such a high proportion of concentrate in its beverages, which has improved the quality of their products. "Most beverages currently available on the market use only 5% natural juice, and consumers can tell - it just doesn't taste like juice." The 30% juice is much higher quality.

The new equipment acquired through leasing has helped Komanda L cut its costs and become more competitive in more ways than one. It has facilitated the creation of new products such as the orange-carrot juice, and has also streamlined production. The factory operates continuously, in three shifts daily. Until one month ago, each shift required seven people. But thanks to the increased efficiency of the new equipment, Komanda L can produce twice as much with fewer employees working on each shift, which means that a portion of his staff is now available to help him realize his dreams to develop the company even further. Currently Shipilov is researching and planning ways to expand into meat-processing.

"Agriculture in our region has fallen by the way side, and has so much potential. I want to help get our agriculture sector back on its feet. And I'm definitely planning on using leasing to do it."

IRIDA PRESS QUICK PRINTING CENTER, YEKATERINBURG

LC met with Alla Gennadijevna Frolova, director of the Irida Press quick printing center (Yekaterinburg) during a business trip to the Ural region. At a seminar for women-entrepreneurs in the city of Rezh, in Russia's Sverdlovsk region, Frolova shared her experience of acquiring equipment using bank credits and leasing. The following is an interview with A.G. Frolova.



A Komanda L employee inflates the plastic bottles that will hold the company's various beverages.



*A.G. Frolova,
director of the Irida Press quick printing center*

Alla Gennadijevna, how long ago was your company formed and what does it do?

The Irida Press quick printing center began to operate independently in 1994. We were initially a publishing house that published several newspapers with circulations of 100,000 copies. This was a profitable business. We had several partners and areas of activity: some were involved in printing, others – in film and video production. I was involved in advertising, as I considered this to be a new and promising field. Having a little capital, we decided to set up our own printing house, to print advertising and to earn money.

How did you find funds to buy equipment and what equipment did you buy?

First of all, with the help of an investor bank, we acquired a mini-printing press. This was a set of equipment that met our initial needs: a two-color offset printing machine, a cutting machine, a processor for shaping products, a folding machine and a gluing machine. The company received a credit of \$84,000 in 1994 and was able to repay it

in full within a year, as we received large profits. Profit margins were a lot higher than at the moment.

Then, having paid off the credit, I split the business with my partners: they handled the publishing side and I took over the printing section, which I immediately wanted to improve. Using the equipment that we had, we were only able to

print products in the corporate style of the client: letterheads, business cards, calendars, booklets and stickers. To acquire a stable position on the market, we needed to improve our printing and install new technological processes.

Obviously, to expand and modernize it was again necessary to find funds?

The new printing and post-printing equipment cost about \$200,000. In order to receive a bank credit I prepared a solid, multi-page business plan, the longest one I had ever prepared. However, having read it the bank representative said, “to receive a credit to buy this equipment we need much more collateral than you can offer.” We had to settle for simpler models of the equipment and search for some funds ourselves. In the end, instead of \$200,000, we received \$70,000 from the bank, because the bank was very unwilling to accept industrial equipment as collateral, as during bankruptcies equipment is not very liquid and banks do not want the problem of having to sell it. We put up everything we had as collateral, including our personal cars and apartments.

Finally, in 1997 we received a credit for one year. The printing house continued to operate. But then the 1998 crisis happened.... By that time we had paid off practically two thirds of the cost of our press, with one third left to pay. After default it turned out that in ruble terms we had still to pay off twice as much as we had already paid.

How did you get out of this situation?

The bank demanded the immediate return of the loan. In addition, as the default affected everybody, for practically a month the printing press printed only letterheads and business cards. The Irida Press ruble turnover that month fell by two thirds. Profit margins shrank catastrophically. We were one of the first in the city to review our price policy, reducing costs and optimizing the order process, from management to the receipt of the finished order by the client and calculating new printing costs. Instead of profit margins of 200% we had 30%. After this I went to the bank with a proposal to extend the credit by a year. This was accepted.

You mean you managed to optimize the production process?

Yes, by fully utilizing equipment capacity: working around the clock in three shifts, without days off. It was pretty difficult in the first months after the crisis. Nevertheless, the company managed to pay off the credit in strict accordance with the new schedule.

The default also worked in our favor. Due to the expense, local clients that previously printed their products abroad started to look for local printers. As Irida Press offered competitive quality we received many large clients. Despite the fact that we fully utilized our printing capacity, we did not manage to meet all our orders and a backlog was formed. It again became necessary to expand. Remembering all of the difficulties connected with receiving a credit, this time we decided to try leasing.

Tell me more about this.

Together with our accountant we evaluated both schemes – leasing and credit – and came to the conclusion that we would save more money with leasing. This time I made a much simpler business plan, consisting of two pages only, and submitted it to the company Delta Leasing. This turned out to be sufficient. The leasing company not only agreed to finance the deal, but proposed a more flexible repayment schedule: for the first three months while the equipment was being fine-tuned to reach full capacity production, we were given a grace period on repayment of the principal and had to pay interest only. This was a profitable option for us.

We signed a leasing agreement at the end of 1999 and had the equipment already by January 2000. The cost of the deal

was \$110,000 over three years.

What equipment did you acquire?

A Japanese high-productivity Ryobi 522 HX printing machine, which sped up orders significantly.

I would like to note that when we worked with the bank the choice of equipment was limited by the size of the credit, but with leasing we could get exactly what we thought was needed.

Were there any difficulties meeting the leasing payments?

No. The schedule is very flexible. With the bank, for the slightest delay in meeting repayments were fined, and moreover we paid from our profits. With leasing the principal debt is paid over three years and the taxation system is more favorable.

Did the purchase of new equipment affect productivity?

Irida Press is constantly increasing its production – we have an average of not less than 80% annual growth in turnover.

Do you plan to use leasing in the future?

Leasing was so profitable that recently we signed a second agreement with Delta Leasing. This time we acquired a German produced Schneider Senator cutting machine. The old machine - bought in 1994 - was small, mechanical and had low productivity as at that time the company tried to have the minimum equipment necessary. Now, as we are seriously involved in printing, production demands have increased. The new electronic machine is high precision, heavy duty and highly productive. This equipment means that we can significantly improve the quality of our services.



This german-made cutting machine allowed Irida Press to boost production

Irida Press also plans to improve the quality of its services in the future by acquiring new technology and following the latest developments on the printing market. We understand that to remain competitive we need to constantly develop our production base. In the near future we plan to acquire a production line for glossing paper and hope that we will again cooperate with our partners from Delta Leasing.

Thank you for the interview! Leasing Courier wishes Irida Press continued success.

- [EVENTS IN THE RUSSIAN LEASING MARKET](#)
- [FOREIGN PRESS DIGEST](#)

EVENTS IN THE RUSSIAN LEASING MARKET

COMMERCIAL TRANSACTIONS

Tyumentransgaz, a subsidiary of Gazprom, will acquire 20 gas pumps annually by lease purchase from the Motor Leasing Company, which markets products of the Kazan' Motor-Building Industrial Association (KMIA). The Russian market for natural gas pumps on gas mains has been rather narrow up to now and for the most part is shared between two motor-building associations: Perm Motors and Rybinsk Motors. KMIA has squeezed these major competitors by selling to customers through leasing plans.

Tyumentransgaz, which transports about 80% of the gas produced in Western Siberia, has signed an agreement on long-term cooperation with the Kazan company Motor Leasing. It is interesting that Motor Leasing was established not long before the agreement was signed on the initiative of the President of Tatarstan, Mintimer Shaimiev. Tyumentransgaz was probably attracted by guarantees provided under a project of the republic's government. Tyumentransgaz will buy KMIA's latest development, the NK-38 ST motor. According to the General Director of Tyumentransgaz, Pavel Zavalny, over the next ten years, Gazprom will need to replace 400 similar units on its systems. Each motor will cost Tyumentransgaz about 52 million rubles.

Kommersant,

September 10, 2001

GAZ has begun implementation of the "Russian Taxi" project, according to which it proposes to sell GAZ automobiles at the wholesale price to a leasing company for later leasing to municipal motor transport enterprises. The first GAZ partner in implementation of the project was the Moscow **leasing** company Legavtotranslizing, with which it concluded an agreement in August for the delivery of Volga, GAZ-3110, GAZelle, and Sobol vehicles. In September, an initial consignment of 50 cars will be transferred through financial **leasing** with payment by installments for up to three years to the Mosavtolegtrans company, which incorporates about 30 of the capital's taxi fleets. At the same time, the **leasing** rate will not exceed 25% per annum. Before the end of 2001, GAZ may sell up to 600 automobiles in all to Legavtotranslizing. Delivery of automobiles for the Cheboksary motor transport enterprise will also be carried out through a financial **leasing** plan. An agreement on the sale of 20 GAZ-3110-416 automobiles, the so-called "Volga taxi," has also been reached. In this case, the plan is to sell the automobiles through the Moscow company Seal-lizing, which forms part of Cibala. In all, out of 100 vehicles, the Cheboksary motor transport enterprise plans to renew its entire taxicab fleet.

Later on, **leasing** companies from St. Petersburg, Moscow and Penza regions, and Ulyanovsk, Krasnodar, and Stavropol territories may join the Russian Taxi project. The management of GAZ hopes to sell trucks through a financial **leasing** plan in the foreseeable future. One of the car factory's prospective plans is bring sales of vehicles through financial **leasing** plans to 30% of the total sales volume.

Birzha (Nizhnii Novgorod)

September 13, 2001

In October, the first consignment of leased equipment from Germany will arrive at the Chelyabinsk Tractor Factory (CTF). CTF has reached an agreement in principle with the German companies Ferrostahl (Hamburg) and Messer (Frankfurt) for supplying modern production equipment worth more than 10 million marks on a four-year **lease**. Under the long-term **leasing** conditions, the factory will receive modern gas, plasma, and laser metal-cutting systems and equipment for producing fuel equipment. As a result, the tractor manufacturers will be able to improve the quality of their output and reduce production costs.

UralBiznesKonsalting

September 28, 2001

BANK FINANCING OF LEASING

Gazprombank has implemented a leasing plan for the purchase of agricultural machinery for Lipetsk region. Energogazlizing (a subsidiary of Gazprombank's **leasing** company) will supply 12 combines of the German concern Deutz-Fahr to the Lipetskagrosnabservis company. Delivery for the sum of more than 3 million euros is being carried out on a letter of credit issued by Gazprombank and endorsed by Commerzbank. Specialists estimate that this year's grain harvest in the Lipetsk region will exceed 60 centners per hectare. The bank's plans further development of the project, which is aimed at increasing the volume of deliveries of agricultural machinery.

Tribuna

August 2, 2001

BALTONEKSIM Bank is continuing to develop a leasing program providing for delivery of industrial motor vehicle equipment to the Northwest region. The bank is carrying out this program with the help of its affiliated leasing company **BALTONEKSIM Leasing**, which was established in 1998 (at present, it has 15 **leasing** contracts for a total amount of more than 60 million rubles). Recently, the bank granted a credit worth 14 million rubles for a period of two

years to the large St. Petersburg road-building company Yuvenal through **BALTONEKSIM Leasing**. The company will buy 12 MAZ cars with the borrowed funds. The transaction was made possible after the bank and its affiliated **leasing** company concluded an agreement on cooperation with a dealer for a Minsk auto plant in the Northwest—LadogaMAZservis—which is registered in Vsevolozhsk. The bank had previously concluded similar agreements with KamAZ (Granat) and BelAZ (Tekhnospetsstal'-Inzhiniring) dealers.

Following the deal with Yuvenal, **BALTONEKSIM Leasing** arranged still another agreement with LMU Sevzapenergomontazh for the acquisition of motor vehicle equipment for a sum of about 1.5 million rubles. **Leasing** deliveries of industrial motor vehicle and special-purpose equipment is one of the bank's most promising programs, especially in connection with the latest federal government initiatives for developing a highway system, which will lead to the development of motor vehicle freight transport.

Delovaya panorama (St. Petersburg)

August 26, 2001

The Northwestern bank of Sberbank of Russia opened a credit line for Globus-Leasing for the sum of 42.8 million rubles over a two-year period. The funds will go towards the purchase of 100 Gazel' and 35 Ford Transit minibuses for the purpose of subsequent **leasing** to Tretii Park. Between 1997 and 2000, the company **leased** 416 minibuses.

Delovoi Peterburg (St. Petersburg)

October 8, 2001

LEGISLATIVE NEWS

Changes to the law on leasing introduced in the Republic of Bashkortostan. Deputies of the lower house of the National Assembly of the republic accepted the draft bill "On the Introduction of Changes to the Law of the Republic of Bashkortostan 'On the Development of the Republic of Bashkortostan's **Leasing** Activity'" for first reading. The Minister of Economics and Antimonopoly Policy of the republic, Valentin Vlasov, explained the need to adopt this document. He said that the law had already played a positive role, but without improvement it could become an obstacle to development of leasing. Since the original law went into affect, the legislative base for **leasing** has changed and a number of laws have lost force. As a result, legal contradictions have arisen. In addition, as of next year, a particular source of financing for **leasing** activities will be specified in the law on the republican budget. The legislators have deleted mention of antimonopoly regulation from the law, in particular from the first article, and have also completely eliminated Article Two, "Antimonopoly Regulation and the Procedure for Registering **Leased** Assets."

Bashinform

September 13, 2001

LEASING COMPANY NEWS

RTK-LIZING has adopted a new development program aimed at diversifying the company's activities and broadening the types of leasing operations in both telecommunications and other branches of industry. In the opinion of specialists, this should increase **RTK-LIZING's** market attractiveness and lead to growth of its capitalization. **RTK-LIZING** was set up as an affiliated structure of Rostelekom to organize financing of Rostelekom's investment projects. In the six years of its operation, **RTK-LIZING** has become the leading **leasing** structure in the Russian communications market. It is important for Rostelekom to increase the market value of its block in this company. In order to do this, **RTK-LIZING** needs to enter new leasing activity markets and acquire new clients, including clients independent of Rostelekom.

*Rossiiskaya gazeta**September 11, 2001*

A new leasing company has appeared in Nizhnii Novgorod. The open joint stock company SAROV BIZNESBANK Joint Stock Bank has set up a limited company, the Privolzhsk **Leasing** Company. The bank's share of the company's charter capital is 100%.

*Birzha (Nizhnii Novgorod)**August 30, 2001*

AVIATION

American Cessna airplanes acquired through leasing will help solve the problem of efficient transportation service between large cities in the Privolzhsk Federal District. During the Moscow International Aerospace Show-2001, the Perm association Russian Industrial Alliance (RIAL) purchased 10 Cessna Grand Caravan airplanes from the American company Cessna Aircraft. The sum total of the transaction was \$15 million, which will be paid over the next ten years through a financial **leasing** agreement. The first airplane from this consignment is already being manufactured in the state of Kansas, USA, and will arrive in Perm' at the beginning of February 2002. The Cessna Grand Caravan is a regional-class aircraft capable of carrying 12 passengers or a 2.1-tonne payload; its maximum range is 550 km. Aircraft of this model make regular and charter flights in 66 countries around the world. RIAL plans to lease all ten Cessna Grand Caravan airplanes will be leased to Perm Motors Airline, which plans to set up subsidiaries in four Russian cities (Nizhnii Novgorod, Samara, Yekaterinburg, and Kazan). According to the business plan, the airplanes will make charter

flights (operating on the principle of private taxis) throughout Central Russia.

BIZNES-NOVOSTI URALA

September 3, 2001

The Ministry of Economic Development has announced the results of a tender among aircraft leasing companies applying for state support. The results will benefit Voronezh aircraft factory VASO, which works with Ilyushin-Finance, and the Kazan Aviation Industrial Association (KAIA), a traditional partner of the Financial **Leasing** Company (FLC). The Ministry of Economic Development announced the tender among **leasing** companies on June 25. Applicants were offered a guarantee of financing for the construction and modification of modern Tu-204/214 and Il-96 domestic airplanes. At the same time, the government proposed to pay part of the interest and provide a state guarantee to banks in exchange for the right to become the owner of a controlling block of shares of the **leasing** company. The company that requested the smallest amount for this purpose was to be the winner. A total of six applications were submitted to the tender committee.

The state will now receive a controlling block in Ilyushin Finance and FLC and in return will increase their charter capital in the amount stipulated in the budget for the support of **leasing** companies. It is planned to set aside 3 billion rubles from the budget in 2001 and 1–1.2 billion the following year. Thus, the state will finance the construction of 20 airplanes, i.e., 10 at each factory. Ilyushin Finance will supply six Il-96 aircraft to Aeroflot and four to Atlant-Soyuz, while FLC will supply six Tu-214 aircraft to Dalavia, two to the Tretyakov company, and two to Aeroflot affiliate Versus-Holding.

Vedomosti

August 29, 2001

The Administration of Khabarovsk territory and the airline Dalavia have concluded a second agreement with the Moscow-based Financial Leasing Company for delivery of another six Tu-214 passenger planes built by the S.P. Gorbunov KAIA (Kazan' Aviation Industrial Association). The first contract for the lease of two medium-range airplanes was signed in May of last year, according to an agreement between the Government of the Republic of Tatarstan, the Territorial leadership, KAIA, and the **Financial Leasing** Company. The state transport company Rossiya was another customer for two airliners. Thus, the Kazan' association, which had four "firm" orders at the beginning of the year, increased its stock of orders to ten. All the aircraft were outfitted with Perm PS-90A engines. The first airliner, which was sent to Khabarovsk in May, has flown 360 hours at full capacity in the last two months. Dalavia's net profit amounted to \$500,000, which allowed it to pay off the **lessor** in the stipulated period.

Respublika Tatarstan (Kazan)

August 25, 2001

AGRICULTURE

The President of Russia considers leasing to be the most effective solution to the problem of replacing outdated agricultural equipment. President of the Russian Federation Vladimir Putin announced as he opened the outgoing session of the Presidium of the State Council of the RF that the condition of the stock of agricultural equipment in Russia remains critical: the service period of 60% of the machines is ten years or more. In his words, the operating efficiency of the agro-industrial complex depends on technical re-equipment. Domestic factories can no longer satisfy the demands of the domestic market. The President named **leasing** as the most effective solution to this problem. However, he emphasized that **leasing** mechanisms “ have so far not been worked out.”

ITAR-TASS

October 9, 2001

In the near future, two commercial companies that will supply equipment to villages through leasing will be set up in each Russian region, as announced by Deputy Premier of the Government of the RF and Minister of Agriculture Aleksei Gordeev. In their words, the government made this decision because “**leasing** operations have lately been bureaucratized, and for this reason, it is not easy for commodity producers to renew their equipment and purchase the necessary tractors and combines. In order to carry out **leasing** operations in agriculture, we propose to set aside 5 billion rubles this year.” In addition, the recently established Rossel’khozbank will provide long-term preferential credits for farms.

ITAR-TASS

September 11, 2001

A new leasing company has been established in Krasnoyarsk by Rosselkhozbank and Sibmashholding. The company SibmashLizing has been formed by Rosselkhozbank and one of the largest agricultural machinery-building holding companies. Each of the parties have 50% of the company’s charter capital. SibmashLizing has already obtained a five-year license from the Ministry of Economic Development of Russia to carry out financial leasing in the Russian Federation. At present, Rosselkhozbank has 44 branch offices in Russia and close ties with agrarian banks in the former Soviet republics. The new leasing organization should be advantageous to the machine-building giant, since it significantly extends its trade and service network through which agricultural machinery and parts will be sold. The Siberian machine-building holding company, which was formed in October 2000, includes three enterprises: the Krasnoyarsk Combine Factory (Yenisei and Ruslan combines) the Altai Diesel factory, and the Altai Tractor factory. The holding company produces a full range of machines and equipment for cereal and feed crops. The holding company’s dealership network presently includes 25 centers throughout the CIS. A network of after-sale and technical service dealers for the Siberian equipment has also recently been created.

SibmashLizing is the first company that Rosselkhozbank has set up jointly with a domestic manufacturer of agricultural

machinery. According to Rosselkhozbank, the bank and the Belarussian Agrobank will also set up a joint **leasing** company toward the end of 2001. This **leasing** structure will be involved in deliveries of Belarussian tractors to Russia (at present, these deliveries are being carried out exclusively as payments for gas) and Russian equipment for processing milk and meat to Belarus.

Finansovaya Rossiya

August 9, 2001

Rosselkhozbank is being transformed into a banking group that will also include several leasing companies.

According to the bank's press service, this is being carried out "in accordance with the idea of creating a credit financing system for the country's agro-industrial complex on the basis of the bank, as well as with consideration of the development practice of large Russian banks." At present, the group includes the subsidiary **leasing** company Rosagrolizing; the subsidiary **leasing** company SibmashLizing with the participation of SibMash (Krasnoyarsk); the subsidiary **leasing** company RB-Lizing, which is being set up in Belarus with the participation of Belagroprombank; the subsidiary **leasing** company Rostselmashlizing, which is being set up in Rostov-on-Don with the participation of Rostsel'mash; and the subsidiary credit organization Chelyabinsk Commercial Land Bank, of which a controlling interest (76.3%) was acquired by Rosselkhozbank in April 2001.

RIA RosbiznesKonsalting

October 4, 2001

The government of Udmurtiya has announced an investment project competition for small and medium businesses, to be financed out of the republic's budget by means of leasing operations. According to Andrei Oskolkov, the Vice-Premier of the government of Udmurtiya, a competition committee plans to select the most interesting projects whose implementation will primarily allow the creation of new jobs. The winning projects will be financed by means of leasing operations in installments over three years. The amount of advance payment will be no less than 10% of the cost of the leased equipment, and the interest on lease payments has been set at 15% per annum plus VAT without accounting for property taxes. The size of the fund is will be approximately 20 million rubles.

Ekspert-Ural

August 13, 2001

The major dairy-product manufacturer Danone promises Russian milk producers cheap credits within the framework of a program to support their raw product deliveries. Danone has been operating in the Russian market since 1992 and owns two factories—one in Tolyatti and the other in the Chekhov district near Moscow. The company plans to help farms that supply Danone's Russian factories with milk obtain credits from the European Bank for Reconstruction and Development (EBRD) through KMB-Bank to modernize equipment and improve the quality of production. According to a signed agreement, the EBRD will open a credit line for KMB-bank worth \$7 million for

eight years, and the bank will grant these credits to farms on the recommendation of Danone experts. In addition to credits, the bank will **lease** equipment from the company **KMB-Lizing**. The interest on credit and leasing transactions will be from 9% per annum in currency. Equipment that already belongs to a farm or is acquired within the framework of the program will be accepted as credit security.

Vremya novostei

September 3, 2001

SMALL AND MEDIUM BUSINESS

The Zarechny Small Business House opened in Kanavinsk district of Nizhni Novgorod. Among other things, its task will be to enter into and assist the development of leasing. The House was established with the aim of providing integrated support and creating conditions for growth in the number of small and medium enterprises in the Kanavinsk district of Nizhni Novgorod, which is located across the river from the main part of the city. The organization will provide legal assistance, management and finance advice, and equipment **leasing**.

Nizhii Novgorod Telegraph Agency (NTA)

September 25, 2001

FOREIGN PRESS DIGEST

The portfolio of Lithuanian leasing companies increased nearly 14% in the first half of the year. In one year (from the beginning of July 2000 to the beginning of July 2001), the **leasing** portfolio of companies belonging to the **Leasing Association of Lithuania** increased 34.2%. In the first six months of 2001, Lithuanian leasing companies signed agreements worth 381.3 million litas, which is 56.7% more than in the same period last year. The main objects of leasing agreements are vehicles, various kinds of production equipment and processing lines, office equipment, and lately real estate. A large part of the country's **leasing** market is occupied by the Hanza Lizingas company. In one year, its share of the market increased from 36.17% to 46.6%.

Baltic News Service (Vilnius)

August 8, 2001

The Cabinet of Ukraine has approved the creation of a state leasing fund for renewing marine and river transport. According to data of the Ministry of Transport of Ukraine, which initiated the creation of the **leasing** fund, the average service period of Ukrainian ships is 20 years, and renewal of the stock of water transport is hampered by the absence of long-term lending mechanisms. The state leasing fund will help address this problem by offering leases on ships from domestic shipbuilding enterprises. The funds expended on construction of the ships must be returned to the fund at a rate of up to 50% of the National Bank of Ukraine's discount rate at the moment of signing an agreement.

A leasing fund for aircraft was created on July 27, also at the initiative of the Ministry of Transport of the Cabinet of Ukraine.

UNIAN News Service (Kiev)

August 16, 2001

Resolution No. 34 of the Belarussian State Customs Committee of July 10, 2001 ratified the method for paying customs fees by installment on leased assets imported according to financial leasing agreements. The Instruction specifies the methods for providing payment of customs duties, excise taxes, and VAT in installments upon customs clearance of **leased** assets imported according to a financial **leasing** agreement. The Instruction stipulates unconditional transfer of the **lessee's** right of possession to the **leased** asset and control over paying off customs fees in installments.

Belorusskaya delovaya gazeta

August 2001

ASB Belarusbank's presence on the international financial market strengthens as it has opened representative offices in Moscow and Warsaw. Belarusbank's foreign partners include a consortium of Polish and German banks, the Turkish Tuereximbank, and other international financial institutions. The bank is participating in international **leasing** and factoring transactions on behalf of its clients. For example, for the Belaruskalii Industrial Association, it purchased mining equipment for \$10 million from the German company Eickhoff and **leased** it to the enterprise.

Belarussian Telegraph Agency NOVOSTI BELTA

August 14, 2001

With the help of leasing, the Minsk Auto Factory (MAZ) has expanded its presence in the Bulgarian market. The joint stock company **B-M-Lizing**, the official MAZ representative in Bulgaria, is focusing on expanding the presence of MAZ in Bulgaria. At an exhibition organized in the Bulgarian capital, Belarussian dump trucks aroused great interest among representative of Sofia business circles. Thanks to **B-M-Lizing**, up-to-date models of MAZ cars are being more widely offered on the market in Bulgaria and the Balkan region. **B-M-Lizing** also plans to expand its service network for this machinery in Bulgaria.

Belarussian Telegraph Agency NOVOSTI BELTA

September 22, 2001

A Ukrainian leasing company has begun deliveries of agricultural equipment to Kazakhstan. The Kazakhstan company KazAgroFinans signed a contract for the sum of \$761,690 with the Ukragromashinvest **leasing** company for delivery of nine assemblages for the Lan combine concern, with subsequent assembly in Kazakhstan at the Petropavlovsk Small Engine Factory. At present, all nine combines are assembled and undergoing tests on farms in the country.

Kazakhstanskaya Pravda

September 26, 2001

Media survey prepared by Viktoria Struts

QUESTIONS AND ANSWERS

NOVEMBER - DECEMBER 2001, Issue 6 (18)

◀ CONTENTS

•

Does a foreign leasing company have to pay property tax on an asset that is the subject of a lease agreement?

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What amount of lease installments paid would be sufficient for the leasing company to lose its right to terminate the lease agreement and take back the property from the possession and use of the lessee?

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In which instances do 'differences in totals' (currency gains or losses) arise when leasing companies acquire items and how are these differences accounted for and taxed?

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A leasing company acquired an item under a leasing contract and included it in its accounts on August 12, 2001. On what amount will property tax be paid for this equipment at the end of the year?

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How, according to the new accounting system, are deposits on leasing payments received from customers included in accounts?

Does a foreign leasing company have to pay property tax on an asset that is the subject of a lease agreement?

Pursuant to Article 2 of the Law on Tax on the Property of Enterprises, assets on a taxpayer's balance sheet is taxable, so a foreign leasing company will only have a tax obligation if the leased asset is reflected on the lessor's balance sheet. But compliance with this condition is not always grounds for assessing property tax payable by the leasing company. To answer the question of whether the leasing company must pay the property tax, we must first of all determine whether the leasing company's country of residence has a treaty on the avoidance of double taxation with the Russian Federation^[1]. If there is such a treaty, the leasing company's property will be taxable as follows:

1) Tax on immovable assets shall be payable in accordance with Russian



*Stanislav Kovynev,
Lawyer with the IFC Leasing Development
Group, answers questions from our readers*

Federation legislation.

2) Taxation of movable property will depend on whether the leasing company has a permanent representative office in the Russian Federation. If it does have a representative office^[2], then movable assets, which in our view cannot be characterized as anything other than entrepreneurial assets of the representative office, will also be subject to property tax in Russia.

3) If the leasing company has no representative office in Russia, then movable assets that are subject to a lease agreement will be taxable in the leasing company's country of residence.

In the absence of a double taxation treaty with the leasing company's country of residence, the company's assets will be taxable in accordance with Russian Federation legislation.

Issues related to the taxation of nonresident legal entities having assets in the Russian Federation are currently regulated by RF Tax Ministry

Instruction #38 of September 15, 1995. Pursuant to this instruction, the basis for determining the value of property for tax purposes is the book value, which is calculated proceeding from the initial cost (acquisition cost) with depreciation taken into account. According to section 3.3 of this instruction, accrued depreciation is calculated in accordance with the laws of the foreign legal entity's country of permanent residence. At the same time, the amount of depreciation accrued according to the laws of the country of permanent residence to be deducted from the property value for tax purposes may not exceed the following yearly values: for buildings and structures: 5%; for passenger cars, office furniture and equipment, computers, information systems, and data processing devices: 25%; for other property: 15%.

Property tax is payable on a quarterly basis at the rates established by the legislative (representative) authorities of the relevant Russian Federation regions, whose rates may not exceed 2% of the property's book value.

[1] Most of the double taxation treaties signed by Russia take a similar approach in regulating issues related to foreign legal entities and the property tax, with the most frequently encountered procedure being the one outlined in the answer to this question.

[2] It should be noted that the criteria established in the RF Civil Code for determining whether a foreign organization has a representative office differ from those established in the tax legislation.

What amount of lease installments paid would be sufficient for the leasing company to lose its right to terminate the lease agreement and take back the property from the possession and use of the lessee?

The lease installments payable by the lessee constitute payment for the possession and use of the property, and even when they have been paid in an amount approaching 100% of the specified contract price, this cannot be viewed as grounds for title to the leased property passing to the lessee. Consequently, this does nothing to limit the powers of the owner of the property (the leasing company), as contemplated by Article 11 of the Leasing Law. This includes the power to terminate the contract and take back the property.

Presumably, this question arises owing to the rule established in Article 489.2 of the RF Civil Code whereby, once the buyer has paid 50% of the cost of the property being acquired, the seller loses the right to terminate the agreement and seek the return of the sold goods. Whereas this rule governs relationships connected solely with the sale and purchase of goods on an installment basis, it cannot be applied to leasing legal relationships.

In which instances do 'differences in totals' (currency gains or losses) arise when leasing companies acquire items and how are these differences accounted for and taxed?

The term 'difference in total' is understood as the currency gain or loss due to the difference between the ruble evaluation of debt, expressed in foreign currency (standard currency units), paid at an official or other agreed rate on the date of its inclusion on a company's accounts, and the ruble value of this debt, calculated at the official exchange rate or another agreed rate on the date of payment.

Consequently, when leasing companies acquire assets, currency gains (losses) may arise when: (1) payment is made in rubles in an amount equivalent to the amount due in foreign currency (standard currency unit), and (2) a period of time elapses between the date the property assets are included on the company's accounts and the date they are paid for.

Currency gains (losses) that arise prior to the property assets being included on a balance sheet are calculated as part of expenditure on acquiring the property assets and are included in the initial cost of the property assets acquired^[1].

Currency gains (losses) that arise in connection with the payment of debt to suppliers after the receipt of the property assets by the leasing company (see section 03 "Investment of Revenue in Material Goods,") do not increase the initial value of the property assets. In this case the differences are considered to be part of non-sales revenue or expenses and are reflected in section 80 "Profit and Loss"^[2] (according to the New Plan section 91 "Miscellaneous Revenue and Expenditure"). Until December 31, 2001 currency losses that arise during the acquisition of property assets are not recognized as a deductible expense^[3].

With the implementation on January 1, 2002 of Chapter 25 of the Tax Code of the Russian Federation "Corporate Profit Tax," for the purpose of taxation, currency gains or losses will be taken into consideration on revenue, expenditure, property, debt and demands expressed in foreign currency ^[4]. This means that currency losses that may arise when a leasing company acquires property under a leasing contract will reduce the taxable base after their inclusion on the balance sheet and will be deductible as an expense.



*Elena Degtiareva,
Financial Analyst with the IFC Leasing
Development Group, answers questions from
our readers*

^[1] (1) P. 8. Directive on accounting "Accounting of Property Assets" PBU 6/01, confirmed by a decree from the Russian Finance Ministry from 30.03.2001 No. 26H.

^[2] Russian Finance Ministry letter from July 14, 2001, No. 04-02-05/1.

^[3] Until Chapter 25 of the Tax Code "Corporate Profit Tax" comes into effect, the system for the calculation of taxable profit is regulated by a directive on the make-up of spending on production and sales of goods (work, services), included in the cost of products (goods, services)..., confirmed by Russian Government Resolution No. 552, from 05.08.92, in accordance with which negative differences in totals (currency losses) are not included in the make-up of non-sales costs, calculated in taxing profits. Negative differences in totals reduce taxable profit only when they apply to spending on standard operating activities, in accordance with PBU 10/099 "Corporate Expenditure."

^[4] Article 271, p. 7, Chapter 25 of the Russian Tax Code.

A leasing company acquired an item under a leasing contract and included it in its accounts on August 12, 2001. On what amount will property tax be paid for this equipment at the end of the year?

The system for calculating property tax is regulated by the Law and Directive of the State Tax Service of the Russian Federation from 8.06.95 No. 33 "On the System for the Calculation and Payment of Corporate Property Tax." According to point three of this directive, for taxation purposes the value of the corporate property is established for the reporting period (each quarter) by dividing by four the total received from adding half of the value of the property on January 1 of the reporting year and on the first date of the next month after the reporting period, and also the total value of the property on the first date of the all the remaining quarters in the reporting period.

This means that to calculate the average annual value of the property at the end of the year, a company uses the following formula:

$(1/2 \text{ of the value of the property on } 01.01.01 + \text{ the value on } 01.04.01 + \text{ the value on } 01.07.01 + \text{ the value on } 01.10.01 + ? \text{ of the value of } 01.01.02)/4$

Because the taxpayer pays tax quarterly on property brought into use in August for 2001, tax will be paid for the third and fourth quarters, and total tax paid for the year will amount to:

The tax rate ^[1] X (the value of the property on 01.10.01 + ? of the value on 01.01.02)/4.

^[1] In accordance with the law "On Corporate Property Tax" No. 2030-1 from 13.12.91, the ceiling for the corporate property tax rate cannot exceed 2% of the taxable base.

How, according to the new accounting system, are deposits on leasing payments received from customers included in accounts?

Deposits are considered to be money paid by one party to an agreement to the other side, as proof that the agreement has been entered into and to ensure its implementation. ^[1]In addition to being a guarantee, deposits also have a settlement function, as they are counted against a payment due.

For accounting purposes, there is no separate section for deposits. As deposits have a settlement function involving the advance payment for goods, work or services, the received deposit may be considered an advance.

While under previous accounting rules account 64 was used for advances received, according to the new plan there is no separate account for advances. Total advances and preliminary payments received are included as credits in section 62 "Settlements with Buyers and Contractors," in which a special subsection "Settlement on Advance Receipts" has been established.

These payments should be accounted for as follows:

- D51 K62, subsection "Advance Payments" (300): deposit received;
- D62, subsection "Advance Payments" K68 (50): VAT;
- D62, K90-1 (1200): leasing payments due;
- D90-3 K68 (200): VAT paid;
- D51 K62 (900): leasing payments made;
- D62, subsection "Advance Payments" K62 (300): deposit included on leasing payment; and
- D68 K62 subsection "Advance Payments" (50): VAT restored from the amount of the deposit.

Deposits may also be included in section 76 "Settlements with Various Debtors and Creditors." This opinion is supported by the Russian Finance Ministry in its letter from October 28, 1998, No. 04-01-01D. This letter states that money received in the form of a deposit should be included in section 76 "Settlements with Various Debtors And Creditors," corresponding with sections for accounting money. In cases when these funds are not subject to return under the conditions of the contract, they are written off as credit in section 46 "Sales of Products (Work, Services)." ^[2]

^[1] Article 380 of the Civil Code of the Russian Federation.

^[2] According to the New Plan, section 90 "Sales" subsection "Revenue."