

Anna STOS-ROMAN
GTC Life Science AB
a.stosroman@gmail.com

LEASING AS A FORM OF FINANCING OF TECHNOLOGY TRANSFER

Key words:

Leasing, technology transfer, trade lease, the leasing company, forms of financing technology transfer.

Abstract

This article presents the characteristics of leasing as a form of financing innovative activity of enterprises consisting in the acquisition of technology. The aim of this paper is to identify important issues related to the leasing transaction in terms of technology transfer.

Introduction

One of the barriers to the development of innovation operators is the difficult access of enterprises to external sources of financing innovative projects. The problem of capital is faced by small and medium entrepreneurs in particular. Traditional alien forms, for example, loans or credit, are for them readily available and often inadequate, particularly in the initial stage of a project. In addition, traditional sources of capital in the form of, e.g., shares and the payment of subsidies by the shareholders, make contributions of an enrolment in a grant difficult or impossible. These barriers are so strong and difficult to overcome that entrepreneurs tend to seek alternative forms of financing innovative projects. Enterprises are increasingly turning to the unconventional methods of financing innovation, such as a lease.

Leasing is one of the commonly used means of financing business ventures, including innovative undertakings preceded by the process of technology transfer (leasing as a contract used for the transfer of technology).

Technology transfer is a “process of communicating all the information necessary for one entity to duplicate the work of another entity.” The information transferred can take two forms: technical (e.g. engineering and scientific knowledge, standards) and procedural (e.g., legal, confidentiality agreements, patents, licenses) [1]. Technology transfer is a process in which the technology is moved from one organization (a creator) to a receptor organization by which it is utilized. It needs to be emphasized that the transfer of technologies constitutes a source of innovations for enterprises, which do not have sufficient funds to establish their own R&D centres or develop new technologies themselves. According to A.H Jasiński [2], technology transfer is a result of technical innovation.

The transfer of technologies can take place between the following entities:

- Enterprises,
- R&D institutions and enterprises, and
- R&D institutions.

P. Głodek [1] indicates that the following two types of technology transfer can actually be identified in real economic conditions:

- Passive technology transfer in which a company acquires a technology from external sources and does not conduct any R&D activity on its own; and,
- Active technology transfer, in which a company acquires and utilizes technologies from external sources, but at the same time, conducts their own R&D activity.

1. Leasing as a means of technology acquisition

Sale is one of the most common technology commercialization paths. However, in the case when the company does not have enough money to buy a new technology, leasing is a far more advantageous means of technology transfer (also with reference to tax benefits). Quoting L. Lewandowska [3]: “Leasing is an exclusive means of financing new technologies in fixed assets in a situation when the company does not have credit rating and therefore is incapable of presenting a bank with the account history.”

Generally, it can be stated that leasing consists in offering investment goods for non-gratuitous use. The amount of leasing fees allows the recovery of the capital spent on the acquisition of goods, together with profit. Therefore, leasing can be treated as a form of loan, which consists in the periodical usage of goods or property rights for a certain amount of money without the need of purchasing it. This gives companies the possibility to save money needed for the purchase of equipment required for their proper running, or it helps them acquire

investment goods whose purchase would significantly exceed the financial possibilities of the licensee.

Due to numerous forms and types of leasing transactions, the literature on this subject lacks a homogenous definition of the term.

According to the International Accounting Standard No 17, leasing is an agreement whereby the lessor conveys to the lessee, in return for a payment or a series of payments, the right to use an asset for an agreed period. Understood in this way, leasing is a way in which assets can be used, and profits are generated for those who are not their owners [8]. A lessor who conveys certain goods (assets) to a lessee is their owner until the contract expires, whereas the lessee is only legally entitled to use the asset, therefore he/she is its user.

Leasing can also be defined as the exchange of goods, materials, equipment, or properties as a result of which, after the expiry of the contract, these assets can, if requested by the lessee, become his/her property once the price is agreed with the lessor, and partial or full rent fees are deducted [5].

The definitions of leasing vary between legal and tax regulations, and the latter cover a wider scope than the definitions provided by the civil code, treating leasing as any form of agreement in which the “financing party” conveys to the “user,” in return for a payment, fixed assets of non-material or legal goods, as well as land, from which the user can generate profits [7]. Lease contracts cover a wide range of goods, which the “financing party” (the lessor) can convey to the “user” (the lessee).

Taking the character of goods that are the subject of a lease contract into consideration, the following types of leasing are distinguished [6]:

- Leasing of capital goods,
- Leasing unique goods, and
- Leasing of consumer goods.

Leasing of capital goods is divided into the leasing of movable assets and immovable properties. Within the latter, a lease of a company or its parts is possible.

Leasing of unique goods (e.g. specialized technological lines) can take a form of long-term lease contracts (multi-year) or can be treated as a form of financial leasing. In the latter case, this leads to the acquisition of the leased asset by the lessee at the end of the primary term of the contract. This type of lease is implemented on a specific demand of the lessee, who often indicates a specific manufacturer of goods to be covered by the lease. Unique property leases are subject to high risks because of the difficult marketability of these assets; therefore, the “financing party” collects a significant down payment to complete the order. These fees may even amount to the 50% of the value of the leased object.

Leasing of consumer goods concerns durable goods and consists in a short-term popularization of goods for personal use, usually for a period less than four months.

2. Characteristics of lease contracts

According to the definition of lease found in the civil code, only an enterprise active in the field of leasing can become a “financing party.” A leasing company is neither a manufacturer nor the contractor of things being the subject of the lease, which are only directly purchased from the seller (manufacturer, retailer, and dealer) in order to be later made accessible for the lessee.

The following leasing companies can be distinguished in practice [4]:

- Independent (e.g. Europejski Fundusz Leasingowy S.A.);
- Bank (np. BRE Leasing Sp. z o. o., Raiffeisen Leasing Polska S.A.); and,
- Captive – connected with dealers, manufacturers (e.g. Mercedes-Benz Leasing Polska Sp. z o. o., Volkswagen Leasing Polska Sp. z o.o., Siemens Finance Sp. z o.o.).

In recent years, we have witnessed the consolidation of the leasing industry. The examples of the consolidation of leasing companies on the Polish market include the following:

- Handlowy Leasing Sp. z o.o., established in 2006 as a result of the fusion of Handlowy Leasing SA and Citileasing Sp. z o.o.; and,
- Pekao Leasing Sp. z o.o. established in 2009 as a result of the merger of Pekao Leasing Sp. z o.o., Pekao Leasing and Finanse SA and Pekao Auto Finanse SA).

The leasing companies were interested in fusion due to the following reasons:

- Difficulties in financing (no access to cheap capital), and tax solutions boosting the costs of leasing;
- The need for modern know-how, including the knowledge of international accounting standards, risk management skills, the ability to properly manage finance and cash flows, or the ability to find niches in the market of leasing services and mastering them;
- Increased effectiveness requirements (strategy focused on the optimization of cost management, economy of scale);
- The demand for innovations; and,
- etc.

An entity that can be a lessee is either an entrepreneur (natural person, legal person, entity without legal personality) who utilizes the leased item to the needs of the business, or an individual who does not run a business and needs a leased item for personal use only. Therefore, a lease agreement does not have to be entered into only by business entities.

There are several legal rules concerning the conclusion of the contract that can be observed in lease practice [7].

The initiator of the leasing transaction is a potential beneficiary (lessee) – an entrepreneur according to whom leasing is the most advantageous method

of financing his/her investments. The lessee looks for a lessor – one of the leasing companies operating in the market, whose offer best meets his/her requirements. When building their offer, leasing companies pay attention to the financial and investment needs of the potential client. The products they offer target both entrepreneurs, who want to quickly make investments of low or average value, as well as those, those who have such investments planned for the long-term period. These offers vary in terms of procedural and financial terms (i.e. regarding the involvement of the beneficiary's own funds).

When choosing an offer of the leasing company, the lessee should mainly pay attention to the total cost of a leasing transaction, including:

- In the case of the operating lease, the value of all lease payments including a down payment, the value of the insurance policy, and the price of the purchase of the leased object, if such option is available;
- In the case of financial lease, the value of the interest rates from lease payments, depreciation charges, a down payment, and the value of the insurance policy, and the price of the purchase of the leased object, if such option is available.

Other conditions the lessee should take into consideration include the following:¹

- The period for which the lessor (leasing company) is willing to convey the goods;
- The flexibility of the lessor as far as the payment options are concerned;
- The method of securing leasing transactions, which usually include the promissory note, a deposit, or alienation;
- The credibility of the lessor; and,
- The way the lease is insured.

In the latter case, it is best to choose the lessor who offers an insurance package of the cooperating insurance company. This will shorten the procedure of concluding the contract transaction – all the formalities related to the insurance of the leased asset are dealt with, on behalf of the beneficiary, by the lessor. At the same time, there are also tax benefits, because the value of the policy is included in the value of the lease.

The lessee, once the lessor is chosen, must send a formal application for a lease, whose structure is imposed by the lessor. The application is a formal confirmation of the notification of a potential lessee's interest in the conclusion of the lease agreement for a given asset.

The formal structure of the application may be composed of the following elements [7]:

- Information on the applicant (potential lessee) – general information (name, location, legal status, tax identification number, etc.),

¹ Information gathered within training in a leasing company.

- Information about the subject of lease – specification of the parameters, conditions of purchase, etc., and
- security of transaction,
- Attachments:
 - Documents concerning the subject of the lease (pro forma invoice, offer),
 - Legal documents showing the current situations of potential user,
 - Financial documents:
 - Monthly (or semi-annual and annual) tax (PIT or CIT) statements for the last fiscal year,
 - Financial statistics in accordance with reporting obligations,
 - Tax Office, Social Security Office (US, ZUS) or bank statements,
 - A statement of commitment, and
 - Declaration of Assets.

In individual cases, the range of documents that can be adapted by the leasing company to the specifics of the leasing transaction and some simplifications can even be introduced.

Once the application and other required documents are submitted by the potential lessee, they are assessed by the leasing company, and any possible risks associated with the transaction are evaluated.

Based on the analysis of the application and the documents attached, the leasing company decides whether to conclude the lease contract or not.

Every leasing company, when assessing the credibility of the client, applies own risk assessment procedures. The assessment of risks associated with the beneficiary is defined as the probability of the client's inability to make payments under the lease agreement. The risk assessment procedure can be a multi-stage process including for instance the following [7]:

- a) The analysis of the leased asset and the suppliers – the analysis of the liquidity of the asset, the assessment of the reliability of the supplier, and the market value of similar products by other vendors;
- b) The analysis of the general characteristics of the client – the assessment of the credibility of submitted documents, the evaluation of the industry in which the client operates, and his/her position on the market; and,
- c) The assessment of the investment project focused on the type of the project, its location, and costs, the schedule of project's implementation in physical and financial terms, payment terms, completion date, if the customer provides a business plan of his/her venture it should also be evaluated. What should also be assessed is the amount of resources the client can use to finance the project, the strengths and weaknesses of the project, etc.; and,
- d) The economic and financial analysis – carried out based on financial documents submitted by the client.

The last stage of the procedure, consisting in the assessment of the potential lessee's financial performance (financial condition), is at the same time the most

crucial one. The assessment of the financial performance allows the lessor to determine the degree of risk associated with the customer and helps him/her classify the potential lessee into one of two groups of customers.

The first group consists of enterprises whose financial situation and the assets do not raise doubts, and with whom the lessor is likely to do business. The other group concerns customers whose situation is difficult to diagnose or poses a threat to the success of the transaction (e.g. due to low profitability, high debt, low value of assets, improper handling of loans or liabilities from the already concluded lease agreements).

A tool that helps leasing companies to qualify potential lessees into one of the above-mentioned groups is the ratio analysis. Based on the financial statements submitted by the potential customer, profitability ratios (e.g. ROA, ROE), liquidity ratios, debt ratios, turnover ratios (including the cycle of dues, inventories, payables), supplementary indicators, such as own coverage of capital assets or fixed assets etc., are calculated. The values of indicators resulting from the calculation should be compared with the corresponding border values. A client can be assigned to the first group, for instance, if the level of risk associated with him/her is positively assessed, i.e. if out of the selected 5 relations at least 3 or 4 are met. The number of indicators of acceptable values depends on the policy of risk assessment adopted by the leasing company.²

Summary

According to the Polish Leasing Association, the past few years have seen the development of the leasing industry [9]. Figure 1 presents the value of leasing transactions between 2005 and 2012.³

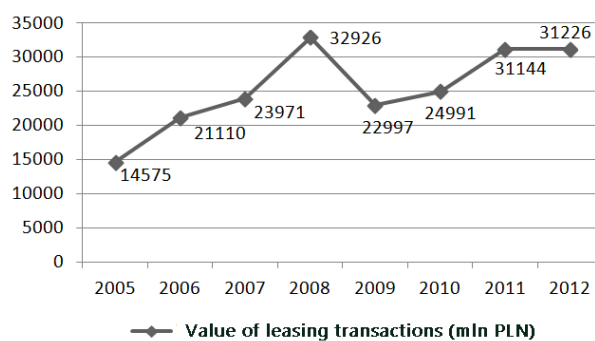


Fig. 1. Value of lease contracts in the 2005–2012 period [in millions PLN]

Source: Author, based on data available on <http://www.leasing.org.pl/statystyki/2012> (retrieved 10.11.2012 and 10.11.2013).

² Information gathered within training in a leasing company.

³ The Author completed the research in October 2012.

In the 2005–2008 period, there has been a large growth of the leasing market in Poland. The value of items leased in that period increased by ca. 30% per year, reaching, at the end of 2008, a record value of 32 926 million PLN. In 2009, as a result of the global crisis, the value of the leasing market fell by 30.2%. A year later, however, the market started to recover. In the four years since the crisis of 2009, the value of the leasing market has grown from 22 997 million PLN in 2009 to 31 226 million PLN in 2012.

The development of the leasing market is the result of the preferences of entrepreneurs regarding this form of financing in their operations. Leasing is chosen by more entrepreneurs to fund innovative projects (compared with loans). According to L. Lewandowska [3], this stems from the following benefits a leasing transaction can offer:

- No assertion for creditworthiness;
- The possibility to choose different lease payment options;
- Simple procedure;
- Short execution time;
- Standard securities/ guarantees – i.e. the subject of the lease itself;
- The ability to transfer the rights and obligations of the lessee to a third party; and,
- The ability to transfer latest technologies.

The structure of the subject matter of leasing transactions in the 2005–2012 period was reasonably stable. Table 1 shows the percentage share of movable and immovable properties leased between 2005 and 2012.

Table 1. The structure of the subject matter of leasing transactions in the 2005–2012 period

Year	2005	2006	2007	2008	2009	2010	2011	2012
1. Vehicles	49%	54%	46%	55%	53%	62%	54%	54%
2. Machines	29%	30%	36%	30%	33%	26%	35%	36%
3. IT	2%	2%	2%	2%	2%	2%	2%	2%
4. Planes, ships, railways	2%	3%	2%	2%	2%	3%	3%	3%
5. Other movables	1%	1%	1%	1%	1%	1%	1%	1%
6. Real estate	17%	10%	13%	10%	9%	6%	5%	5%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: Author based on data available on <http://www.leasing.org.pl/statystyki/2012> (retrieved 10.11.2012 and 10.11.2013).

In the 2005–2012 period, vehicles were the most common subject of lease agreements – ca. 53% of the value of all items leased in this period. The vehicles were followed by machinery and equipment (ca. 32%). The share of the value of properties leased have seen a steady decline since 2007, and in the 2011–2012 period it amounted to only 5%. The value of other items leased did not exceed 3%.

Analysing the structure of subject matter of lease transactions over the selected period, it can be stated that Polish companies use leasing for the implementation of innovative projects that primarily require the acquisition of vehicles and machines.

References

1. Głodek P.: Transfer technologii, (in:) „Innowacje i transfer technologii. Słownik pojęć”, Matusiak K.B. (red.), Warszawa 2005, pp. 168–169.
2. Jasiński A.H.: Innowacje i transfer techniki w procesie transformacji, Difin, Warszawa 2006, pp. 20–29.
3. Lewandowska L.: Innowacyjność firm w regionie w kontekście niekonwencjonalnego finansowania, (in:) „Innowacyjność regionów w gospodarce opartej na wiedzy”, Nowakowska A. (red.), Wydawnictwo Uniwersytetu Łódzkiego, Łódź 2009, pp. 212.
4. Ostaszewski J.: Wykorzystanie transakcji leasingowych w zwiększaniu aktywności gospodarczej w Polsce, Kredyt Lease S.A., Warszawa 2001, pp. 16–18.
5. Poczobut J.: Wszystko o leasingu, Przegląd Podatkowy Nr 3/199, pp. 1.
6. Snopczyński M.: Opodatkowanie leasingu, C.H. Beck, Warszawa 2002, pp. 11–12.
7. Stos A.: Opodatkowanie stron transakcji leasingowych, praca magisterska Autorki, Łódź 2005, pp. 6–7.
8. Żałupka D., Zyniewicz M.: Leasing ABC oraz D, UNIMEX, Wrocław 2001, pp. 11.
9. <http://www.leasing.org.pl/statystyki/2012>.

Leasing jako jedna z form finansowania transferu technologii

Słowa kluczowe

Leasing, transfer technologii, transakcja leasingowa, firma leasingowa, formy finansowania transferu technologii.

Streszczenie

Artykuł prezentuje cechy charakterystyczne leasingu jako szczególnej formy finansowania przedsięwzięć innowacyjnych przedsiębiorstw polegających na nabyciu technologii. Celem opracowania jest wskazanie istotnych zagadnień związanych z transakcją leasingową w kontekście transferu technologii.

