

Leasing practice in Algeria: Current situation and constraints

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Abstract:

Leasing is an original financing technique that enables all types of companies, especially the smallest, to finance their investments and expand their activities without burdening their equity capital. Leasing is one of the financing methods recently introduced in Algeria. The legal framework governing this activity was only put in place in 1996 by Ordinance 96/09 of January 10, 1996. The aim of this article is to provide an overview of the practice of this new financing modality in Algeria, its challenges and the major constraints hindering its development. To achieve this, we developed an analytical approach by attempting to explain the concept of leasing, on the one hand, and on the other hand, to present the Algerian leasing market, focusing particularly on the obstacles hindering the development of this new mode of investment financing in Algeria. The results of our study clearly show that the Algerian leasing experience is still in its infancy. Its expansion still requires an attractive technical, legal and fiscal framework. The introduction of healthy competition on the leasing market is also likely to contribute to the expansion of this new investment financing method.

Key words: Leasing, leasing market, constraints, Algeria.

Introduction:

Leasing is an investment financing method that offers companies, particularly the smaller ones, the possibility of mobilizing financial resources to support their investment projects and expansion without committing their own funds. This approach is an effective tool for stimulating economic growth and fostering the development of small and medium-sized enterprises (SMEs) (Nasr, 2004).

Leasing first appeared as a form of asset financing in 1877, when the American company Bell Telephone Co. decided to offer telephone sets on lease rather than for sale. However, leasing really took off in the 1950s, with the creation

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of the United States Leasing Corporation in 1952; Australia and Africa, particularly the Arab Maghreb (Garrido, 2002).

Leasing has made a name for itself worldwide thanks to the advantages it offers, such as full financing and the absence of collateral requirements. It is therefore considered highly competitive when compared with other banking products on the market. This attractive form of financing enables all companies, particularly those of modest size, to access this advantageous financial solution while preserving the common interests of all parties involved.

In Algeria, leasing was first introduced in 1990 by Law No. 90-10 of April 14, 1990 on money and credit. But it wasn't until 1996, with Ordinance no. 96-09 of January 10, 1996 on leasing, that legal provisions were introduced to promote the creation of leasing companies by removing the obstacles that were holding back the expansion of this new investment financing method.

However, it wasn't until 1998 that the first leasing company was set up: Société Algérienne de Leasing Mobilier "SALEM", specialized in the agricultural sector and related activities. The first private leasing company, Arab Leasing Corporation (ALC), did not appear until 2000 (Hideur, 2002).

With these facts in mind, our aim is to provide an overview of leasing in Algeria, its challenges and the major constraints hindering its development. More specifically, we will attempt to answer the following question: **What is the reality of leasing in Algeria? And what are the constraints hindering its development?**

In an attempt to address these questions, we have formulated the following hypothesis: The Algerian leasing market lacks an appropriate institutional framework to ensure its proper functioning.

To try to answer to our problematic, our methodological approach is based on a descriptive and analytical approach at the macroeconomic level.

To organize our research, we have divided our work into three sections. In the first section, we attempt to explain the concept of leasing and provide a general overview of the global leasing market. The second section presents the Algerian leasing market. In the final section, we will take stock of the obstacles to the development of this new investment financing method in Algeria.

THE FIRST TOPIC: WHAT IS LEASING

In this section, we explain what leasing is. To do this, we will first define leasing, then present its advantages, disadvantages and main characteristics, and finally give a general overview of the global leasing market.

FIRST REQUIREMENT: DEFINITION AND CHARACTERISTICS OF LEASING

In its simplest form, leasing is a medium-term contract between two parties, under which one party (the lessor) grants the use of an asset to another party (the lessee) for a specified period, in exchange for payments according to a schedule (rental payments) and an exit option (purchase option) contractually agreed at the outset of the transaction. The purchase option thus gives the lessee the option of acquiring the leased asset at a price contractually agreed at the outset (residual value), taking into account the rental payments already made (SFI, 2017).

Leasing is practiced by financial companies that act as intermediaries between producers and users of capital goods. The goods are selected by the user and purchased at his request by the leasing company, which then rents them to him. The leasing price must cover the leasing company's overheads, independently of the purchase price of the equipment, while leaving the leasing company a certain profit margin. The leased equipment is delivered directly to the lessee, who bears all transport and installation costs. The duration of the lease generally coincides with the period of tax depreciation of the equipment concerned. Finally, at the end of the contract, the lessee can either return the equipment, acquire it for a pre-determined price, or enter into a new leasing contract (Raouya, 2008).

SECOND REQUIREMENT: ADVANTAGES AND DISADVANTAGES OF LEASING

Leasing is an investment financing technique that offers companies, particularly those of modest size, the possibility of mobilizing financial resources to support their investment and expansion projects without committing their own funds. This approach is an effective tool for fostering competition in the financial sector, and thus promoting investment and economic growth.

Leasing has other advantages for the lessee: less stringent requirements for historical balance sheets, giving start-ups and small businesses access to financing; little cash required, as leasing can finance a higher percentage of the capital cost of equipment than bank borrowing; lower transaction costs despite the relatively high

spreads of leasing; and tax incentives, as lessees can deduct the full amount of their lease payments with their pre-tax income, instead of just the interest on bank loans. For the lessor, the leasing generates higher returns than other types of credit. This difference is justified by the risk taken by the lessor in financing the entire investment. Moreover, by retaining ownership of the leased asset, the lessor is more secure in the event of default on repayment, especially if the repossession procedure is straightforward. (Nasr, 2004)

Despite the many advantages of leasing, however, companies may limit their use of leasing, preferring bank loans instead, because of the loss of operational mobility for the company. In effect, a company that commits to a leasing operation will operate a business for an irrevocable period, and loses the ability to redeploy if the business is no longer profitable, or if the sector is hit by a major economic shock, slowing down its activity. This never happens with debt-financed assets. Leasing contracts cannot be terminated without the lessee having to pay early termination penalties. This rigidity in the company's redeployment policy can then limit its use (Filareto-Deghay & Séverin, 2006).

The cost associated with the loss of operational flexibility depends on the size of the company. Larger companies have a greater capacity for internal redeployment due to their more diversified activities, and this for less specific assets that can be put to alternative use. For companies experiencing financial difficulties, the cost of the loss of financial flexibility will be all the greater as it makes redeployment to the most profitable activities more difficult.

THIRD REQUIREMENT: THE GLOBAL LEASING MARKET

In 2022, the global leasing market exceeded \$1470 billion in sales, up 0,48% on 2021 (Table 1). The North American market (USA, Canada and Mexico) remains the largest, with 37,15% of the global market. The USA is the dominant player in the region and the world's largest leasing market.

The European market is slightly below the North American market, with a share of 30,05% in volume terms respectively. The UK and Germany are the third and fourth largest leasing markets in the world, and remain the dominant players in Europe. They will account for 40% of the European market and 12% of the global market in 2022 (Hamilton, 2024).

Asia comes third, with a 28,94% share of the global market, and China's predominance. Indeed, China remains the world's second-largest leasing market, with a considerable margin. New business volume is expected to reach US\$318,42

billion in 2022, with growth of almost 1,34% compared to 2021. Japan, the world's fifth-largest leasing market, achieved a business volume of US\$63,8 billion in 2022, making it Asia's second-largest market after China.

Australia, New Zealand and South America, however, occupy a very small share of just 3,52%.

Africa accounts for 0,34% of the global leasing sector, with four African countries in the world's top 50 leasing performers: Morocco, South Africa and Nigeria. These low penetration rates are due to the underdevelopment of the financial sector, the dominance of banks in this sector and a lack of awareness of these sources of financing (BAD, 2011).

Table 1: Volume and growth region (2021-2022)

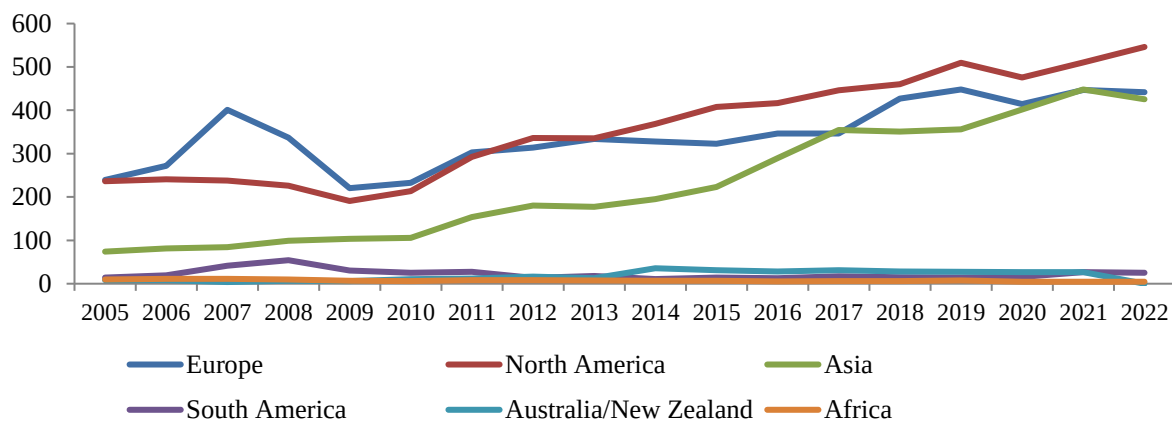
Rank by volume	Region	Annual volume (US\$bn)	Growth 2021-22(%)	% of world market volume 2021	% of world market volume 2022
1	North America	546,06	7	34,88	37,15
2	Europe	441,73	-1,1	30,52	30,05
3	Asia	425,44	-5	30,62	28,94
4	Australia/ New Zealand	26,50	-0,8	1,83	1,80
5	South America	25,33	-5	1,82	1,72
6	Africa	4,94	0,2	0,34	0,34
	Total	1 470			

Source: Hamilton, D. (2024). The global leasing industry adapts and adjusts in the face of economic turbulence. Solifi Global Leasing Report, Minneapolis, p 4.

Between 2005 and 2021, the leasing sector recorded a considerable growth rate, rising from 582 billion US dollars in 2005 to 1470 billion US dollars in 2022, with annual growth rates averaging 5,60%. The main reason for this considerable development is that the leasing sector plays a very important role in the development of financial markets, by providing financing to companies, particularly small businesses facing problems in obtaining credit from banks.

Figure 1: Worldwide leasing volume, 2005-2021 « in billions of dollars »

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Source: Hamilton, D. (2024). The global leasing industry adapts and adjusts in the face of economic turbulence. Solifi Global Leasing Report, Minneapolis, p11.

To demonstrate the relative importance of leasing activities worldwide, we believe it is useful to present the leasing penetration rate as a percentage of GDP. The data in Table 2 show that Sweden, Estonia, Slovenia, Lithuania, United Kingdom, Taiwan and Denmark are among the countries with the highest penetration rates, in excess of 3%.

Table 2: Annual leasing volume as a percentage of Gross Domestic Product

Ranking	Country	% Market penetration	Ranking	Country	% Market penetration
1	Sweden	4,05	11	France	2,25
2	Estonia	3,79	12	Croatia	2,13
3	Slovenia	3,54	13	Latvia	2,09
4	Lithuania	3,24	14	Austria	2,03
5	United Kingdom	3,14	15	Puerto Rico	2,02
6	Taiwan	3,11	16	United States	1,97
7	Denmark	3,10	17	Bulgaria	1,96
8	Slovakia	2,99	18	Germany	1,93
9	Poland	2,91	19	Czech Republic	1,83
10	Colombia	2,70	20	Switzerland	1,81

Source: Hamilton, D. (2024). The global leasing industry adapts and adjusts in the face of economic turbulence. Solifi Global Leasing Report, Minneapolis, p12.

In Africa, only three countries feature in the world's top 50 leasing countries. Morocco ranks first in Africa, with a penetration rate of 1,34%, and 32nd in the world. South Africa comes second in the African leasing market with a penetration rate of 0,46%, ranking 40th worldwide. Next comes Nigeria, with a penetration rate of 0,28%.

Table 3: Annual leasing volume as a percentage of Gross Domestic Product in some African countries

Ranking	Country	% Market penetration
32	Morocco	1,34
40	South Africa	0,46
44	Nigeria	0,28

Source: Hamilton, D. (2024). The global leasing industry adapts and adjusts in the face of economic turbulence. Solifi Global Leasing Report, Minneapolis, p12.

THE SECOND TOPIC : THE LEASING MARKET IN ALGERIA: CURRENT SITUATION AND CONSTRAINTS

Today, leasing occupies a vital place in the financing of SMEs and the national economy. In order to measure and demonstrate its importance on the national market, we will first outline the regulatory framework for leasing in Algeria, then present, in a few figures, the main characteristics of the leasing market in Algeria, and finally we will take stock of the constraints hindering the development of leasing in Algeria.

FIRST REQUIREMENT: REGULATORY AND TAX FRAMEWORK FOR LEASING IN ALGERIA

In legal terms, leasing was introduced in Algeria in 1990 by law no. 90/10 of April 14, 1990 on money and credit, but it was not until 1996 that legal and fiscal provisions were introduced to promote the creation of leasing companies by removing the obstacles that were holding back the expansion of this new financing technique (Bensaad, 2014).

Firstly: Regulatory framework

The regulatory framework for leasing consists of an ordinance, two executive decrees and a Bank of Algeria regulation. These are:

- Ordinance no. 96/09 of January 10, 1996 relating to financial leasing.
- Regulation no. 96/06 of July 3, 1996 laying down the procedures for setting up leasing companies,
- Executive Decree no. 90 of February 20, 2006, setting out the terms and conditions for publicizing equipment and real-estate leasing operations,
- Executive Decree no. 91 of February 20, 2006, setting the terms and conditions for publicizing real estate leasing transactions.

1-Ordinance No. 96/09 of January 10, 1996 relating to financial leasing

Ordinance no. 96/09 of January 10, 1996 defines leasing as a commercial and financial transaction carried out by banks, financial institutions or leasing companies. Leasing is a financing method involving three main parties (Article 1 of Ordinance no. 96/09 of January 10, 1996 on leasing):

- The lessee, who wishes to acquire the asset, reserving the option to purchase it definitively at the end of the contract.
- The lessor or leasing company, which purchases the asset in order to lease it to its customer.
- The supplier (manufacturer or vendor) who delivers to the lessee an item ordered by the lessor in accordance with the terms agreed between the supplier and the lessee.

This transaction may involve the sale of an asset, a lease of the asset, or a unilateral promise to sell, often referred to as an option to purchase, relating exclusively to movable or immovable property for professional use, or to a business or even a craft establishment.

The same ordinance classifies leasing according to three criteria: the economic nature of the operation, the nature of the asset and the residence of the contracting parties. There are three types of leasing in Algeria: financial leasing and operational leasing; furniture leasing and real estate leasing; national leasing and international leasing.

Financial leasing is when the contract provides for the transfer to the lessee of all rights, obligations, advantages, disadvantages and risks associated with ownership of the leased asset; when the contract cannot be terminated; and when it guarantees the lessor the right to recover capital expenditure and earn a return on capital invested. Leasing is referred to as "operational leasing" when it does not provide for transfer and is a simple rental. Leasing is classified as international when one of the parties to the contract is not resident in Algeria; it is international when one of the contracting parties is a non-resident. Equipment leasing concerns movable assets such as equipment, machinery or tools required for the economic operator's business. Real estate leasing, on the other hand, concerns real estate built or to be built for the economic operator's business needs (Raouya, 2008).

2- Regulation no. 96/06 of July 3, 1996, setting up leasing companies

In application of current legislation and regulations, the purpose of regulation no. 96/06 is to lay down the procedures for setting up leasing companies and to determine the conditions for obtaining their approval from the Conseil de la

Monnaie et du Cr dit. This regulation (Regulation no. 96/06 of July 3, 1996, setting up leasing companies) stipulates that:

- The minimum share capital to which leasing companies are required to subscribe is set at 100,000,000 DA, without this amount being less than 50% of shareholders' equity.
- The promoters of a leasing company must provide, in support of a request for incorporation addressed to the Currency and Credit Council, a file whose content will be specified by an Instruction of the Bank of Algeria.
- Approval is granted by decision of the Governor of the Bank of Algeria. This decision is published in the Official Journal of the Algerian Democratic and Popular Republic.
- The approval decision includes: the company name of the leasing company, its address, the names of the principal directors, the amount of capital and its distribution among the shareholders.

3- Executive Decree no. 90 of February 20, 2006, setting the terms and conditions for publicizing real estate and equipment leasing transactions

Executive Decree no. 90 of February 20, 2006, setting the terms and conditions for publicizing equipment and real-estate leasing transactions sets out the terms and conditions for publicizing equipment and real-estate leasing transactions involving goodwill and craft businesses, for which the registration forms issued by the Centre National du Registre du Commerce (CNRC), which is responsible for this procedure, are published in the Official Journal of the Algerian Republic.

4- Executive decree no. 91 of February 20, 2006, setting the terms and conditions for publicizing real-estate leasing operations

Executive Decree no. 91 of February 20, 2006, setting out the terms and conditions for publicizing real estate leasing transactions sets out the terms and conditions for publicizing real estate leasing transactions. The deed of acquisition of the property covered by the leasing transaction, drawn up in accordance with the provisions of decree no. 76-63 of March 25, 1976, as amended and supplemented, relating to the establishment of the land register, and submitted for publication to the land registry, must mention, under a special heading entitled: "Designation of the lessee and conditions for carrying out the real estate leasing transaction.

Secondly: Tax provisions governing leasing

There are two fundamentally different approaches to accounting for leasing. The first method follows the provisions set out in the French National Chart of Accounts (Plan Comptable National - PCN), which is based on legal ownership of

the leased asset and gives preference to the lessor, rather than the lessee, as the latter is not entitled to any tax benefits accounting only for rents received. The second approach, on the other hand, complies with IAS 17 of the International Accounting Standards and is based on the primacy of economic reality over legal form.

This approach is adopted by the French Financial Accounting System (Système Comptable Financier - SCF), and enables a distinction to be made between the accounting methods used by the lessor, considered as the legal owner of the leased asset, and those used by the lessee, considered as the economic owner. Thanks to this method, it becomes possible for the user of the financial statements to introduce a capitalization corresponding to the actual value of the asset concerned in his annual financial reports. (Zirek, 2016)

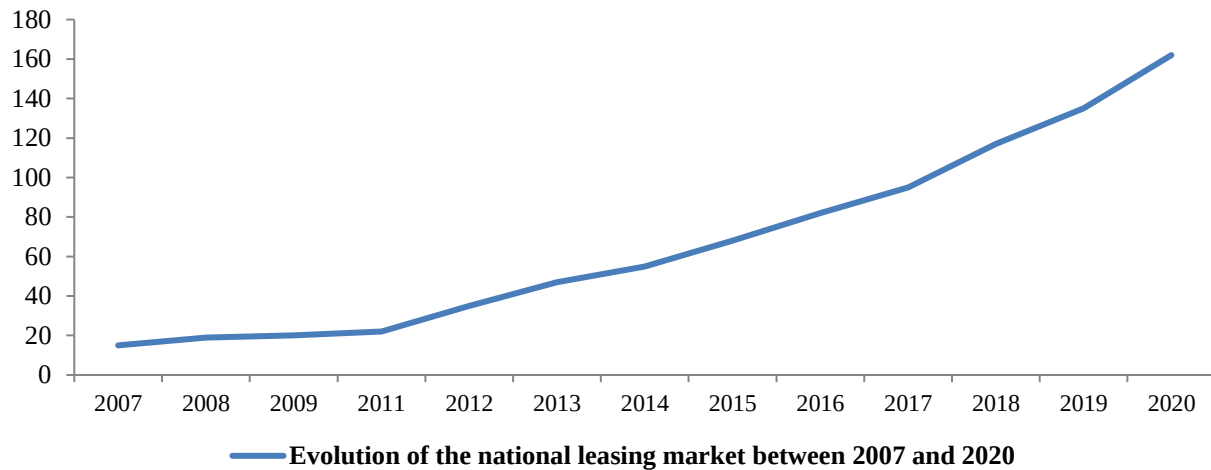
SECOND REQUIREMENT: THE ALGERIAN LEASING MARKET IN FIGURES

The aim of this sub-section is to take stock of the situation of the leasing market in Algeria through the presentation of a few figures relating to this activity. To this end, we will first retrace the evolution of this market, then focus on the penetration rate and finally indicate the market shares of the main players.

Firstly: Evolution of the leasing market in Algeria

In 2020, the size of the market is estimated at 162 billion dinars compared with 135 billion dinars in 2019, representing growth of 20% in 2020 compared with 2019, despite difficult economic and health conditions. Over the period 2007-2020, the leasing business recorded a continuous and significant rate of growth. Total assets amounted to just 15 billion dinars in 2007, rising to 162 billion dinars in 2020, a growth rate of 980% in the space of 13 years. The main reason for such growth lies in the difficulties encountered by many SMEs in accessing pure bank credit. Leasing can therefore be seen as a "substitute product" for bank credit, well suited to the needs of SMEs.

Figure 2: Evolution of the national leasing market between 2007 and 2020 (in billion DA))



Source: Zouda, 2019. “The success obstacles of Leasing in Algeria, and the pillars to render it an effective funding alternative to businesses”. Industrial Economics Journal Khazzartech , 9 (2), pp. 01-22.

Sekak R. (2021), « Le marché du leasing en Algérie », REPORTERS, available online at: <https://www.reporters.dz/le-marche-du-leasing-en-algerie/> [Accessed 18/03/2024]

A large proportion of leasing activity is centered on the industrial sector (financing the acquisition or renewal of industrial production and processing equipment), public works (graders, drilling rigs, public works machinery, loaders, shovels, concrete batching plants, handling equipment... etc.), transport (light and heavy vehicles, trucks, etc.) and energy (electricity, gas, etc.), transport (light and heavy goods and passenger vehicles, etc.), tourism (hotel and restaurant equipment, means of transport, etc.), medical equipment (dental chairs, X-ray equipment, etc.), and services (financing or renewal of telecommunications equipment, offices, etc.) (Benali, 2017). Real estate leasing is still in its infancy. Some financial institutions practice operational leasing (Sekak, 2021).

Secondly: Leasing market penetration in Algeria

Despite market growth, leasing penetration in Algeria remains low by international standards. Outstandings represent less than 2% of loans granted by the banking sector and less than 1% of GDP (0.66% in 2019) (Oubacha, 2024).

According to Mohamed Oubacha (CNL director), the health and economic crisis linked to the Covid 19 pandemic, the restrictive market environment characterized by regulatory instability and the unavailability of rolling stock on the local market, and the slowness in completing import operations, the significant increase in leasing companies' refinancing costs and the scarcity of investment projects impacted by the rising exchange rate, depreciation of the Dinar and high

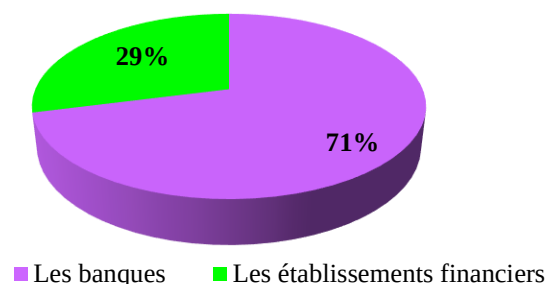
inflation rate are the main factors explaining the low leasing penetration rate in Algeria (Oubacha, 2024).

Thirdly: Market shares of the main players

The Algerian leasing market is shared by nine banks: Al Baraka, BNP Paribas, Société Générale, Al Salam Bank, Algeria Gulf Bank, CNEP Banque, Housing Bank for Trade & Finances and Trust Bank Algeria, all of which offer leasing services and hold a 71% market share in 2020, with total outstandings of 115 billion dinars. Six financial institutions - Société Nationale de Leasing, Maghreb Leasing Algeria, Arab Leasing Corporation, Ijar Leasing Corporation, Sofinance and El Djazaïr Ijar - will have a market share of 29% in 2020, with total outstandings of 47 billion dinars. Private leasing companies such as ALC and MLA are also involved in leasing (Sekak, 2021).

The Algerian leasing market is divided between banks, which will have a 71% market share in 2020, with total outstandings of 115 billion dinars, and institutions, which will have a 29% market share in 2020, with total outstandings of 47 billion dinars.

Figure 3: Market share of the two main leasing segments in Algeria (percentage)

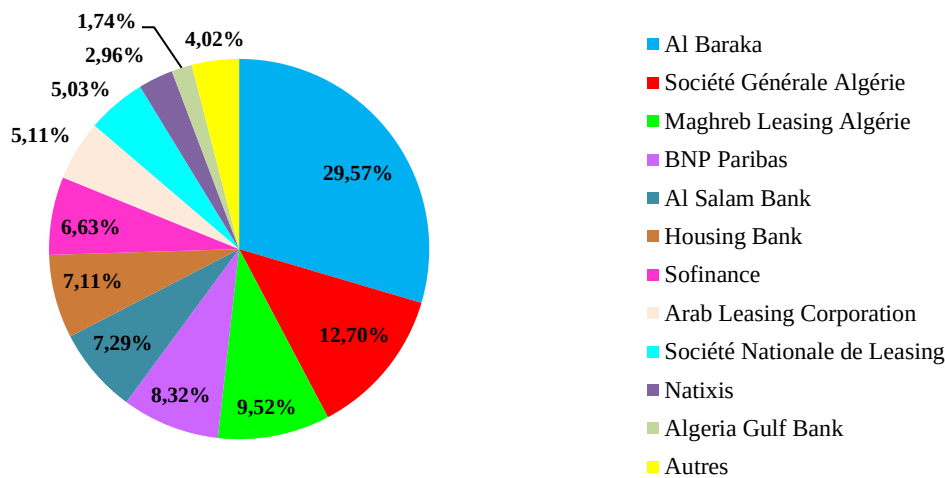


Source : Sekak R. (2021), « *Le marché du leasing en Algérie* », REPORTERS, available online at: <https://www.reporters.dz/le-marche-du-leasing-en-algerie/> [Accessed 18/03/2024]

The market shares of the main players are Al Baraka 29,57%, Société Générale Algérie 12,70%, Maghreb Leasing Algérie 9,52%, BNP Paribas 8,32%, Al Salam Bank 7,29%, Housing Bank 7,11%, Sofinance 6,63%, Arab Leasing Corporation 5,11%, Société nationale de leasing 5,03%, Natixis 2,96%, Algeria Gulf Bank 1,74%. (Sekak, 2021).

Figure 4: Market share of leasing players in Algeria in 2020 (in %)

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Source : Sekak R. (2021), « *Le marché du leasing en Algérie* », REPORTERS, available online at: <https://www.reporters.dz/le-marche-du-leasing-en-algerie/> [Accessed 18/03/2024]

THIRD REQUIREMENT: OBSTACLES TO THE DEVELOPMENT OF LEASING IN ALGERIA

Algeria's delay in adopting leasing as a means of financing investment projects is due to a number of constraints, including regulatory and accounting hurdles, the lack and high cost of resources, unfamiliarity with the product and lack of competition.

Firstly :Regulatory obstacles

The application of prudential regulations to leasing operations, particularly those initiated by financial institutions or leasing companies that do not manage customer deposits, reduces the capacity of these institutions to intervene, particularly with regard to the risk division ratio and the solvency ratio. The same applies to the profitability of these companies, in view of the obligation to set aside provisions for unpaid rents with acceleration of the term.

Secondly: Lack of product awareness

Leasing is not widely publicized, which leads to a lack of awareness of the technique. In fact, economic operators are still unaware of leasing financing, despite its advantages over bank loans. Companies are still struggling to expand their use of this financing method, despite the fact that it is "more flexible" than conventional financing. Faced with this situation, information campaigns (seminars, communication,.....) need to be organized by both banks and public

authorities to raise awareness of this product among various economic operators and promote the leasing culture (Smaili, 2018).

Thirdly: Lack and high cost of resources

Unlike banks, financial institutions and leasing companies do not receive deposits from individuals, which restricts their intervention capacities in addition to compliance with prudential rules, especially for the risk division ratio and the solvency ratio. This is likely to affect the profitability of leasing companies (Smaili, 2012).

Banks do not have enough equity capital for leasing, since they are the ones who will be financing the equipment or materials, since they are the ones who will be acquiring them for their customers. On the other hand, the rental rate is too high. It exceeds 20%, making leasing more expensive than medium-term credit. This is why it is necessary to revise downwards the rental rate, which remains very high.

Fourthly: Little competition

Despite the multiplication of players offering this mode of financing, five of them are exclusively specialized in it. The leasing penetration rate is low, at around 0.66% of gross domestic product in 2019 (Oubacha, 2024). In addition, the majority of leasing companies are based in the capital, which does not facilitate access to this mode of financing for many investors. What's more, the products offered by leasing companies are the same, so there's no real competition, even when it comes to interest rates (rent). To this end, public banks need to become more involved in the development of this new financing technique. What's more, each leasing company needs to expand its operating network by becoming represented in every wilaya.

The International Finance Corporation (IFC), confirms this idea, because according to a study drawn up on leasing markets, it described the Algerian market as "embryonic" where the leasing industry is relatively limited, characterized by the absence of competition see the narrow number of lessors and specialized leasing companies (Zirek, 2016).

Fifthly: Practical obstacles

Algeria's delay in adopting leasing as a means of financing investment projects is due to a number of constraints, including regulatory and accounting

hurdles, the lack and high cost of resources, unfamiliarity with the product and lack of competition.

According to Nabila Smaili (2018), establishments that have carried out leasing operations have been confronted with various practical difficulties, including economic operators' failure to assimilate the leasing financing method, its specific features and its advantages, with the traditional financing method remaining the most widely used (Smaili, 2018) :

- Difficulty in drawing up legal and administrative documents in the leasing company's name, particularly with certain authorities unaccustomed to this type of financing, in the absence of any guidelines or instructions;
- The difficulty of transferring civil liability from the owner to the lessee in the event of accident or damage;
- The difficulty of reselling or re-letting equipment once it has been recovered, due to the lack of specialized companies in this field.
- Lack of secondary markets to sell off repossessed goods, and a single-product (standard) business reducing room for maneuver.
- Some lessors require self-financing in the form of an initial rent, which can amount to 30% of the investment.
- The demand for additional guarantees from the lessee, which contradicts the principle of leasing.
- Lastly, the purchase option is not really an option, since in most cases lessors oblige lessees to purchase the property at the end of the lease.

Sixthly: Other obstacles

In addition to the factors mentioned above, some observers believe that there are a number of other reasons why the leasing market has not developed in Algeria, the main ones being the sharp rise in the cost of refinancing leasing companies, and the scarcity of investment projects due to the rising exchange rate, depreciation of the dinar and high inflation (Benarab, 2022).

Another obstacle is the unavailability of rolling stock on the local market, the slowness of import operations and, above all, the introduction of the Total Effective Rate (TEG) by the Bank of Algeria, which is detrimental to the business because it is based on the margin principle rather than the interest rate, requiring specialized companies to transcribe these rates on leasing contracts.

Moreover, since leasing in Algeria is accounted for as an "off-balance sheet" item in lessees' accounts, they are reluctant to accept the use of an asset without owning it. In other words, lessees find it hard to accept that the leased asset is not part of their assets.

Finally, start-ups are not included in the list of potential beneficiaries, as other organizations provide support to this category of entity. In fact, leasing companies only finance companies with at least two years' experience, so newly-created businesses are excluded from this type of financing, which puts the brakes on new entrants to the Algerian market.

Conclusion

Algeria has only just begun to experiment with leasing, and still needs a technical, legal and tax framework to encourage its growth. Indeed, despite all the legal, accounting and tax regulatory measures adopted by the legislator to encourage and promote this new financing technique, in practical terms this mode of financing is still little used, since the leasing penetration rate remains low by international standards, representing less than 2% of the financing of the national economy.

Algeria's delay in adopting leasing as a means of financing investment projects is mainly due to a restrictive market environment characterized by regulatory instability, a significant increase in the cost of refinancing leasing companies, as well as the scarcity of investment projects impacted by, among other things, the rise in the exchange rate and the depreciation of the Dinar, unfamiliarity with the product and weak competition.

To remedy this situation, we believe that certain constraints need to be lifted and other incentives introduced. In practice, this would entail creating a more favorable regulatory and tax environment for leasing companies and businesses, improving service quality and processing financing requests more rapidly, and encouraging competition. It is also essential to organize information campaigns (seminars, communication,.....) by both banks and public authorities to raise awareness of this product among various economic operators and to promote the leasing culture. Finally, Algerian public authorities should draw on the experiences of other countries, particularly those in the Maghreb, to promote this new financing technique.

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