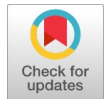


Financial leasing in Palestine “Prospects & Obstacle”

Mohammad Jazzar



Abstract: *The study aims to test the impact of financial leasing on the financial performance of financial leasing institutions in Palestine during the period between 2015 and 2021, the study examines the prospects and obstacles of financial leasing in Palestine. in an attempt to show the regulations of financial leasing in enhancing financial performance indicators represented by the rate of return on deposits, rate of return on ownership, rate of return on investment and rate of return on available assets. Financial leasing is a contract finance agreement that allows companies to purchase goods, such as medical equipment, vehicles, and machinery, without having to pay the full price upfront. These regulations, established by the Capital Market Authority (CAM) in Palestine, provide access to goods and services that may be expensive to purchase. However, several obstacles hinder the growth of financial leasing in Palestine, including the absence of clear rules and regulations, a limited supply of leasing products, and limited access to finance for contracts. The study concludes that while financial leasing can provide businesses in Palestine with the necessary financing to obtain the required goods and services, the current lack of a regulatory environment and the limited access to financing and leasing products are significant obstacles to its growth. The purpose of the study is to identify the barriers to financial leasing in Palestine, to understand the potential of this type of financing, and to address the challenges that must be overcome for it to become more widely available. The paper begins by providing an overview of financial leasing and its benefits in Palestine. It then discusses the major obstacles to the growth of financial leasing in Palestine, including the lack of regulations and laws, the limited availability of leasing products, and limited access to financing. Ultimately, the paper proposes potential solutions to overcome these obstacles and foster the growth of financial leasing in Palestine. The study aims to examine the impact of financial leasing on the financial performance of Palestinian financial leasing institutions from 2015 to 2021. It also discusses the opportunities and challenges of financial leasing in Palestine, demonstrating how regulations governing financial leasing can improve financial performance measures, such as the rate of return on deposits, the rate of return on ownership, the rate of return on investment, and the rate of return on available assets. Financial leasing is a type of contract finance agreement that allows businesses to acquire items such as medical equipment, automobiles, and machinery without having to pay the full purchase price upfront. In Palestine, these regulations create the Capital Market Authority (CAM) [1], which gives access to goods.*

Keywords: *Islamic leasing, financial leasing, financial performance, obstacles, Palestine.*

I. INTRODUCTION

Financial leasing in Palestine aims to demonstrate the regulations of financial leasing in improving financial performance indicators such as the rate of return on deposits, rate of return on ownership, rate of return on investment, and rate of return on available assets. Financial leasing has become a tangible reality, an important method, and an added value to local and global economic realities, serving as a bridge of interdependence between countries worldwide (Sabra et al., 2016). Numerous factors have contributed to the ease of transferring funds between savers and investors, as well as between surplus and deficit units within the economic and financial system. These variables include international economic advancement, the diversity of financing techniques in the Islamic and financial industries, the proliferation of financial institutions, and the diversification of their specialisations—the volume of finance product demand.

II. LITERATURE REVIEW

A. The Financial Leasing Sector in Palestine

The financial leasing sector is one of the critical sectors that contribute to economic growth and stability. It is considered a vital sector that provides the means to increase local investment within economies. The most important thing that distinguishes financial leasing from other financing tools (e.g., lending) is that it does not require tangible guarantees or collateral for financing approval, whether based on a long credit history or a broad asset base that can be used as collateral. Since financial leasing is based on the principle that profits are generated from the use of assets, not their ownership, and the lessee's ability to achieve cash flows resulting from operating the asset. Therefore, leasing is significant for small and medium-sized industrial establishments. What distinguishes financial leasing is that it aligns with the provisions of Islamic Sharia.

Within the strategic plan to promote and develop mortgage financing and financial leasing in the Capital Market Authority. And to create the appropriate legal system for the work of the financial leasing sector to serve the achievement of the Authority's strategy and objectives. The number of financial leasing companies licensed by the Authority reached 13 companies in 2018. However, the number of licensed companies reached 9 in 2019. The financial leasing sector experienced a decline in 2021 compared to the previous year.

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In 2021, the value of the total investment contracts [total investment represents: advance payment, if any + (payment value x number of payments) + purchase option, if any] registered with the authority amounted to \$102.56 representing 1900 contracts. This is compared to 2800

contracts in 2022, where the total investment value of registered agreements amounted to \$143.142 million (Palestinian Capital Market Authority, 2022) [1].

Table 1 shows the distribution of the leasing sector portfolio financing in Palestine. This is linked with the nature of the leased assets from 1/1/2022 to 31/12/2022:

Table 1: Distribution of The Financial Leasing Sector Portfolio in Palestine According to the Nature of the Lessor				
Nature of Lease	Number of contracts	Percentage	Value of contracts	Percentage
Cars	2134	97.70%	133,303,778	93.10%
Trucks and heavy vehicles	30	1.10%	4,896,329	3.40%
Movable capital	33	1.20%	4,941,736	3.50%
Total	2800	100%	143,141,843	100%

It is evident from [Table 1](#) that financial leasing contracts for cars take the lead in terms of the nature of the lease, accounting for approximately \$82.30 million (57.5%) of the total contracts. Trucks and movable capital contracts come in second and third place, with a value of \$4.89 million and \$4.94 million, respectively. To explain this, [Figure 1](#) shows the distribution of financial lease contracts according to the nature of the lease.

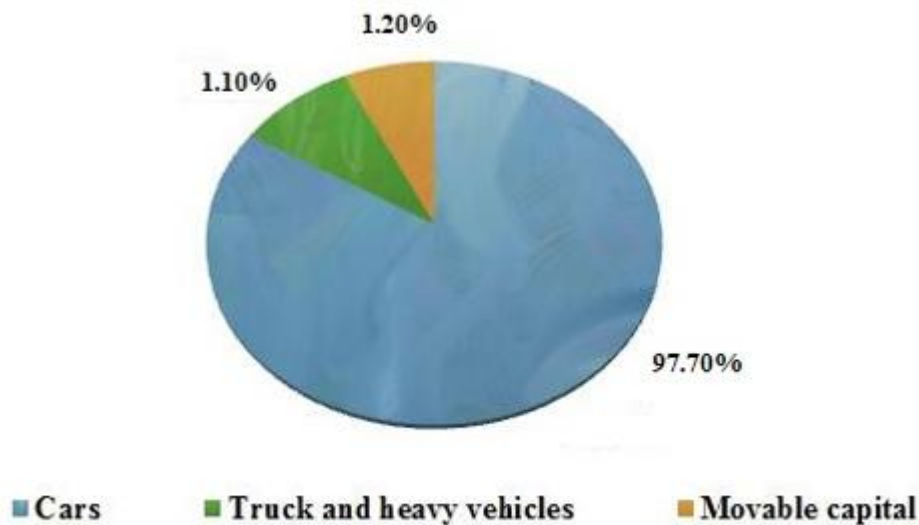


Figure 1: Distribution of Financial Lease Contracts According to The Nature of The Lease

The volume of financial leasing revenues increased from \$260,000 in 2013 to its peak in 2017, reaching \$388,000. Then it begins to decline slightly and gradually until it reaches \$254,000 in 2022. The actual investment in the financially leased assets has also decreased to \$4.7 million, more than it was in 2017. Figures 2 and 3 provide more clarification of the previous discussion. On the other hand, by looking at the ratio of financial leasing revenues to financial leasing assets during the study years (2013-2022). This ratio was 150% higher than the ratio of total revenues to total assets, where the ratio of financial leasing revenues to financial leasing assets averaged 7.089%. In comparison, the average ratio of total revenues to total assets was 4.90%. More illustrations and details about the volume of financial leasing revenues against financial leasing assets are shown below (see [Figure 2](#)).



Figure 2: The Volume of Financial Leasing Revenues Against the Volume of Financial Leasing Assets

Figure 2 suggests that financial leasing assets during the study period, from 2013 to 2023, grew significantly during the first period (2013-2017), reaching \$6 million. After that, it started to decline again during the second period (2017-2022). These assets rose again in 2019, while the revenues generated from financial leasing were relatively stable during the study period.

III. PREVIOUS RELATED STUDIES

Numerous studies have examined the relationship between the financial leasing tool in banks and its relationship to economic performance (Abad & Al-Khasawneh, 2019) [2]. This study aimed to investigate the impact of financial leasing on the rate of return on assets and the rate of return on ownership in commercial and Islamic banks in Jordan from 2008 to 2013. Abad & Al-Khasawneh (2019) [2] also identified the extent of differences between Jordanian commercial banks and Jordanian Islamic banks in terms of the impact of financial leasing on their profitability. Their study confirmed the importance of banks establishing financial leasing companies through the Investment Encouragement Law, and encouraging the attraction of international companies that practice this activity to bring advanced technology. Alkhazaleh & Al-Dwiry (2018) [3] concluded that lease financing has a significant impact on return on assets and return on equity as measures of financial performance. These results are in agreement with the study (Awad, 2013) [4], which aimed to identify the impact of the use of financial leasing on the economic indicators of Palestinian Islamic banks during the period 2008 - 2011.

The study's results indicated a positive and statistically significant effect of financial leasing on the profits, liquidity, and revenues of Palestinian Islamic banks. The convergence in the results was somewhat apparent throughout the study of (Al-Tarawneh, 2016) [5]. Al-Tarawneh (2016) analysed the impact of financial leasing revenues on the financial performance of Jordanian Islamic banks from 2010 to 2014. The study relied on calculating return on share, return on assets, return on ownership, and return on investment. It concluded that there is an effect of financial leasing income on the return on shares and that there is no effect of financial leasing income on the return on assets. The study focused on enhancing the utilisation of financial leasing in Islamic banks in Jordan, and the need to educate administrators in the Jordanian Islamic banking sector on the importance of financial leasing and its expected benefits.

Asuquo (2020) [7] revealed a positive and significant relationship between financial leasing, operating leasing, equity financing, and debt financing in the performance of banks in Nigeria. This study aimed to identify the impact of leasing financing on the performance of banks in Nigeria. Al-Saadi (2015) [6] argued that the cost of financing by leasing is less expensive than borrowing. Therefore, the use of financial leasing entails a monetary gain and an increase in the bank's profitability. The study also confirmed that the use of financial leasing reduces the risks that the bank is exposed to compared with financing by borrowing.

IV. RESEARCH METHODOLOGY

The study population and sample consist of all financial leasing institutions. Some of these institutions operate by the provisions of Islamic Sharia. They were also operating in Palestine between 2013 and 2022. There are currently eight financial leasing companies in Palestine that provide leasing services (see Table 7).

Table 2 Distribution of The Study Community Represented by Financial Leasing Companies in Palestine
1. The Palestinian Company for Leasing (Pal-Lease)
2. Arab Leasing Company
3. Ritz Leasing Company for leasing and financial leasing services
4. Lease 4U Financial Leasing Company
5. Palestinian Ijara company
6. Lease & Go Leasing Company
7. Jedico Leasing Company for financial leasing services
8. Integrated Leasing Company

Study Variables

This study aims to explain the role of financial leasing in enhancing the economic performance of leasing firms in Palestine. Accordingly, the following indicators were adopted to measure the variables.

First, the dependent variable represented by financial performance is as follows:

Table 3: Dependent Variable		
Dependent Variable	Indication	Calculation Equation
Rate of return on deposit	DRR	$DRR = \frac{\text{Netprofits}}{\text{Averaged deposits}}$
Rate of return on equity	ROE	$DRR = \frac{\text{Netprofits}}{\text{Shareholders' equity}}$
Rate of return on investment	ROI	$DRR = \frac{\text{Netprofits}}{\text{Net investment}}$
Rate of return on available assets	ROA	$DRR = \frac{\text{Netprofits}}{\text{Assets}}$

Second: The independent variable is represented by the financial leasing and symbolized by (FL).

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Study Model

The study model was formulated according to (Abad & Al-Khasawneh, 2020) [2] as follows:

- $DRR = \alpha + \beta_1 FL + e$
- $ROE = \alpha + \beta_2 FL + e$
- $ROI = \alpha + \beta_3 FL + e$
- $ROA = \alpha + \beta_4 FL + e$

Where,

e: random error

α : regression coefficient constant

β : the slope of the regression equation

V. STATISTICAL ANALYSIS AND HYPOTHESIS TESTING

A. Descriptive Analysis

Year	Financial leasing income	Return on deposit	Return on equity	Return on investment	Return on assets
2013	2,74,510	-0.94%	-4.79%	-5.65%	-0.80%
2014	3,38,172	0.32%	1.56%	1.86%	0.23%
2015	2,78,174	0.21%	1.13%	1.36%	0.17%
2016	4,50,373	0.94%	5.62%	7.19%	0.75%
2017	7,38,630	0.97%	6.10%	8.26%	0.74%
2018	11,31,645	1.01%	7.54%	10.40%	0.80%
2019	15,97,326	0.99%	8.24%	12.40%	0.78%
2020	20,76,041	0.81%	5.98%	8.53%	0.62%
2021	21,37,393	0.84%	6.49%	9.47%	0.67%
2022	24,60,705	0.88%	7.73%	10.61%	0.71%
SMA	11,48,297	0.60%	4.56%	6.44%	0.47%
Greatest value	24,60,705	1.01%	8.24%	12.40%	0.80%
Smallest value	2,74,510	-0.94%	-4.79%	-5.65%	-0.80%

It is evident from [Table 4](#) that there is an increase in the rate of return on equity (averaging 4.6%). There is also a balanced rise in the rate of return on investment (averaging 6.4%). In terms of the rate of return on deposit, there is a clear fluctuation and instability in its values. These values began to rise from 0.32% in 2014, reaching 0.21% in 2015, and then increased to 0.94% in 2016. Similarly, the rate of return on assets showed the same results. Therefore, it can be argued that the financial leasing income is rising as long as the volume of financial leasing assets is growing (and vice versa). A descriptive analysis was also conducted for the economic performance variables (the rate of return on deposits, the rate of return on equity, the rate of return on investment, and the rate of return on assets). The following table displays the arithmetic mean, median, and standard deviation, as well as the highest and lowest values for the study variables.

Variable	Arithmetic mean	Median	Standard deviation	Greatest value	Smallest value
Return on deposit	1.07%	1.00%	0.70%	1.93%	-0.90%
Return on equity	7.74%	7.74%	4.87%	13.69%	-4.80%
Return on investment	10.89%	10.51%	7.22%	21.06%	-5.70%
Return on assets	0.85%	0.79%	0.57%	1.56%	-0.80%

Hypothesis Testing

First Hypothesis H01: There is a statistically significant effect of financial leasing on the rate of return on deposits for financial leasing firms in Palestine. As shown in [Table 6](#), the Durbin-Watson test was performed to check the independence of the residuals.

Model Summary					
Model	R	R Square	Adjusted R Square	Std. The error in the Estimate	Durbin-Watson
1	-.392.0 a	0.08585	0.074	305.437	-390.
a. Predictors: (Constant), FL					
b. Dependent Variable: DRR					

Since the value of the coefficient is -0.397, which is not between 1.5 and 2.5? This means that the residuals are not independent of each other. Therefore, simple linear regression cannot be performed. The relationship between the dependent variable (the rate of return on deposits) and the independent variable (financial leasing) is equal to 0.397, a strong inverse relationship. This means that the higher the rate of return on deposits, the lower the size of the financial leasing.

Table 7 Monochromatic Contrast Check					
ANOVA ^a					
Model	Sum of Squares	DF	Mean Square	F	Sig.
Regression	4614890000	1	3.21146E+13	5.814	393..b
Residual	59782100000	96	5.52394E+12		
Total	64396990000	97			
a. Dependent Variable: DRR					
b. Predictors: (Constant), FL					

From the mono contrast test, it is evident that the significance value of the variable rate of return on deposits is about 0.019. This value is less than 0.05, which means “there is a statistically significant effect at the level of significance (α^3 0.05) of financial leasing on the rate of return on deposits for Islamic banks in Palestine (see [Table 7](#)).

Second Hypothesis H02: There is a statistically significant effect of financial leasing on the rate of return on equity of financial leasing firms in Palestine.

Table 8: Durbin Watson Examination Analysis					
Model Summary					
Model	R	R Square	Adjusted R Square	Std. The error in the Estimate	Durbin-Watson
1	0.218a	0.0475	0.037	2367330.2	390.0
a. Predictors: (Constant), FL					
b. Dependent Variable: ROE					

The value of the coefficient is -0.396, which is not within the range of 1.5 to 2.5. This means that the residuals are not independent of each other. Therefore, simple linear regression cannot be performed. The relationship between the dependent variable (the rate of return on ownership) and the independent variable (the financing lease) can be explained by a correlation coefficient of 0.366, which is considered a strong direct relationship. This means that the larger the size of the financial leasing, the greater the increase in the rate of return on ownership.

Table 9 Mono Contrast Check						
ANOVA ^a						
Model	Sum of Squares	DF	Mean Square	F	Sig.	
1	Regression	4614890000	1	3.21146E+13	4.355	0.041b
	Residual	59782100000	96	5.52394E+12		
	total	64396990000	97			
a. Dependent Variable: ROE						
b. Predictors: (Constant), FL						

From the mono-contrast test, it is evident that the significance value of the variable is about 0.041. This value is less than 0.05; therefore, there is a statistically significant effect at the level of significance (α^3 0.05) for financial leasing on the rate of return on equity of financial leasing firms in Palestine.

Third hypothesis H03: There is a statistically significant effect of financial leasing on the rate of return on investment for financial leasing firms in Palestine.

Table 10: Durbin Watson Examination Analysis					
Model Summary					
Model	R	R Square	Adjusted R Square	Std. The error in the Estimate	Durbin-Watson
1	0.202a	0.041	0.031	2370284.8	0.383
a. Predictors: (Constant), FL					
b. Dependent Variable: ROI					

The value of the coefficient is 0.383, which is not within the range of 1.5 to 2.5. This means that the residuals are not independent of each other. Therefore, simple linear regression cannot be conducted. The relationship between the dependent variable (the rate of return on investment) and the independent variable (the financial lease) is equal to 0.383, indicating a strong direct relationship. This means that the greater the size of the financial leasing, the more financial leasing income will increase, which leads to an increase in the rate of return on investment.

Table 11 Mono Contrast Check						
ANOVA ^a						
Model	Sum of Squares	DF	Mean Square	F	Sig.	
1	Regression	4614890000	1	3.21146E+13	4.105	0.046b
	Residual	59782100000	96	5.52394E+12		
	total	64396990000	97			
a. Dependent Variable: ROE						
b. Predictors: (Constant), FL						

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It is evident from [Table 11](#) that the significance value of the financial leasing variable is about 0.046. Since this value is less than 0.05, there is a statistically significant effect at a level of significance less than 0.05 for the financial leasing variable on the rate of return on investment for financial leasing firms in Palestine.

Fourth Hypothesis H04: There is a statistically significant effect of financial leasing on the rate of return on the assets available to financial leasing firms in Palestine.

Table 12: Durbin Watson Examination Analysis

Model Summary					
Model	R	R Square	Adjusted R Square	Std. The error in the Estimate	Durbin-Watson
1	3923. a	393000	3930..	2361165.9	39002
a. Predictors: (Constant), FL					
b. Dependent Variable: ROA					

The value of the coefficient is 0.362, which is not between 1.5 and 2.5. This means that the residuals are not independent of each other. Therefore, simple linear regression cannot be performed. The relationship between the dependent variable (the rate of return on available assets) and the independent variable (the size of the financial lease) equals 0.362 and is considered a strong direct relationship. To explain this, the larger the size of the financial leasing operations in leasing firms, the greater the increase in financial leasing revenues, which in turn leads to a rise in the rate of return on available assets.

Table 13 Mono Contrast Check

ANOVA ^a						
Model		Sum of Squares	DF	Mean Square	F	Sig.
1	Regression	4614890000	1	3.21146E+13	4.879	0.39303b
	Residual	59782100000	96	5.52394E+12		
	total	64396990000	97			
a. Dependent Variable: ROE						
b. Predictors: (Constant), FL						

As shown in [Table 13](#), the significance value of the independent variable is about 0.03, which is less than 0.05. Therefore, there is a statistically significant effect at a level of significance less than 0.05 for the variable of financial leasing on the rate of return on the assets available for financial leasing firms in Palestine.

Primary Hypothesis: There is a statistically significant effect of financial leasing on the profitability of financial leasing firms in Palestine.

Table 14: Coefficient of Determination and Regression

α	0.022
F model	67.47
Adjusted R	38.7

It is evident from [Table 14](#) that the total statistical significance value was equal to 0.022. Since this value is less than the 0.05 test morale level, it is necessary to accept the alternative hypothesis that states “there is an effect of financial leasing on profitability at the level of 0.05 for financial leasing firms in Palestine. Whereas, the value of the adjusted coefficient of determination was equal to 38.7. This means that approximately 38.7% of the factors affecting the profitability of leasing firms in Palestine are directly related to financial leasing.

VI. DISCUSSION AND CONCLUSION

The results of the statistical analysis showed that the four sub-hypotheses were accepted, indicating an impact of financial leasing on the dependent study variables: rate of return on deposits, rate of return on equity, rate of return on investment, and rate of return on available assets. Thus, financial leasing is considered one of the essential and practical activities in which financial leasing firms operate in Palestine, alongside various financing activities. The assets invested through

financial leasing activities for leasing firms in Palestine are also considered among the assets that achieve a higher financial return than the rest of the assets. This happens when the ratio of financial leasing income to financial leasing assets reaches an average of 7.089%. This demonstrates that finance lease assets achieve high asset utilisation efficiency. Most importantly, financial leasing provides an excellent guarantee for Islamic leasing firms, such as Ijara Palestinian Leasing, that they own the asset.

In light of the results achieved, financial leasing firms in Palestine should be encouraged to increase their investment in financial leasing assets. The study confirms that leasing firms in Palestine should establish and promote Islamic financial companies concerned with the activity of financial leasing. It is also vital for Islamic leasing in Palestine to achieve diversification in the fields of financial leasing in line with the principles of Islamic Sharia. In conclusion, Islamic leasing should raise awareness and motivate all individuals and institutions in the Palestinian society about the role and importance of financial leasing. Because it achieves benefits for all parties in return for the benefits achieved by Islamic leasing firms. It is also vital to benefit from the experiences of advanced Islamic leasing, especially Malaysian Islamic leasing and Sudanese Islamic firms, which are related to financial leasing operations and activities. This helps improve Islamic products offered through financial leasing activities and develops them in line with international standards. The study concludes that potential solutions for overcoming these obstacles include establishing a regulatory framework,



developing new financing options and expanding the supply of leasing products. With the implementation of these solutions, financial leasing in Palestine could become more widely available, providing businesses with the necessary financing to access the goods and services they need.

VII. RECOMMENDATIONS

Based on the findings of this study, several recommendations can be made to promote the growth of financial leasing in Palestine. First, a regulatory framework should be established to provide clarity and consistency in the leasing process. Second, more financing options should be made available to businesses in Palestine, such as microloans and venture capital. Finally, the supply of leasing products should be expanded to include a broader range of goods and services. By addressing these issues, financial leasing in Palestine can become more widely available and provide businesses with the necessary financing to acquire goods and services.

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Availability of Data and Material/ Data Access Statement	Not relevant.
Authors Contributions	I am the sole author of the article.

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