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Evaluating The Impact of Financing Alternatives on The Financial Balance of The Economic Institution -A Comparative Study Between The Lease financing of Al Baraka Bank of Algeria and The Investment Loan of The Popular Credit of Algeria–

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ABSTRACT:
The lease financing and investment loans are considered among the most important alternatives and financing formulas available to economic institutions from banks and financial institutions in Algeria. This research paper evaluates and studies the impact of the two financing alternatives on the financial balance of the economic institution,with the same data throughout a period of 6 years (that covers the loan period).One of the most important results reached is that both financing formulas meet the financing needs of the institution. However, there is a clear difference in the impact on the financial balance and the cost of borrowing with the intervention of other factors that affect the decision to compare between the two alternatives, including: conditions, guarantees, as well as factors related to the Islamic Shariah.

Key words:*Lease financing , investment loan, financial balance, economic institution.*

1. Introduction:

Algerian economic institutions, whether in the construction or exploitation stage, face many difficulties and obstacles, the most important of which is the problem of obtaining sources of financing. Additionally, the multiplicity of financing needs for the cycle of investment and exploitation prompts economic institutions to search for appropriate financing sources and alternatives to meet their obligations with lighter conditions and guarantees, lower cost, and within reasonable deadlines.

Banks, financial institutions as well as other agencies provide several financing alternatives, such as lease financing s, investment loans, exploitation loans in their various forms, risk capital, and others. Hence, it is necessary for economic institutions, within the framework of their rational management, to analytically study these available financing alternatives and measure their impact on the financial balance in future periods, as well as their cost and financial impact.

This research paper compares between the financing alternatives available from Al Baraka Bank of Algeria, represented by the rental credit, as well as the investment loan providedby the National Popular Credit, according to the current offers presented by the two banks.From the above, the main problem of the research paper is summarized in the following question:**What is the impact of the lease financing of Al Baraka Bank and the investment loan of the Popular Credit of Algeria on the financial balance of the institution under study?**
Study objectives: The study objectives are as follows:
- Recognizing the importance of the lease financing as well as the investment loan in financing the institution.
- Identify the impact of the lease financing on the financial balance of the institution.
- Identify the impact of the investment loan on the financial balance of the institution.
- Determine which of the two alternatives is more appropriate for the institution.

2. The Theoretical Aspect of The Study

Before discussing the applied study, it is necessary to understand the most important theoretical concepts related to the research variables, as follows:

2.1.Definition of Investment Loan:

The medium-term investment loan falls within the two-year/seven-year range. It is granted mainly for the acquisition of depreciable capital goods for long or medium term. In fact, this type of loan makes it possible to finance not only equipment and tools, but also some low-cost construction needed by industrial companies. Granting a medium-term loan entail paying a bank commitment fee, while interest on borrowing is charged only when used.Medium-term loans are generally granted by deposit banks, investment banks or even medium-term and long-term borrowing banks.(Farouk Bouyacoub, 2000, p. 252).

2.2. Definition of Lease financing:

A lease financing is a contractual obligation whereby the lessee pays specific rental installments to the lessor. In return, he obtains the right to benefit from the asset that is the subject of the contract, as the lessor maintains legal ownership of the asset, while the economic use is retained by the lessee.(Veronika Chtelmakh, 2000, p. 107).

As for the definition of a lease financing in Islamic Shariah, there are many definitions according to schools of thought, all of which mean ownership of benefits in exchange for compensation. The Malikis defined it as: "an expression of owning the permissible benefits of something for a known period of time in exchange for compensation." As for the Shafi'is, they defined it as: "a contract for a permissible, intended and known benefit that is subject to exchange and permissibility for a known compensation." According to the Hanbalis: "it is a contract for a permissible benefit that is known for a known period from a specific person, or described in a duty, or for doing a known thing for a known compensation." (Nassar, 2015, p. 10).

As the Algerian legislator defines it in Article 1 of Order N°. 90/96 of January 10th, 1996 relating to the lease financing , it is: (96-90., (dated January 10, 1996), p. 25).

A commercial and financial transaction:

- Is achieved by banks and financial institutions, or a legally qualified and expressly approved leasing company as such, with Algerian or foreign economic operators, natural or legal persons, subject to public or private law.
- It is based on a lease contract that may or may not include the option to purchase for the benefit of the tenant.
- It relates only to movable or immovable assets for professional use or commercial areas in craft establishments.

From the above, a lease financing can be defined as a contract in which one party, the lessee, commits to paying a number of fixed payments to the lessor in order to benefit from the asset.

2.3.Advantages of a Lease financing Compared to An Investment Loan:

Perhaps the most important advantages of a lease financing for the tenant are the following:

- **Obtaining total financing for investments:**That is, 100% financing. This is the opposite of what is found in a bank loan, which requires an initial contribution that often reaches 40%. Thus, the lessee is able to provide the available financial resources to be used in financing working capital. (Linda deelen and others, 2003, p. 7).
- **Financing without guarantees:** The lease financing provides the tenant with guarantees .(Linda deelen and others, 2003, p. 7)
- **Reducing the risks of technological progress:** Renting assets represents the best way to finance institutions that rely on advanced production techniques and is characterized by complex and constantly changing technology.(Latif, 2000, p. 12).
- **Simpler financial management:** This is evident when preparing the annual estimated treasury schedule of the institution, as the cost of payments (accumulation of rental installments for the cycle) is a variable that is easy to calculate and control. Moreover, since tax deductions follow the same flow of rental installments for the cycle, the net lease financing costs are Taxes are easier to assess compared to a bank loan because interest and depreciation shares do not follow the same pace.(Jean-François, 2004, p. 17)

- **Reducing the risks of uncertainty about the size of demand:** The method of renting assets is considered the best way to eliminate the risks of uncertainty about the size of demand for a specific product or service. In the same way, an economic institution tries to rent a specific asset that specializes in producing a specific good or providing a specific service (Ahmed Saad Abdel Latif, 2000, page 13)(Latif, 2000, p. 13)
- **Off-budget financing:** The lease contract does not entail the emergence of budget obligations for the renting institution, and therefore its financial indicators are not affected, which enhances its ability to borrow. (Jean-François, 2004, p. 18)
- **Improving the image of the published budget of the institution:** This is because the leased assets do not appear on the assets side of the budget of the institutiondespite their presence in operation. Moreover, the equivalent of their value does not appear on the liabilities side as liabilities. As a result, the ability of the institutionto borrow long-term is great, given that financial leasing is an off-budget obligation in the case of accounting systems that are based on legal ownership of the leased asset. (Hareed & Khouni, 2014, p. 106)
- **Achieving tax advantages:** If the expected life of the lease is less than what is accepted by the Tax Authority, which is the basis for calculating the value of the depreciation installment, then the leasing institution can achieve a tax advantage from the decision to lease, greater than what it could achieve if it bought the asset instead of leasing it. This is because the present value of the tax savings on the lease installment may exceed the present value of the tax savings on the depreciation installment. In addition, the lessor may be able to benefit from the tax savings resulting from the depreciation installment, which is ultimately reflected on the renting institution in the form of a reduction in the lease installment(Hareed & Khouni, 2014, p. 106).

2.4. Disadvantages of a lease financing:

Despite the many advantages that the lease financing provides as a financing option for the tenant. All of this does not leave it without some disadvantages, the most important of which are: (Hamoudi, 2005, p. 235)

- **High cost:** It constitutes a major obstacle and a more negative factor for the renting institution. This increase is due when taking into account the rental value paid, taking into account covering both the depreciation of the asset and the cost of the money invested in addition to the cost of the service provided and potential risks. This makes the cost of a lease financing in most cases higher than the cost of a loan from a regular bank.
- **Losing the possibility of reducing the taxes:** which the renting institution pays significantly because it does not calculate depreciation installments or subtract them from the revenues, but it subtracts the rental installments, and therefore the institution will not be able to reduce the taxes that it will pay, as is the case when it purchases and owns the asset.
- One of the most important gains that an organization achieves when purchasing and owning an asset is obtaining the value of the asset at the end of its useful life. There is no doubt that renting the asset will deprive it of that value because the lessor is the one who is entitled to obtain that value.
- The difficulty of making any type of improvement to the leased asset without obtaining the approval of the lessor.

3. The Applied Aspect of The Study

This part, offers a comparative study of the impact of a lease financing and an investment loan on the financial balance of the institution under study.

3.1.Lease financing to Al Baraka Bank of Algeria:

The lease financing of Al Baraka Bank is considered an asset lease contract coupled with a promise to sell for the benefit of the lessee. This relates to a relatively new financing technology, as three main parties intervene in this process:

-Supplier (manufacturer or seller) of the asset.

-The lessor (the bank or institution that buys the asset for the purpose of leasing it to its client).

-The lessee leasing the asset who retains the right to choose the final purchase under the lease contract.

3.1.1. General Conditions for a Financing Contract Through Leasing Credit on Movable Assets:

A financing contract by leasing credit on assets transferred to Al Baraka Bank contains twenty-four articles signed by both parties. Al Baraka Bank of Algeria is a joint-stock company with a capital of 15,000.00 DZD subject to the provisions of Law N°. 03-11 of 08/26/2003 relating to cash and loans registered in the commercial registry of the state of Algiers and the institution requesting financing.
- General banking conditions applicable at Al Baraka Bank of Algeria.
- The current account agreement concluded between Al Baraka Bank of Algeria and the tenant upon opening the account, which is considered an integral part of this contract.

The lessee requested the bank to purchase the movable assets described in Article 2, provided that he leases them with the signature of the bankas a lease financing within the meaning of Order N°. 96/09 dated 01/10/1996. The bank purchases movable assets based on the tenant's request and for the purpose of leasing them to him as a rental credit. The bank assigns the lessee the task of selecting the supplier, negotiating with him, determining the specifications, quantities, characteristics, and purchase price of the equipment to be rented. Add to that, Signing the commercial contract related to that, and receiving the transferred assets on behalf of the bank, as both parties have the legal capacity and legitimacy free from any defect to conclude this contract.

The terms of the general conditions contract for a financing contract based on leasing of movable assets can be summarized in the following table:

Table N°. (01): Clauses of the general conditions contract for a financing contract through leasing credit on movable assets.

Article One: Subject	**Article Two: Determination of movable assets**	**Article Three: Lease Duration**	**Article Four: Delivery of movable assets**
Article Five: Conformity	Article Six: Ownership	Article Seven: Duties of the Tenant	Article Eight: Risk Insurance
Article Nine: Notifying the bank of accidents	Article Ten: The tenant's civil and other liability	Article Eleven: Transferring rights to others	Article Twelve: Rental allowance and associated fees, taxes, etc
Article Thirteen: Determination of rent installments	Article Fourteen: Final Choice	Article Fifteen: Termination of the contract	Article sixteen: Statements and guarantees
Article Seventeen: Right of recourse	Article Eighteen: Legal and Sharia Framework	Article Nineteen: Guarantees	Article Twenty: Expenses and Rights
Article Twenty-One: Documents related to the contract	Article Twenty-Two: Domicile	Article Twenty-Three Disputes	Article Twenty-Four: Number of copies and effective date

Source: Prepared by the two researchers based on documents provided by the bank.

This contract is subject, in a way that does not conflict with the provisions of tolerant Islamic Shariah, to Algerian law, especially the provisions of Ordinance N°. 96/09 of January 10th, 1996 relating to the lease loan and Executive Decree N°. 06/92 of February 20th, 2006 containing the procedures for issuing a lease loan contract for movable assets. In order to guarantee the payment of rental installments, other expenses and expenses, and in general all the obligations stipulated in this contract, the tenant is obligated to allocate all real and/or personal guarantees requested by the bank.

3.1.2. General Conditions for Contracting a Promise to Own Ownership by Sale:
The promise of ownership contract contains 9 articles, as Al Baraka Bank, unlike other banks and other financial institutions, concludes this contract separately from the previous contract and contains nine articles. The first article deals with the subject of the contract, where at the request of the lessee, the bank is obliged under this

promise to own the movable assets leased to the lessee who accepted. This is in accordance with the conditions mentioned in this promise. The articles of the contract are summarized as follows:

Table N°. (02): Articles of the general conditions for a promise of ownership contract to sell.

Article One: Subject	Article Two: Designating the leased assets	Article Three: Sales price	Article Four: Final Option Condition
Article Five: Conditions and costs	Article Six: Documents related to the contract	Article Seven: Domicile	Article Eight: Disputes
Article Nine: Number of copies			

Source: Prepared by the two researchers based on documents provided by Al Baraka Bank of Algeria.

3.2.Estimated Inputs for The Activity of a Limited Liability Company Active in the Field of Public Works, Construction and Irrigation For 6 Years Starting From January "N".

This table includes data related to the activity of the institution, including turnover, consumptions, and charges for an estimated period of 6 years, as the institution wishes to finance investments specific to its activity by searching for the optimal financing alternative. Its capital, according to the founding contract, amounted to 5.000.000 DZD (five million DZD), and the cost of the investments, which will be acquired while benefiting from the benefits of the Algerian Investment Promotion Agency, amounted to: 32.547.480 DZD.
The financing structure will be as follows :

- 70% Bank contribution : 22.783.236 DZD
- 30% Personal contribution : 9.764.224DZD

The alternatives available to the institution are a lease financing to Al Baraka Bank of Algeria in accordance with the contract and conditions mentioned above, and an investment loan to the Popular Credit of Algeria.

Table N°. (03): Estimated accounting figures for the activity of the organizationfor a period of 6 years.

Appointment	First Year	Second Year	Third Year	Fourth Year	Fifth Year	Sixth Year
Public Works and Construction Number	60 000 000	63 000 000	66 150 000	69 457 500	72 930 375	76 576 894
Consumable Raw Materials	39 000 000	40 950 000	42 997 500	45 147 372	47 404 743	49 774 980
External Burdens and Other Consumptions	6 898 081	6 826 952	6 857 260	6 889 094	6 922 524	736 949
Exploitation Subsidies						
User Burdens	4 246 796	4 400 532	4 560 786	4 727 856	4 902 040	5 083 703
Taxes and Fees						
Depreciation Installments	5 378 212	4 528 212	4 528 212	4 528 212	4 528 212	4 528 212

Source: Prepared by the two researchers based on the budget results and the estimated results calculation.
The following financial indicators will be used in order to compare the impact of financing alternatives on the financial balance of the institution:

- **Net working capital:** It is that part of the current assets financed by permanent resources. Its significance is summarized based on the rule of functional balance that fixed resources are sufficient to finance fixed uses. The amount of net working capital indicates the extent to which this rule is

respected. Therefore, it must be positive, as it is calculated as follows: Permanent funds - fixed assets in net values.

- **Working capital needs:** These are the funds that the organization needs to cover its needs during the exploitation cycle, and represents the deficit in financing assets circulating outside the treasury by means of liabilities circulating outside the treasury.
  If the needs are positive, the institution needs the value of these needs, which are financed with net working capital. If they are not sufficient, we resort to short-term debt, and if they are negative, the institution does not need that.
- **The cost-effectiveness threshold (equilibrium point):** It represents the situation in which the institution reaches an equalization of the total costs with the turnover, where the result is non-existent and from there the institution begins to achieve profits.

3.3.Financial indicators For an Institution in The Event That It Is Financed Using theLease financing Form Of Al Baraka Bank:

This partattempts to measure the impact of the financing alternative “lease credit” on the financial balance of the institutionwith the following data:

The duration of the lease financing is 5 years, with the commitment of the institutionto pay an initial contribution of 30% of the cost of investments with an implicit margin rate of 13%.

3.3.1.TotalWorking Capital: The total working capital will be calculated through theinputs of the study, as shown in the following table:

Table N°. (04): Calculating the total working capital of an institution if it is financed using the Al Baraka Bank lease financing formula

Appointment	First Year	Second Year	Third Year	Fourth Year	Fifth Year	Sixth Year
Private Funds						
Capital	5 000 000	5 000 000	5 000 000	5 000 000	5 000 000	5 000 000
Reserves and Carryover Account Again		2 980 727	8 273 990	15 307 997	23 472 963	32 645 819
Course Result	2 980 727	5 293 263	7 034 007	8 164 966	9 172 856	16 453 050
Depreciation	5 378 212	9 906 424	14 434 636	18 962 848	23 491 060	28 019 272
Supplies						
Exoploitation Subsidies						
Total Private Funds	13 358 939	23 180 414	34 742 633	47 435 811	61 136 879	82 118 141
Borrowing						
Loans						
Partners Current Account	500 000	500 000	500 000	500 000	500 000	500 000
Total Leverage	500 000	500 000	500 000		500 000	500 000
A Total Permanent Funds	13 858 939	23 680 414	35 242 633	5 000 000	61 636 879	82 618 141
Net Assets				15 307 997		
Moral Assets				8 164 966		
Phisical Assets	32 547 480	32 547 480	32 547 480	18 962 848	32 547 480	32 547 480

Financial Assets						
B **Total Net Assets**	32 547 480	32 547 480	32 547 480		32 547 480	32 547 480
C **Total Working Capital (A – B)**	(18 688 541)	(8 867 066)	2 695 153	47 435 811	29 089 399	50 070 661

Source: Prepared by the two researchers based on the budget results and the estimated results calculation.

From the table we find that working capital is **negative** during the first and second years of activity.Meaning that permanent funds are not sufficient to cover fixed assets.Additionally, fixed assets are financed with short-term debts. This is considered a defect and **there is no financial balance**. It may pose a risk to the institution.
Starting from the third year, we find it positive.Meaning that the permanent funds are sufficient to finance fixed assets, and the remaining partis the surplus of permanent funds. Which is directed to financing the exploitation cycle.

3.3.2. Working Capital Needs of The Project: The following table summarizes the calculations for the working capital needs of the project:

Table N°. (5): Table for calculating the working capital needs of the project.

Appointment	First Year	Second Year	Third Year	Fourth Year	Fifth Year	Sixth Year
Origins of Exploitation						
Raw Materials Inventory	758 333	796 250	836 062	877 866	921 759	967 847
Consumer Rights	5 850 000	6 142 500	6 449 625	6 772 106	7 110 712	7 466 247
Other Rights	5 054	5 307	5 572	5 851	6 143	6 450
A **Total Assetsof Exploitation**	6 613 387	6 944 057	7 291 259	7 655 823	8 038 614	8 440 544
Opponent of Exploitation						
Suppliers Depts	7 673 126	8 056 781	8 459 620	8 882 603	9 326 734	9 793 069
Other Depts	376 984	394 988	413 873	433 690	454 475	476 282
B **Total Exploitation Liabilities**	8 050 110	8 451 769	8 873 493	9 316 293	9 781 209	10 269 351
C **Working Capital Needs(A – B)**	(1 436 723)	(1 507 712)	(1 582 234)	(1 660 470)	(1 742 595)	(1 828 807)

Source: Prepared by the two researchers based on the budget results and the estimated results calculation.

The table shows that working capital needs are negative during the entire estimated period. This indicates that the institution does not need the value of these needs. According to its data, it has short-term resources and makes purchases on account.

From the above, the relationship between **working capital and the needs of working capital and the treasury** can be summarized as follows:

Table N°. (06): Summary of the relationship between working capital, working capital needs, and treasury

Appointment	First Year	Second Year	Third Year	Fourth Year	Fifth Year	Sixth Year
A Total Net Working Capital	-18688 541	-8867 066	2695 153	15388 331	29089 399	50070 661
B Working Capital Needs	-1436 723	-1507 712	-1582 234	-1660 470	-1742 595	-1828 807
C Treasury(A – B)	-17251 818	-7359 354	4277 387	17048 801	30831 994	51899 468
Overdraft	16875 398	7187 261				
Overdraft Benefits	376 420	172 093				

Source: Prepared by the two researchers based on the budget results and the estimated results calculation.

It is clear from the table above that during the first and second years, the total net working capital and working capital needs are negative. This resulted in a negative treasury, which prompts the institution to rely on exploitation loans for overdrafts bearing interest in the amount of 376.420 DZD and 172.093 DZD, respectively.
Positive results in the working capital account indicate that the organization's current assets are greater than its current liabilities. Even if the organization is forced to sell all current assets to pay off the debt, its resources are sufficient and able to cover its value.

While negative results in the working capital account indicate that it is not possible to cover all of the current liabilities of the organization from its current assets.This is an indication of insufficient liquidity, the poor financial position of the organization in the short term. Add to that, the possibility of facing great difficulties in repaying debts when they fall due.

3.3.3.Calculating Estimated Results:
The following table summarizes the calculation of the estimated results of the organization for an estimated period of 6 years:

Table N°. (07): Calculating the estimated results of the organization for an estimated period of 6 years.

Appointment	First Year	Second Year	Third Year	Fourth Year	Fifth Year	Sixth Year

Public Works and Construction Number	60 000 000	63 000 000	66 150 000	69 457 500	72 930 375	76 576 894
Consumable Raw Materials	39 000 000	40 950 000	42 997 500	45 147 372	47 404 743	49 774 980
Gross Margin	21 000 000	22 050 000	23 152 500	24 310 128	25 525 632	26 801 914
External Burdens and Other Consumptions	6 898 081	6 826 952	6 857 260	6 889 094	6 922 524	736 949
Value Added	14 101 919	15 223 048	16 295 240	17 421 034	18 603 108	26 064 965
Exploitation Subsidies						
User Burdens	4 246 796	4 400 532	4 560 786	4 727 856	4 902 040	5 083 703
Taxes and Fees						
Raw Surplus For Exploitation	9 855 123	10 822 516	11 734 454	12 693 178	13 701 068	20 981 262
Depreciation Installment	5 378 212	4 528 212	4 528 212	4 528 212	4 528 212	4 528 212
Result of Exploitation	4 476 911	6 294 304	7 206 242	8 164 966	9 172 856	16 453 050
Financial Outcomes						
Financial Burdens	1 496 184	1 001 041	172 235			
Current Result	2 980 727	5 293 263	7 034 007	8 164 966	9 172 856	16 453 050
Exceptional Outputs						
Exceptional Burdens						
Exptional Result						
Result Before Tax	2 980 727	5 293 263	7 034 007	8 164 966	9 172 856	16 453 050

Source: Prepared by the two researchers based on the budget results and the estimated results calculation.

It is clear from the results calculation table that the institution achieves progressive profits starting from the first year of activity of 2. 980.727 DZD, reaching 16. 453.050 DZD in the sixth year.From which, it can be concluded that the acquired forms contributed to the institution achieving a turnover that was not affected by the cost of the lease financing of 6.228.668 DZD annually. In installments paid within the amount of external burdens and other consumptions, as shown in the following table.

Table N°. (08): Rent installment amount with all fees.

Number	Year	Lease financing amount	Rental premium outside the fee	Tax on value added	The rental installment

					amount with all fees
1	First Year	22783 236	6 220 668		6 220 668
2	Second Year		6 220 668		6 220 668
3	Third Year		6 220 668		6 220 668
4	Fourth Year		6 220 668		6 220 668
5	Fifth Year		6 220 668		6 220 668

Source: Prepared by the two researchers.

The table above makes it clear that the institution is in the case of financing with a lease financing at a rate of 13% for a period of 5 years. It pays monthly rental installments estimated at 6 .220.668 DZD. Additionally, the total cost is estimated at 31. 103.340 DZD.

3.3.4. Analysis of the Return Threshold Table of the Organization:

The following table summarizes the return threshold of the institution for an estimated period of 6 years:

Table N°. (09): Table of the estimated return threshold of the institutionfor a period of 06 years.

Appointment	First Year	Second Year	Third Year	Fourth Year	Fifth Year	Sixth Year
Business Number						
Public Works and Construction Number	60 000 000	63 000 000	66 150 000	69 457 500	72 930 375	76 576 894
A Total Business Number:	60 000 000	63 000 000	66 150 000	69 457 500	72 930 375	76 576 894
Variable Costs						
Consumable Raw Materials	39 000 000	40 950 000	42 997 500	45 147 372	47 404 743	49 774 980
External Burdens and Other Consumptions	60 000	63 000	66 144	69 456	72 936	76 584
B Total Variable Burdens	39 060 000	41 013 000	43 063 644	45 216 828	47 477 679	49 851 564
Fixed Burdens						
External Burdens and Other Consumptions	6 838 081	6 763 952	6 791 116	6 819 638	6 849 588	660 365
User Burdens Workers and Social Insurance	4 246 796	4 400 532	4 560 786	4 727 856	4 902 040	5 083 703
Depreciation Installments	5 378 212	4 528 212	4 528 212	4 528 212	4 528 212	4 528 212
Financial Outputs						
Financial Burdens	1 496 184	1 001 041	172 235			
C Total Fixed Burdens	17 959 273	16 693 737	16 052 349	16 075 706	16 279 840	10 272 280
D Margin on Variable Costs (A – B)	20 940 000	21 987 000	23 086 356	24 240 672	25 452 696	26 725 330
E	34,90%	34,90%	34,90%	34,90%	34,90%	34,90%

Margin Rate on Variable Costs . (D / A)						
Yield Threshold(C / E)	51 459 235	47 833 057	45 995 257	46 062 186	46 647 115	29 433 474
The Month of Reaching The Yield Threshold	November	October	September	August	August	May

Source: Prepared by the two researchers based on the budget results and the estimated results calculation.

It is clear from the table data that, if the institution is financed with a lease financing , it begins to achieve profits during the month of November of the first year and reaches its achievement in May of the sixth year. This is explained under the pretext of the financial burdens that the institution bears if it is financed with a lease financing .

3.4.The Financial Indicators of the Institution in The Case of Financing it in the Form of an Investment Loan:

This part of the study attempts to measure the impact of the financing alternative "investment loan" on the financial balance of the institution through the same previous indicators and with the following data:
The duration of the investment loan is 5 years, with the commitment of the institutionto pay an initial contribution of 30% of the cost of investments at an interest rate of 3.5%.

3.4.1.TotalWorking Capital: The following table summarizes the total working capital calculations:

Table N°. (10): The total working capital of the organization for a period of 6 years.

Appointment	First Year	Second Year	Third Year	Fourth Year	Fifth Year	Sixth Year
Private Funds						
Capital	5 000 000	5 000 000	5 000 000	5 000 000	5 000 000	5 000 000
Reserves and Carryover Account Again		10 697 579	22 472 096	35 297 324	49 224 559	64 307 624
Course Result	10 697 579	11 774 517	12 825 228	13 927 235	15 083 065	16 295 338
Depreciation	5 378 212	9 906 424	14 434 636	18 962 848	23 491 060	28 019 272
Supplies						
Exoploitation Subsidies						
Total Private Funds	21 075 791	37 378 520	54 731 960	73 187 407	92 798 684	113 622 234
Borrowing						
Loans	22 783 236	18 513 302	14 104 595	9 552 605	4 852 676	
Partners Current Account	500 000	500 000	500 000	500 000	500 000	500 000
Total Leverage	23 283 236	19 013 302	14 604 595	10 052 605	5 352 676	500 000
A Total Permanent Funds	44 359 027	56 391 822	69 336 555	83 240 012	98 151 360	114 122 234
Net Assets						
Moral Assets						
Phisical Assets	32 547 480	32 547 480	32 547 480	32 547 480	32 547 480	32 547 480

Financial Assets						
B Total Net Assets	32 547 480	32 547 480	32 547 480	32 547 480	32 547 480	32 547 480
C Total Working Capital(A – B)	11 811 547	23 844 342	36 789 075	50 692 532	65 603 880	81 574 754

Source: Prepared by the two researchers based on the budget results and the estimated results calculation.

From the table, we find that working capital is positive during all years, meaning that permanent funds are sufficient to finance fixed assets, and the remaining part, which is the surplus of permanent funds, is directed to financing the exploitation cycle.

3.4.2. Working Capital Needs of the Project: The following table summarizes the calculations for the project's working capital needs:

Table N°. (11): Table for calculating the working capital needs of the project.

Appointment	First Year	Second Year	Third Year	Fourth Year	Fifth Year	Sixth Year
Origins of Exploitation						
Raw Materials Inventory	758 333	796 250	836 062	877 866	921 759	967 847
Consumer Rights	5 850 000	6 142 500	6 449 625	6 772 106	7 110 712	7 466 247
Other Rights	5 054	5 307	5 572	5 851	6 143	6 450
A Total Assets of Exploitation	6 613 387	6 944 057	7 291 259	7 655 823	8 038 614	8 440 544
Opponent of Exploitation						
Suppliers Depts	7 673 126	8 056 781	8 459 620	8 882 603	9 326 734	9 793 069
Other Depts	376 984	394 988	413 873	433 690	454 475	476 282
B Total Exploitation Liabilities	8 050 110	8 451 769	8 873 493	9 316 293	9 781 209	10 269 351
C Working Capital Needs (A – B)	(1 436 723)	(1 507 712)	(1 582 234)	(1 660 470)	(1 742 595)	(1 828 807)

Source: Prepared by the two researchers based on the budget results and the estimated results calculation.
The table shows that working capital needs are negative during the entire estimated period. This indicates that the institution does not need the value of these needs. According to its data, it has short-term resources and makes

purchases on account. From the above, the relationship between **working capital and the needs of working capital and the treasury** can be summarized as follows:

Table N°. (12): Summary of the relationship between working capital, working capital needs, and treasury.

Appointment	First Year	Second Year	Third Year	Fourth Year	Fifth Year	Sixth Year
A Total Net Working Capital	11 811 547	23 844 342	36 789 075	50 692 532	65 603 880	81 574 754
B Working Capital Needs	(1 436 723)	(1 507 712)	(1 582 234)	(1 660 470)	(1 742 595)	(1 828 807)
C Treasury(A – B)	13 248 270	25 352 054	38 371 309	52 353 002	67 346 475	83 403 561
Overdraft	13 248 270	25 352 054	38 371 309	52 353 002	67 346 475	83 403 561
Overdraft Benefits						

Source: Prepared by the two researchers based on the budget results and the estimated results calculation.

It is clear from the table that the net working capital is positive during all the estimated years, which results in a positive treasury and the institution not resorting to overdrafts and incurring interest that affects financial independence.

3.4.3.Calculating the Estimated Results:
The following table summarizes the calculation of the organization's estimated results for an estimated period of 6 years.

Table N°. (13): Calculating the estimated results for a period of 06 years.

Appointment	First Year	Second Year	Third Year	Fourth Year	Fifth Year	Sixth Year
Public Works and Construction Number	60 000 000	63 000 000	66 150 000	69 457 500	72 930 375	76 576 894
Consumable Raw Materials	39 000 000	40 950 000	42 997 500	45 147 372	47 404 743	49 774 980
Gross Margin	21 000 000	22 050 000	23 152 500	24 310 128	25 525 632	26 801 914
External Burdens and Other Consumptions	677 413	606 284	636 592	668 426	701 855	736 949
Value Added	20 322 587	21 443 716	22 515 908	23 641 702	24 823 777	26 064 965
Exploitation Subsidies						
User Burdens	4 246 796	4 400 532	4 560 786	4 727 856	4 902 040	5 083 703
Taxes and Fees						

Raw Surplus For Exploitation	16 075 791	17 043 184	17 955 122	18 913 846	19 921 737	20 981 262
Depreciation Installment	5 378 212	4 528 212	4 528 212	4 528 212	4 528 212	4 528 212
Result of Exploitation	10 697 579	12 514 972	13 426 910	14 385 634	15 393 525	16 453 050
Financial Outcomes						
Financial Burdens		740 455	601 682	458 399	310 460	157 712
Current Result	10 697 579	11 774 517	12 825 228	13 927 235	15 083 065	16 295 338
Exceptional Outputs						
Exceptional Burdens						
Exptional Result						
Result Before Tax	10 697 579	11 774 517	12 825 228	13 927 235	15 083 065	16 295 338

Source: Prepared by the two researchers based on the budget results and the estimated results calculation.

It is clear from calculating the results that the institution achieves increasing profits starting from the first year of activity of 10.697.579 DZD, reaching 16.295.338 DZD in the sixth year.

3.4.4.Loan Installments Paid with Interest

The following table shows the repaid loan installments:

Table N°. (14): Loan installments paid with interest

Number	Month	Bank Interest	Paid Loan asset	Installment Due	The Remaining
1	January of the First Year				22 783 236
2	January of the Second Year	740 455	4 269 934	5 010 389	18 513 302
3	January of the Third Year	601 682	4 408 707	5 010 389	14 104 595
4	January of the Fourth Year	458 399	4 551 990	5 010 389	9 552 605
5	January of the Fifth Year	310 460	4 699 929	5 010 389	4 852 676
6	January of the Sixth Year	157 712	4 852 676	5 010 388	
		2 268 708	22 783 236	25 051 944	

Source: Prepared by the two researchers.

The table above shows that the institution pays monthly installments amounting to 5.010.389 DZD and that the total cost of the loan at the end of the period is 27.320.652 DZD, where the interest represents 2.68.708 DZD. From this it is clear that the cost difference between the financing formula with a lease financing and an investment loan is estimated at 3.782.688 DZD.

3.4.5. Analysis of the Return Threshold of the Organization Table:

The following table summarizes the institution's return threshold for an estimated period of 6 years.

Table N°. (15): The estimated return threshold of the institution for a period of 6 years.

Appointment	First Year	Second Year	Third Year	Fourth Year	Fifth Year	Sixth Year
Business Number						
Public Works and Construction Number	60 000 000	63 000 000	66 150 000	69 457 500	72 930 375	76 576 894
A Total Business Number	60 000 000	63 000 000	66 150 000	69 457 500	72 930 375	76 576 894
Variable Costs						
Consumable Raw Materials	39 000 000	40 950 000	42 997 500	45 147 372	47 404 743	49 774 980
External Burdens and Other Consumptions	60 000	63 000	66 144	69 456	72 936	76 584
B Total Variable Burdens	39 060 000	41 013 000	43 063 644	45 216 828	47 477 679	49 851 564
Fixed Burdens						
External Burdens and Other Consumptions	617 413	543 284	570 448	598 970	628 919	660 365
User Burdens Workers and Social Insurance						
Depreciation Installments	4 246 796	4 400 532	4 560 786	4 727 856	4 902 040	5 083 703
Financial Outputs	5 378 212	4 528 212	4 528 212	4 528 212	4 528 212	4 528 212
Financial Burdens						
C Total FixedBurdens		740 455	601 682	458 399	310 460	157 712
D Margin on Variable Costs (A – B)	10 242 421	10 212 483	10 261 128	10 313 437	10 369 631	10 429 992
E Margin Rate on Variable Costs. (D / A)	20 940 000	21 987 000	23 086 356	24 240 672	25 452 696	26 725 330
YieldThreshold(C / E)	34,90%	34,90%	34,90%	34,90%	34,90%	34,90%
The Month of Reaching The YieldThreshold	29 347 911	29 262 129	29 401 505	29 551 390	29 712 415	29 885 371
Business Numbers	June	June	June	June	May	May

Source: Prepared by the two researchers based on the budget results and the estimated results calculation.

It is clear from the table data that if the founder finances it with an investment loan, she will begin to realize profits during the months of May and June.

3.5. Comparison of the financial impact of the studied financing alternatives on the institution:
From the above analysis, the results can be summarized in the following table:

Table N°. (16): Comparison of the financial impact of the studied financing alternatives on the project.

Standard Comparison Through Case Study	Investment Loan	Lease financing
Option at the end of the contract	- There is no choice.	- Purchasing the asset at the agreed value. - Return the original ownership. - Renewing another lease contract.
Guarantees	- Mortgage option, guarantee, insurance, real estate mortgage.	- Ownership of movable assets or real estate. - a comprehensive insurance guarantee.
Accounting restriction	- Depreciation and financial expenses are recorded as operating costs. - The loan amount is recorded in liabilities (debts).	- Recording the premiums as exploitation costs.
Net result	Through corporate status, a higher level of profits is achieved compared to a lease financing	Through corporate status you achieve a lower level of profits compared to an investment loan
Yield threshold	The institution reaches the threshold of profitability faster than if it is financed with a lease loan	The enterprise reaches the profitability threshold after a longer period than in the case of financing it with an investment loan
❖ **Net working capital** ❖ **Working capital needs** ❖ **Treasury**	The institution did not resort to overdrafts.	The total net working capital and working capital needs are negative, resulting in a negative treasury that pushes the organization into exploitation loans for overdrafts during the first and second years.

Source: Prepared by the two researchers based on the results of the comparative study between financing with a lease financing and an investment loan.

4. Conclusion:

In this study, we discussed the importance of both the lease financing and the investment loan as the most important financing alternatives available to economic institutions.Moreover, we reviewed the advantages and disadvantages of each financing formula. For a deeper analysis of the problem of comparison between the two financing alternatives and its impact on the financial balance, we studied the impact of each alternative on the estimated budget, as well as calculating the results through indicators widely used in measuring financial performance.

Through our study of the impact of the Al Baraka Bank lease financing and investment loan, we concluded that the institution financed with the lease financing may record a **negative** net working capital, meaning that the permanent funds are not sufficient to cover the fixed assets and that the fixed assets are financed with short-term debts. This is a defect and **there is no financial balance** and may pose a risk to the financial system. The institution reversed the financing status with an investment loan.

We also concluded, through the case study, **the significant cost of financing with a lease financing** compared to an investment loan, and that the trend toward this financing formula may be due to other reasons, the most important of which is the lack of required guarantees compared to investment loans and other reasons related to Islamic Shariah.

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