



ARD



AGRICULTURE
AND RURAL
DEVELOPMENT

Leasing as Credit Alternative

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Presentation Outline

- Understanding Leasing
- Global Leasing Market
- Advantages of Leasing
- Cases



What is Leasing?

- Contract between two parties, where the party that owns an asset (the *lessor*) lets the other party (the *lessee*) use the asset for a predetermined time in exchange of periodic payments
- Separates 'use' of asset from 'ownership' of asset.

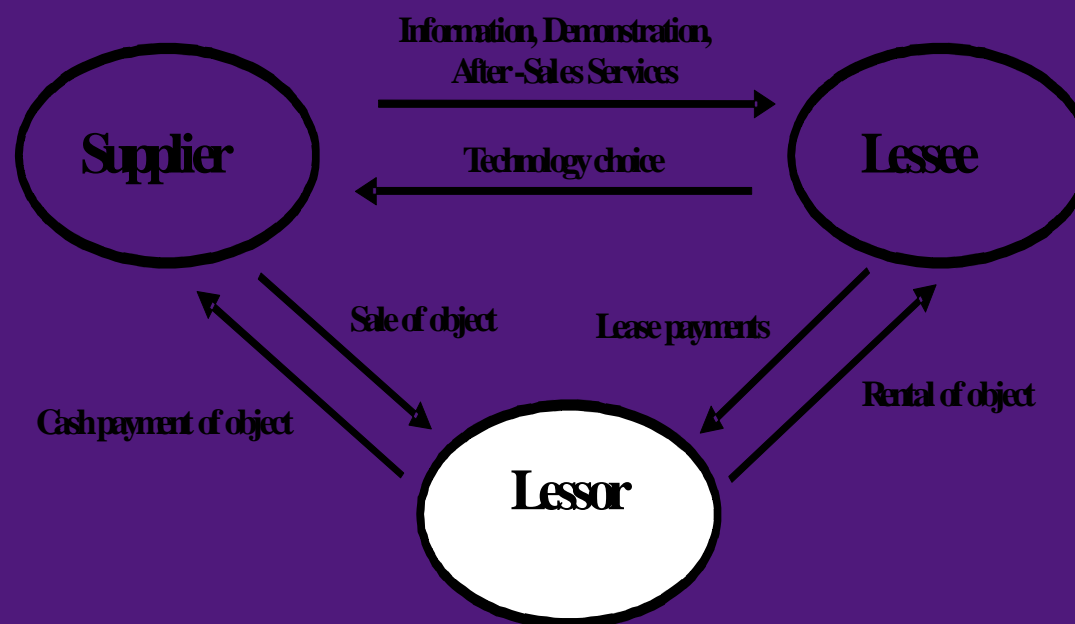


Types

- Finance Lease (The Credit Alternative)
 - Amortizes asset price -typically, includes purchase option
 - Lessee responsible for maintenance
 - Usually non-cancellable
- Operating Lease
 - Amortizes only part of asset price – lessor recovers price through multiple leases.
 - Lessor responsible for maintenance
 - Usually cancellable



Finance Lease- A Schema



Source: FAO and GTZ



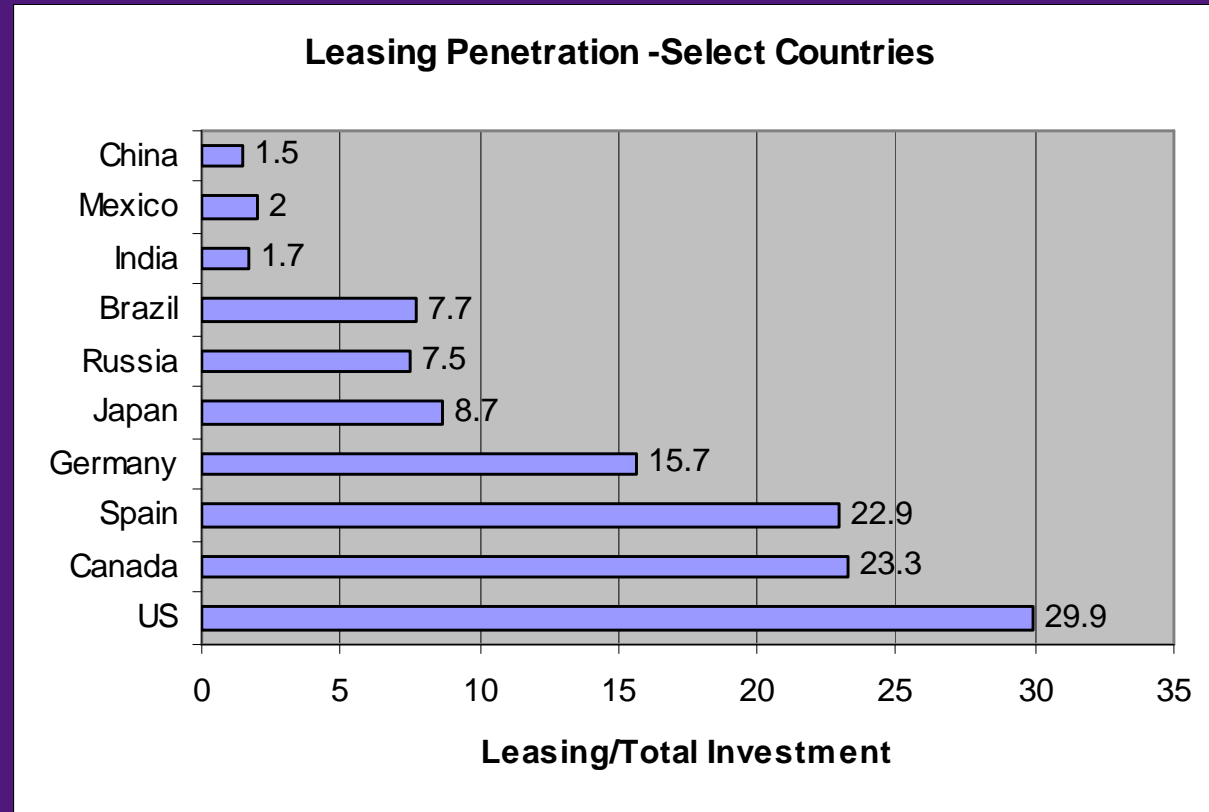
Global Leasing Market: 2004

- New Leases: US\$ 579 billion; 13% increase over 2003
 - United States – US\$ 220 billion (13.4 %)
 - Japan – US\$ 74 billion (8.7 %)
 - Germany – US\$ 55 billion (10.7%)
 - Brazil – US\$ 4.37 billion (7.7%)
 - China – US\$ 2.4 billion (n/a)

Source: World Leasing Report 2006



Global Leasing Market: 2004



Source: World Leasing Report 2006



Advantages : The Client Perspective

- Additional Collateral not required
- Lesser Credit history may suffice
- May require less down payment
- May have better prices
- Potential tax-benefits



Advantages : The Provider Perspective

- Stronger Security: Ownership rights (vs collateral rights)
 - Less incentives to default, less costs of repossession
- Usually more flexible pricing
 - Lease rates not usually regulated (loan rates often are)
- Less costs of Regulatory Compliance
 - Often exempt from prudential regulations.



Economy Wide Benefits

- Increase in Capital Investment
 - Particularly for the 'Missing Middle', but also micro and household enterprises
- Capital Market Development
 - Leasing Companies borrowing from Insurance Companies, Pension Funds
- Increased Competition in the Financial Market
 - Competition for Banks on products and prices.



Advantages in Rural / Agricultural Finance

Addresses the following issues

- Collateral
 - Absence of assets that can be used as collateral
- Transaction Cost
 - Poorly functioning asset-registries
- Regulation
 - Rural lending often subject to interest ceilings



Firm Case 1: John Deere, Mexico

Rural Market
Niche:
Farm
Equipment

- Fully-owned Subsidiary of John Deere
- US\$ 74million Lease Portfolio in 2004
- 85% in Farm Equipment
- Rural Leases: Examples
 - US\$107,000 Harvester
 - US\$ 21,000 Seeding Machine
 - US\$ 11,000 Cultivating Implements



Firm

Case 2: DFCU

Leasing, Uganda

Rural Market
Niche:
SMEs

- Profitable, publicly listed company.
- US\$ 25.7 million lease portfolio in 2004
- 20% portfolio in rural areas; 10% portfolio and 16% leases in Agriculture
- Rural Leases- Examples
 - US\$ 70,000 Cotton-ginning equipment
 - US\$ 34,000 bakery equipment
 - US\$ 6,000 milling equipment



Firm

Case 4: Network Leasing, Pakistan

Rural Market
Niche:
Micro
enterprises

- Profitable, publicly listed private company.
- US\$ 11.6 million lease portfolio in 2004
- 21% portfolio & 43% leases in rural areas
- Rural Leases- Examples
 - US\$ 420 Buffaloes
 - US\$ 2,793 clinic lab-equipment
 - US\$ 402 school furniture



2003 IFC Leasing Portfolio Review: Key Lessons

- Structuring
 - Access to local, competitively priced local currency funding critical.
 - Bank subsidiaries less vulnerable to competition than stand-alone companies.
- Sponsors / Technical Partners
 - Banks have operational synergy.
 - Senior management and shareholder commitment critical.



Concluding Thoughts

- Improving the Policy Environment?
 - Legal – Financial Leasing Law
 - Tax – Level Playing Field
 - Regulatory
- Potential Initiatives?
 - Training for lessors and regulators
 - Public Awareness