Buffalo, Bakeries, and Tractors: Cases in Rural Leasing From Pakistan, Uganda, and Mexico

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Acronyms and Abbreviations

AJD  Arrendadora John Deere [John Deere Leasing]
CDC  Capital Development Corporation
DFCU  Development Finance Company Uganda
DFID  Department for International Development
FIRA  Fideicomisos Instituidos Relación Agricultura en el Banco de México
       [Trust Funds for Agriculture Central Bank]
FIRCO  Fideicomiso de Riesgo Compartido
       [Trust Fund for Shared Risk]
FMO  Netherlands Development Finance Company
GDP  gross domestic product
IAS  International Accounting Standards
IFC  International Finance Corporation
ILO  International Labour Organization
IPO  initial public offering
MFI  microfinance institution
NLCL  Network Leasing Corporation Limited
NORFUND  Norwegian Investment Fund for Developing Countries
PAR  portfolio at risk
SAGARPA  Secretaria de Agricultura, Ganadería, Desarrollo Rural, Pesca y
         Alimentación
         [Secretary of Agriculture, Livestock, Food and Fish]
SMEs  small and medium enterprises
USAID  United States Agency for International Development
VAT  value added tax

Currencies

Mex$  Mexican pesos
PRs  Pakistan rupees
U Sh  Uganda schillings
UK£  pounds sterling
US$  United States dollars

Exchange Rates Used (as of December 31, 2004)
US$1 = PRs 59.50
US$1 = U Sh 1,728.83
US$1 = Mex$11.19
Executive Summary

A recent Agriculture and Rural Department Discussion Paper assessed the relevance and potential of rural leasing as a financing tool. The paper suggested that enhanced use of leasing in rural areas could be supported, because this practice would overcome some of the existing constraints in providing rural credit for investment financing. This paper reinforces the case for supporting the development of leasing services in rural areas by presenting the case studies of three leasing companies. These companies were selected from among the ten providers surveyed for the original Discussion Paper. This paper provides concrete examples of areas of support at the institutional level and discusses results that project managers at the World Bank and other international development organizations can expect.

The three case-firms are commercial providers serving three major rural-market segments.

- Network Leasing Corporation Limited (NLCL) in Pakistan focuses on micro and small entrepreneurs. It pioneered microleasing in Pakistan in the mid-1990s and presently is one of the leading providers in the country. Its lease portfolio in 2004 was US$11.6 million, 21 percent of which is estimated to be in rural areas.

- Development Finance Company Uganda (DFCU) Leasing Company Limited is the largest provider of leases in Uganda, estimated to have a market share of nearly 80 percent. It focuses on small and medium enterprises. The company’s lease portfolio in 2004 was US$25.7 million, and 20 percent of this is estimated to be in rural areas.

- Arrendadora John Deere (AJD) is wholly owned by John Deere Capital Corporation, USA. It is the largest provider of farm machinery leases in Mexico. The company’s core clientele includes medium and large farming enterprises. Its lease portfolio in 2004 was US$74 million, 85 percent of which is farm equipment leases.

Finance leases are close substitutes for loans as asset financing tools. In finance leases, the lease amortizes most of the asset cost, usually cannot be cancelled during the lease-term, and maintenance and insurance costs rest with the lessee. Nearly all risks associated with owning an asset are transferred to the lessee without actually transferring the title. At the end of the lease period, the lessee has the option to purchase the asset for a token price. This option is invariably used because the residual value of the asset at the end of the lease is significantly higher than the original price.

For organizations that provide asset financing, leasing offers several advantages over loans. These advantages stem from the difference in the structure of the two forms of financing as well as the regulatory framework governing them. In a lease, the lessor owns the asset; in a loan, the creditor only has a lien over the asset. Transaction costs are typically lower to contract a lease than to issue a loan, because the cost to secure collateral and the cost of foreclosure, in cases of default, are avoided. Furthermore, repossessing a leased asset is usually easier
than taking possession of loan collateral (in cases of default). While the former scenario often does not require intervention of the civil courts, the latter does. Last, leasing companies are not subject to the same prudential regulations as banks, or they are subject to less-costly regulations.

These advantages explain, at least in part, the successful experiences of the case-firms. The case-firms have served a steadily increasing number of clients, a significant proportion of which are rural, in the four- to five-year period for which data were analyzed. They have done this with little or no lease losses; performance of the rural portfolio is reported to be as good as or better than the urban portfolio. And most important, all three companies are profitable (two are listed in their respective national stock exchange).

The most significant benefit to the clients of the case-firms is access to the formal financial system. In the case of two of the three case-firms, a significant proportion of clients are accessing finance from a formal financial institution for the first time. And several have obtained more than one lease from the case-firms, suggesting that the access is not a one-time event. Factors reported by clients for using the services of the case-firms include no collateral or less additional collateral required, less time for processing, and ease of approachability of the provider.

However, the case studies suggest that lease financing only partially overcomes the typical constraints to credit financing. Two of the three case-firms take additional collateral; this practice is different from the typical lease transaction in developed economies in which the leased asset itself is considered adequate security. The security deposit or down payment required by all three companies is also higher than that typically demanded in developed economies.

Five lessons specific to rural leasing are drawn from the case studies:

- **In rural areas, leasing is a means to acquire productive assets:** All rural leases provided by the leasing companies studied are finance leases. The lease is primarily a means to finance acquisition of an asset (in contrast to renting an asset under operational leases).

- **Rural enterprises of different sizes benefit from leasing, but a provider may not be able to serve enterprises of all sizes:** The reason appears to be differences in skills and capacities that staff require when catering to enterprises of different sizes. While the categories of enterprises served by the companies studied overlap, each focuses on one or the other.

- **Non-farm enterprises account for a significant proportion of rural leases:** In the case of NLCL and DFCU, leases to non-farm rural enterprises accounted for a larger proportion of the rural portfolio than leases to farming enterprises.

- **Rural leasing can be profitable, but jump-starting rural leasing may require government and donor support:** All three case-firms are profitable. However, they all have benefited from access to government or donor funds, particularly to expand their rural operations.

- **A rural leasing company may not be viable:** In two of the three case-firms, the larger proportion of clients is urban. Because leasing is a specialized financial activity, economies of scale, cost, and risk factors may require that, in most economies, leasing companies have larger urban operations.

The three case studies show that rural leasing—particularly financial leasing—can be a useful tool to finance the acquisition of a broad range of rural assets, particularly in economies in which rural credit markets do not function well.
Development of rural leasing markets requires an enabling policy environment and institutional-level initiatives. The World Bank and other international development agencies would be well-advised to explore means to support more widespread use of rural leasing.
1. Introduction

A recent Agriculture and Rural Department Discussion Paper assessed the potential of rural leasing as a financing tool. The paper suggested that enhanced use of leasing in rural areas could be supported, because this practice overcomes some of the existing constraints in providing rural credit. Ten leasing providers were surveyed for the paper; together they provided more than US$125 million in leases to rural enterprises in 2002–03. Of these leases, 75 percent were for agricultural or agricultural processing equipment.

This paper reinforces the case made by the Discussion Paper through case studies of three leasing companies, selected from among the ten leasing providers surveyed for the original Discussion Paper. The case studies also provide task managers at the World Bank and other international development organizations concrete examples of how government and donor funds can be used to support the development of leasing services in rural areas.

The case-firms are commercial providers serving three major rural market segments. The company in Pakistan focuses on micro and small entrepreneurs (a significant proportion of their leases finance buffalo); the company in Uganda focuses on small and medium enterprises (SMEs); and the Mexican company serves medium and large farmers and farming enterprises. All three companies are profitable and two are listed in their respective national stock exchanges. Information for the case studies was collected during visits to the three countries; through interviews with the management, staff, and clients of the companies; and by reviewing available documents.

All leases are long-term rental contracts; a provider (lessor) allows a user (lessee) to use an asset for a predefined time in exchange for agreed-upon payments. There are several types of leases. However, they can be categorized broadly into two types that differ significantly: finance leases and operating leases. In finance leases, the lease amortizes most of the asset cost, the lessee has the option to purchase the asset at the end of the lease period for a token price, leases are usually noncancelable, and maintenance and insurance costs rest with the lessee. They transfer nearly all risks associated with owning an asset to the lessee without actually transferring the title. In contrast, in operating leases, the lease amortizes only part of the asset cost, there is no purchase option, leases are cancelable, and maintenance and insurance costs are borne by the lessor.

In practice, finance leases are an effective alternative to loans as a means of financing. A key finding of the original Discussion Paper on Rural Leasing was that nearly all rural leases provided by the surveyed firms were finance leases. In the rural context, leasing is a means to acquire assets rather than rent them.

Leasing offers several advantages over loans for organizations that provide asset financing. These advantages stem from the differences in the structure of the two forms of financing as well as the regulatory framework governing them. The advantages from a structural viewpoint arise primarily because of the differences in ownership of the asset being financed. In a lease, the lessor owns the asset; in a loan, the creditor only has a lien over the asset. Transaction costs are typically
lower when contracting a lease than when issuing a loan; costs of securing adequate collateral and the cost of foreclosure, in cases of default, are avoided in leases. More important, in case of default, repossession of a leased asset is usually easier than taking possession of loan collateral. In the former scenario, it is the asset owner who takes possession of the asset; in the latter scenario, it is the financier that takes possession of the collateral (from the owner of the asset) in lieu of the loan. While the former scenario often does not require intervention of the civil courts, the latter does.

The case studies find that the advantages suggested in theory do play out in practice. While quantitative estimates of transaction costs were not made, discussions with the company staff and management suggest that the transaction costs in leasing are lower than in lending. The case-firms report low levels of defaults and even lower levels of write-offs. The case-firms are subject to fewer regulations than banks and, hence, have lower costs associated with regulatory adherence. The case studies also reinforce the feasibility of leasing as a profitable rural financing tool. All case-firms report their rural portfolio performance to be as good as or slightly better than their urban portfolio.

Last, clients of the case-firms were benefiting from access to formal finance. In two of the three case-firms, a significant proportion of clients are accessing finance from a formal financial institution for the first time. And several have obtained more than one lease from the case-firms, suggesting that the access is not a one-time event.

Some caveats are in order. This paper is neither a comparative study of the three companies nor a performance assessment of the case-firms. This paper also does not aim to present a comprehensive analysis of policy factors that enable or constrain leasing in the countries where the case-firms are located. The limited objective of the paper is to present, in more detail than was possible in the original Discussion Paper, the experiences of three firms that are able to profitably provide leasing services in rural areas and to draw lessons from their experiences. Given the limited scope of the paper, the lessons drawn are preliminary.

Sections 2, 3, and 4 present the cases. The case studies present information on three dimensions: (1) an overview of the company, including legal structure, volume of business, sources of financing, and profitability, and the regulatory framework for leasing in the country; (2) lease terms and processes; and (3) performance of the firm, both overall and performance of rural operations. The case studies also include profiles of lessees, who represent a cross-section of the company’s clients. Section 5 discusses lessons from the case studies and draws conclusions.
2. Case Study: Network Leasing Corporation Limited, Pakistan\textsuperscript{5}

Network Leasing Corporation Limited (NLCL) was incorporated as a Non-Bank Finance Company in 1993, listed publicly in 1994, and approved to provide leasing services in 1995. The company was promoted by Asif Siddiqi, his wife Musaret Siddiqi, and three of their friends—Mohammed Elias, Yusuf Sattar, and Hanif Sattar. NLCL was the first formal financial institution in Pakistan to focus on micro and small leases.\textsuperscript{6}

The initial capital of the company was Pakistan rupees (PRs) 100 million (US$4 million). Operations were started in Karachi, where the head office is presently located. The Lahore office was opened in 1996 and the Peshawar office opened in 1997. In 2004, the company disbursed 1,535 leases worth PRs 305 million (US$5 million); the year-end portfolio was worth PRs 699 million (US$11.6 million). The company employs 86 people.

NLCL is listed on Pakistan’s three stock exchanges and has 1,169 shareholders. The company has consistently been profitable; it declared dividends of 5 percent in 2004 and 10 percent in 2003. The major sources of long-term funding for NLCL are loans from commercial banks in Pakistan. These banks financed 75 percent (US$10.4 million) of NLCL’s long-term liabilities in 2004. Pakistan Poverty Alleviation Fund, a World Bank–funded project, provided 12 percent and an Asian Development Bank loan provided another 4 percent.

NLCL’s major competitors in the rural leasing market are Orix Leasing, Crescent Leasing, and SME Leasing. In 2004, NLCL promoted Network Microfinance Bank. NLCL holds 30 percent of the shares in the bank, another 30 are held by other institutional investors, and 40 percent of the shares are publicly held.\textsuperscript{7} The company envisions that Network Microfinance Bank will provide its leasing clients (and others) with working capital, housing finance, and deposit services.

After establishing its urban business, NLCL expanded its operations into suburban and rural areas around Karachi. Later, the Lahore and Peshawar branches began providing leases in rural areas. The company’s strategy for its rural operations is to provide services in rural areas around the three major cities where it operates (rather than open branches or suboffices in rural towns). The villages served are located within 100 miles of these major cities. Operations are conducted at the city offices.

Pakistan does not have a separate leasing law. Leasing activity is regulated by various civil, commercial, and banking laws and rules. Lessors’ rights are relatively strong, and repossession of leased assets does not require court intervention.

Following universal banking principles, most financial institutions in Pakistan are permitted to provide financial leases. These institutions include commercial banks, development banks, leasing companies, and modarbas (mutual-benefit entities regulated by Islamic law). All non-bank financial institutions are subject
to prudential regulations; the responsible supervising agency is the Securities and Exchange Commission of Pakistan.8

Pakistan has adopted the International Accounting Standard (IAS) norms for leasing (IAS-17). However, the taxation framework in Pakistan permits lessors to claim capital allowances, and lessees are permitted to deduct full-lease rentals from their incomes. Furthermore, lease payments are not subject to value added tax (VAT).

**Lease Terms and Processes**

To start the lease process, NLCL requires applicants to submit an application form with supporting documents, including a copy of their national identity card, evidence of residence (such as a utility bill), and personal guarantees from two individuals. An NLCL credit officer completes a preliminary verification of the application and the supporting documents. Creditworthy applicants are asked to submit copies of financial statements of the enterprise. For clients who do not maintain formal accounts, credit officers help in preparing these statements.

The preliminary appraisal is done by the credit officer and secondary appraisal is done by the branch manager. Leases are approved by a credit committee comprising the concerned credit officer, the branch manager, and a representative from the head office. Additional documents collected from the lessees include (as relevant to the specific case) copies of documents of incorporation for partnerships, trusts, societies, companies, etc.; promissory notes; and taxation receipts.

NLCL leases both new and used assets. Lease value can range from PRs 1,000 (US$17) to PRs 100,000 (US$1,680). The lessee is expected to obtain at least three quotes for asset prices. For all leases except livestock, the company directly pays the asset supplier. The company has set up linkage arrangements with some suppliers—the most prominent of which is with Saigol-Qingqi, dealers of the Chinese motorcycle rickshaws. Clients with a good track record are permitted to hold more than one lease at the same time.

Features of a typical NLCL lease follow:

1. **Security:** The primary security is the asset. Additionally, lessees have to make a security deposit—typically equivalent to 20 percent of the asset cost for microleases and 10 percent for small leases. Lease applicants have to deposit this amount and the first month’s lease rental for NLCL to issue the purchase order for the asset. The security deposit is adjusted against the residual cost of the equipment at the end of the lease. NLCL does not take additional collateral as security.

2. **Insurance:** Two types of insurance coverage are included in all leases provided by NLCL. An all-risk policy protects against general risks such as fire, theft, flood, etc. A group life policy covers all outstanding lease payments if a lessee dies, thereby allowing the leased asset to be transferred to the lessee’s family. For all leases except livestock, the insurances are purchased from a commercial provider and the costs are included in the lease rental. Because of the high cost of livestock insurance from commercial providers, the company maintains an internal risk fund that serves the same purpose. The leased animals are stamped for identification.
3. **Lease term:** Lease terms range from three to five years. In Pakistan, leases are legally required to last for at least three years. However, many rural clients demand a shorter-term lease, particularly for assets such as buffalo. For such clients, leases are structured such that lessees complete payments within a period of 18 to 24 months, but the company carries the lease in its books for three years. The last payment made by the lessee is treated as an advance and is amortized over the remaining lease period in the company’s books.

4. **Lease cost:** The costs range between 8 and 17 percent of gross lease value (all leases are in Pakistan rupees), including insurance costs. This includes the cost of funds for NLCL, operating costs, loss provision, insurance costs, and profits. The insurance costs 1.5 percent of the gross lease amount. Additionally, NLCL charges a one-time administrative fee of 1 percent. Costs are typically higher for smaller leases. In cases of late payments, a penalty is charged.

5. **Lease payment schedule:** Most leases have a monthly payment schedule. Lessees make lease payments by providing NLCL with postdated checks at the beginning of the lease period (most urban and relatively larger leases) or in cash as the payments become due (most rural leases). For rural leases, recovery officers visit the lessees on a fixed date every month and collect the lease payments.

6. **Option to purchase:** At the end of the lease period, the lessees have the option to purchase the asset against the initial security deposit. The lessees invariably use this option because the residual value of the equipment is typically higher than the value of the security deposit.

NLCL uses several approaches to maintain their portfolio quality. Billing advice is sent every month in advance of the rental due date and habitual late payers are reminded with phone calls, when feasible. Once a payment is missed, reminders are sent. Efforts to bring the lease payments up to date (through reminders and personal visits) continue for five months. On accrual of the sixth rental, if there is no action by the lessee, a legal notice is sent and action is taken to repossess the asset. If the lessee resists the repossession, NLCL approaches the Banking Court and repossesses the asset with the help of a court order.

Many of the lessees visited said they applied for leases based on a reference from an existing lessee. Some lessees were referred to NLCL by the equipment dealer they had approached for equipment. For most clients, the alternative to use another leasing company or bank was not available.

**Performance**

As Figure 2.1 illustrates, the company steadily increased the number of leases and lease disbursements from 2000 to 2003 and had a decrease in both in 2004. NLCL’s portfolio has shown steady growth (Figure 2.2) during this period, but its performance has worsened in terms of a portfolio at risk (PAR),\(^5\) which doubled from 2.2 percent to 4.4 percent. However, this has not affected the profitability of the company, because write-offs have been marginal and well within the loss provision of 2 percent, which is incorporated in the lease costs. Cumulative write-offs during the past four years are PRs 5.6 million (US$94,000).
Box 2.1. Examples of NLCL’s Rural Leases

1. Sacred Little Angel School in Manawan, established in 1999, has classes from first to seventh grade. There are around 100 students and 5 teachers. Students at different grade levels are taught within the same classroom. The school’s first lease, worth PRs 12,000 (US$201.00), was for a computer. This lease was completed in 18 months. Currently, the school has an ongoing lease of furniture worth PRs 24,000 (US$402.00). This lease is also for 18 months. The school contributed 20 percent of the lease amount as security deposit and paid a lease processing fee of PRs 500. The monthly lease payment is PRs 1,351 (US$23.00).

2. Siddique in Sharif Pura Daroghewala has leased a donkey-pulled cart worth PRs 10,000 (US$168.00). He uses the cart to transport materials and earns PRs 100 to 400 per rental. Before getting the cart, he used his bicycle for transporting. The donkey cart has increased his productivity because it allows him to transport larger quantities with the same effort. Siddique’s lease payment is PRs 765 (US$13.00) per month. NLCL’s recovery officer collects the payment every month on specified date. When Siddique does not have the lease payment on the usual date, the recovery officer comes a second time.

3. Naziran in Sharif Pura Daroghewala leased a buffalo. She previously leased another buffalo, completed the lease, and now owns it. The new lease is for 18 months and the value of the lease is PRs 25,000 (US$420.00), of which Naziran paid a 20 percent deposit. Naziran’s monthly lease payment is PRs 1,372 (US$23.00). She would like NLCL to increase the maximum lease amount permitted for buffalo leases because the price for a good buffalo that gives 12–15 kilograms of milk a day is more than PRs 40,000 (US$671.00).

4. Zia Poly Clinic, a sole proprietorship, is into its third lease. The first lease was for PRs 25,000 (US$420.00), the second was for PRs 50,000 (US$839.00), and the third is for PRs 100,000 (US$1,678). The clinic has completed the first lease, is close to completing the second lease, and has taken the third lease recently. The last lease is for equipment worth PRs 167,000 (US$2,793) for a microlab; the clinic put in PRs 67,000 as equity. The lease is for three years and the clinic pays a monthly installment of PRs 1,776 (US$30.00). The clinic has provided NLCL with postdated checks for the full lease period, which the company cashes as the installments become due.

Source: Authors, field interviews.

Figure 2.1. NLCL: Trends in Lease Numbers and Disbursements

Source: NLCL Annual Reports
In 2004, 21 percent of NLCL’s lease portfolio and 43 percent of its leases were in rural areas. Major assets financed by NLCL in rural areas include medical and laboratory equipment, buffalo, printing equipment, tailoring machinery, workshop machinery, and furniture and computers for schools. Other assets financed include rickshaws, motorcycles, photocopiers, and photographic equipment. While buffalo are perhaps the most non-conventional assets financed by NLCL, its two largest client groups—schools and clinics—also are not typical leasing clients.

Figure 2.3 illustrates the distribution of NLCL’s rural lessees for 2004. NLCL’s list of clients includes a significant number of schools and clinics, because of the company’s concerted efforts to contribute to the development of the rural health and education sector. In the education sector, the typical lessee is a private school that obtains leases for furniture, computers, and so on. Schools visited during the field visits ranged from those with less than 100 students operating with few facilities to relatively larger ones with more than 500 students and better facilities. The schools charge monthly fees ranging from PRs 50 to PRs 300 (approximately US$1.00 to US$5.00) and do not receive financial support from the government. The clinics visited included a primary health facility and a consulting facility, both owned by individual doctors.

In most of the villages visited, NLCL is at a relatively early stage of operations and hence the potential for growth seems high. For example, in one of the rural towns, NLCL has financed 3 of the 20 private schools reported to be in existence. In another village, NLCL had financed 2 of 20 tractor trolleys the village was reported to have. NLCL estimates that its rural operations have a slightly better recovery performance than their urban operations. The company reports that its rural portfolio has grown steadily, as has its overall portfolio.
Figure 2.3. NLCL: Rural Lessees in 2004

Source: Authors’ creation from data provided by NLCL
3. Case Study: Development Finance Company Uganda Leasing Company Limited, Uganda

Development Finance Company Uganda (DFCU) Leasing Company Limited is part of DFCU Group, one of the leading financial groups in Uganda. The company was established as Uganda Leasing Company Limited in 1994 and was acquired by the DFCU Group in 1999. Operationally, the Group is organized into two broad divisions—the commercial bank (DFCU Bank) and development finance, which includes leasing, term lending, and mortgage financing. In addition to Kampala, the capital city, the Group has branches in six towns. Four of these towns have leasing branches and three have bank branches (one has both). The development finance division has 84 employees.

The largest shareholder of the group is Capital Development Corporation (CDC), the British development investment organization, which holds 60 percent of the shares. Other major institutional shareholders include the National Social Security Fund and NORFUND (Norwegian Investment Fund), which each hold 10 percent of the shares. The remaining equity is held by the public. At the end of 2004, the group had 3,969 shareholders.

The group reported a profit of Uganda shillings (U Sh) 9.5 billion (US$5.5 million) in 2004 and recommended distribution of U Sh 3.6 billion (US$2.08 million) as dividends. The group’s total assets in 2004 were U Sh 329.9 billion (US$191 million). DFCU is the market leader in Uganda’s leasing market, with an estimated market share of approximately 65 percent. Other major providers include East African Development Bank and Stanbic Bank Uganda.

The development finance assets are primarily funded through borrowings. International development banks are the major source of medium- and long-term funds for the group. Of the U Sh 86.4 billion (US$50 million) in borrowings at the end of 2004, major sources included European Investment Bank and KfW Bankengruppe, the German development banking group (25 percent each); Uganda’s National Social Security Fund (15 percent); Netherlands Development Finance Company (FMO), the Dutch development investment organization (11 percent); and the Organization of Petroleum Exporting Countries (10 percent).

DFCU specializes in providing leases to SMEs, nearly all of which are finance leases. The Group’s gross leasing portfolio at the end of 2004 was U Sh 44.5 billion (US$25.7 million); their net portfolio (after deducting deferred income and provisions) was U Sh 34.7 billion (US$20.1 million). In 2004, lease receivables accounted for 22 percent of the group’s total portfolio and it registered a 30 percent increase over 2003. As of May 2005, 736 leases were active. The major sectors in which the lease portfolio was distributed are transport (23.7 percent), manufacturing (14.7 percent), education (13.8 percent), hotel and tourism (11 percent), trade and commerce (11.6 percent), and agriculture (9.9 percent). However, by number of leases, trade and commerce have the highest share (23 percent each), followed by agriculture (15.5 percent).
The first three rural branches (in Mbarara, Mbale, and Hoima) were opened in 2000 as part of a project funded by the U.S. Agency for International Development (USAID). The operational costs for the first two years were partly funded by a $300,000 grant from USAID that was matched by DFCU. DFCU has since started leasing operations in the towns of Lira and Arua, using its own funds.

Uganda has no specific leasing law. Leasing is regulated under various civil and commercial laws. The lessors’ rights are relatively strong, and repossession of leased assets does not require court intervention. Leasing companies in Uganda are subject only to company regulations and are not subject to prudential regulation by the Central Bank or any other financial regulator.

Uganda has adopted the IAS-17 norms for accounting of leases. Following these standards, finance leases are required to be included in lessee balance sheets. Tax treatment for leases follows the accounting norms. Only lessees are allowed to claim capital allowances, and only the interest part of lease rentals can be claimed as expenses. Lease payments are also subject to VAT, presently at 18 percent.

**Lease Terms and Processes**

DFCU leases both new and used assets. Typically, the lessee identifies a supplier and negotiates a price, and DFCU verifies the quality and price of the equipment and pays the supplier. Lease sizes mostly range between U Sh 5 million (US$2,900) and U Sh 500 million (US$290,000); around 10 percent of the leases are outside this range.

The branch manager completes preliminary appraisal of the lease application. If the branch manager deems the proposal creditworthy, it is sent to the head office for appraisal and approval by the credit committee, which is composed of the credit manager, head of credit, and head of risk. DFCU permits lessees to have more than one lease at a time.

Default is dealt with on a case-by-case basis. If the case is legitimate, lessees are offered the opportunity to restructure the lease payment schedule. If assessed otherwise, the asset is repossessed. If the repossessed asset is not sufficient to realize the amount outstanding, additional collateral is taken. DFCU reports that this is rare.

Key features of DFCU leases follow:

1. **Security:** DFCU takes a combination of cash and chattel mortgage as security. Typically, cash security is equal to 10 to 20 percent of the asset value and additional security of around 20 percent of the leased asset value is taken. The rule of thumb is to restrict risk exposure to a maximum of 60 percent of the asset value when the assets are new and 50 percent when assets are used. Additionally, personal guarantees are taken from two individuals.

2. **Insurance:** DFCU insures all leased assets with commercial insurance companies and includes the cost in the lease price.

3. **Lease term:** Lease terms range from two to five years.

4. **Lease cost:** The implicit cost of the leases ranges between 20 and 30 percent in Uganda schillings. The pricing is calculated for each lease based on level of risk and cost of assessment. VAT on lease payments (presently 18 percent) is included in the lease payment. Agricultural equipment is
exempt from VAT. Additional one-time costs include a facilitation fee (usually 2 percent) and a stamp duty (0.5 to 1 percent) for registering chattel mortgage.

5. **Lease payment schedule**: The payment schedule is aligned with the lessee’s cash flow and can be monthly, quarterly, or annual. The lessee is required to provide postdated checks for lease payments.

6. **Option to purchase**: All leases include the option to purchase the leased asset at the end of the lease period for a nominal price, usually less than 5 percent of the asset cost.

---

**Box 3.1. Examples of DFCU’s Rural Leases**

1. George Omoding has taken two leases from DFCU, both for his rice mill in Soroti, a small town 250 kilometres from Kampala. His current lease of U Sh 10 million (US$5,784) is a sale and leaseback deal (the lessee purchases the machine, sells it to DFCU, and then leases it back), which he took in 2004. The lease is for two years and has a monthly lease payment schedule. George provided a security deposit of 15 percent and provided his other milling equipment as additional security. With his current lease, George replaced a locally manufactured milling machine with an imported (Chinese) machine. George estimates that he has doubled his business since taking the lease by being able to offer better quality in milling and mill larger volumes during high season.

2. Sai Ginity is one of the two cotton ginneries in Soroti. The ginity is owned by Dr. Anab Ganesh, a retired agricultural scientist. The ginity has leased cotton-ginning equipment, imported from India, worth US$70,000 (the lease was in US$). The four-year lease has an annual lease payment schedule. The land and buildings owned by the ginity were provided as additional collateral. The ginity has used the equipment for one season and paid the first lease payment. The ginity is part of a network of ginneries in the region that pools resources and provides farmers fertilizers, pesticides, and tractor rentals on credit. The network also provides training to farmers in improved farming practices. Each ginity, in turn, has the right to procure an amount of cotton that is proportional to the amount of resources they contributed to the network.

3. St. Mary’s School in Madera, a village near Soroti, leased energy-efficient cooking equipment from DFCU in 2003. It has since completed the lease and taken ownership of the equipment. The school is managed by missionaries but receives government aid. The lease amount was U Sh 11 million (US$6,377) with a quarterly lease payment schedule to match the school fee collection schedule. The school provided a 15 percent security deposit and pledged vehicles it owns as additional security. The equipment acquired by the school consumes less fuel and keeps the food warm for a longer time.

4. Shamlon Uganda Limited is a bakery in Mbale that makes breads and pastries. In 2000, Mohammed Shamlon, the bakery’s sole proprietor, leased modern baking machines that operate on electricity to replace the ones that operated with oil. The three-year lease for U Sh 58 million (US$33,549) had monthly lease installments. The lease has since been completed and ownership of equipment was transferred. The lease was financed with the UK Department for International Development’s (DFID’s) grant funds for small leases. The bakery employees 25 people in various jobs. Mohammed presently has an ongoing mortgage loan from the DFCU Group.

*Source: Authors, field interviews.*
Performance

DFCU does not track its annual lease numbers and disbursements. However, as Figure 3.1 illustrates, its lease portfolio has shown an increasing trend in the past five years. The trend in PAR was not available. However, DFCU management reported that portfolio performance has not been an area of concern. DFCU has not written off any lease receivables in the past four years.

DFCU does not track its rural leases separately. However, approximately 20 percent of DFCU’s leasing portfolio is estimated to be in rural areas. The rural portfolio includes the portfolio of non-Kampala branches and the Kampala branches with leases in the surrounding rural areas. In 2004, the cumulative portfolio of the non-Kampala branches was U Sh 6 billion (US$3.5 million) and the portfolio of Kampala branches in rural areas was estimated to be U Sh 3 billion (US$1.75 million).

Although DFCU does not break up rural leases by asset type, the major assets financed are reported to be vehicles, maize and rice-milling equipment, cotton-ginning equipment, tractors, and cooking equipments (for hotels and schools). Non-farm assets account for a larger proportion of the assets than farm assets. All rural leases are finance leases (including some sale and leaseback leases).

DFCU charges interest rates similar to those offered by banks, but its leases are more attractive to SMEs because they require less collateral and offer longer payment periods (three to five years compared with around two years from banks). It also has flexible lease payment schedules that match enterprise cash flows. Clients cite the following reasons for doing business with DFCU: the absence of other financing options, approachability of the institution, and the short processing time.

DFCU has implemented two special programs that have financed a significant number of leases in rural areas. The Small Lease Purchase Program was financed by a UK£2 million capital grant from the Department for International Development (DFID), which was matched by DFCU. This program, which started in 2000 and was completed in 2004, financed 955 leases worth UK£4.02
million. The program finances assets such as milk coolers, bakery equipments, grain mills, used vehicles, photocopying equipment, and carpentry equipments.

The Uganda Energy Fund was started in 2003 as a partnership between The Shell Foundation and DFCU to finance energy-efficient equipment. The fund is financed by a Shell Foundation grant of US$2.5 million and a matching contribution by DFCU. By August 2005, 67 leases worth US$4.9 million had been disbursed under this fund. The leases under this program have financed SMEs, microenterprises, schools, and households. While SMEs and schools have been financed directly, microenterprises and households have been financed through microfinance institutions (MFIs). Examples of rural SMEs financed under the fund include a honey processing company, a tile manufacturer, and a fruit processor. Solar cells are the major rural assets financed for microenterprises and households. An internal study commissioned by the DFCU found increased turnover and profits, and reduced energy consumption and pollution among lessees financed under the DFCU.

DFCU has kept the rural branches opened with grant support from USAID and has opened additional rural branches with its own funds. The company estimates that the performance of the lease portfolio of the rural branches has been better than that of the Kampala urban branches. DFCU plans to increase its business in the rural branches and is particularly interested in exploring avenues to increase leases to the agriculture sector.
4. Case Study: Arrendadora John Deere, Mexico

Arrendadora John Deere (AJD)\textsuperscript{12} is fully owned by John Deere Capital Corporation, USA. The company was set up in 1996 to supply in-house financing for John Deere’s clients. Operations expanded rapidly and, by 1998, the company was working with all John Deere dealers in Mexico. Mexico has an annual market of 12,000 to 14,000 tractors, and John Deere has a market share of around 45 percent. AJD finances 30 to 35 percent of the tractors sold by John Deere.

Presently, AJD is the largest provider of farm equipment leases in Mexico and the ninth largest leasing company in Mexico. Approximately, 85 percent of AJD’s leases are agricultural equipment leases, primarily tractors, and the remaining are construction equipment leases. In 2004, the group’s lease receivables were Mexican pesos (Mex$) 830 million (US$74 million). AJD’s competitors are commercial banks and leasing companies active in the farm equipment market (rather than Financiera Rural, the state-owned rural bank). Major competitors among the leasing companies include Arrendadora Banorte and Arrendadora Banamex. Major competitors among banks include the commercial banks Banorte, Banamex, HSBC, and Banco del Bajío. Financiera Rural, the state rural financing agency, is also a competitor, although it is less important because it focuses on small farmers.

The major source of funds for the company is Fideicomisos Instituidos Relación Agricultura en el Banco de México (FIRA),\textsuperscript{13} the agriculture trust fund of the Mexican government. It finances nearly 70 percent of the leases provided by AJD. FIRA loans are available for maturities up to seven years; however, because most tractor leases are for four to five years, AJD primarily uses loans that mature within that time period. The remaining funds are bank loans and accumulated reserves of the company.

The organization has a relatively small team of 26 employees, organized into a marketing and credit division and an operations division, each headed by a director. The marketing division has five regional sales managers, who in turn work through the network of 49 John Deere dealers.\textsuperscript{14}

In Mexico, financial leasing is regulated under a special law, the General Law for Organizations and Auxiliaries Activités of Credit. This law provides the legal framework for activities of all non-bank financial institutions. The companies are regulated by a specialized regulatory body, the Comisión Nacional Bancaria. These companies are subject to similar prudential regulation, although they have lower capital requirements for incorporation. Only specialized financial leasing companies are allowed to provide financial leases. However, leasing companies are not permitted to provide any other non-bank financial services, such as factorization and securitization.

Mexico follows the IAS-17 norms for lease accounting. The taxation framework does not provide any special advantages for leasing. For financial leases, only lessees can claim capital allowances and only the interest portion of the lease
payments can be treated as expenses. Agricultural equipment, however, is not subject to VAT.

**Lease Terms and Processes**

AJD primary leases tractors. Other leased assets include seeding machines, combines, sugarcane harvesters, and farming implements. Most leases are for new equipment, but used equipment is also leased.

The lease process from application to equipment transfer is usually completed within approximately two weeks, and the steps in the process are as follows:

- A dealer identifies a potential client.
- AJD does a credit check of the potential client with the national credit bureau.
- If no negative reporting is found, the dealer is asked to prepare a proposal with the required documents for appraisal. If negative reporting is found, a lease usually is not considered. If the negative report is not significant, however, a lease may be considered.
- After receipt of a complete application by AJD, an independent technical appraiser is contracted to appraise the application.
- If recommended by the technical appraiser, a final appraisal is done by the AJD credit department.
- Applications that are considered creditworthy are submitted to AJD’s credit committee for approval.
- If approved, the client is asked to deposit the down payment.
- AJD and the client sign the lease agreement.
- The dealer delivers the equipment to the client and raises an invoice in the name of AJD.
- AJD pays the dealer the cost of the equipment.

**Box 4.1. AJD’s Marketing Agents**

1. Agricola is the John Deere dealer in La Barca, a town north of Guadalajara. It does an annual business of approximately Mex$75 million (US$6.7 million). It sells around 140 to 145 tractors annually and has around 35 employees. The ratio of cash to credit sales is approximately 40:60. AJD provides around 70 percent of the credit as leases, and the dealer provides the remaining as short-term credit from private funds (up to 6 months).

2. Magusa is a dealer-outlet in Ameca, a town south of Guadalajara. In 2004, it sold 40 tractors and 5 sugarcane harvesters. AJD financed 15 tractors and 4 harvestors. Beatris Hurtado, Magusa’s manager, sees the absence of credit history as a major constraint in helping many of her clients obtain financing from AJD. She estimates that there were around 10 clients who wanted a lease but were not approved for various reasons. The outlet employs 12 people.

*Source: Authors, field interviews.*
Key features of AJD’s farm equipment leases follow:

- **Security**: The primary security is the leased equipment itself. AJD limits its risk exposure to 70 percent for new equipment and to 50 percent for used equipment. The remaining cost of the equipment has to be paid by the lessee as a down payment. Sometimes vehicles and other equipment owned by lessee may be taken as additional security. However, AJD does not take land or houses as security.

- **Insurance**: AJD insures all leased equipments with commercial insurance companies.

- **Lease term**: Most range from four to five years.

- **Lease cost**: AJD offers leases in both Mexican pesos and U.S. dollars. For leases in pesos, the cost of funds ranges from 12 to 15 percent (depending on whether variable or fixed interest) when FIRA funds are used. Non-FIRA leases are costlier by 2 to 3 percentage points. Leases in U.S. dollars are charged 7 to 9 percent. Additional costs include appraisal fees of around 1.5 to 2.5 percent, insurance costs of approximately 0.8 percent, and an administrative fee of Mex$1,500.

- **Lease payment schedule**: The lease payment schedule can be monthly, quarterly, half-yearly, or annually. Late payments accrue penalties.

- **Option to purchase**: On completion of all lease payments, lessees have the option to purchase the leased asset at 1.5 percent of the lease cost.

When lease payments become delinquent, AJD makes personal calls and tries to address the issue. If the dues are not cleared within 60 days, legal notice for repossession is issued. Court intervention is sought only if the lessee objects to the repossession.

**Performance**

As illustrated in Figure 4.1, the number of leases and lease disbursements by AJD has shown an increasing trend in the past four years. Figure 4.2 also indicates a steadily increasing lease portfolio. The company estimates that tractor leases as a proportion of tractors sold by John Deere in Mexico have increased from around 20 to 35 percent over the past five years. While the PAR\(^5\) has increased significantly in the past four years, this has not translated to any lease losses. Around 40 assets were repossessed during this period, but no lease receivables were written off.

AJD expects to maintain its position as market leader in farm equipment financing, with a 25 percent increase in its portfolio and a 2 to 3 percent increase in market share over the next two to three years. It believes that access to FIRA funds will help it significantly expand its operations in the future. FIRA funds became available to AJD in 2004. Before then, FIRA funds were provided only to banks. AJD has benefited from government programs that encourage farmers to mechanize agriculture. Two government agencies, SAGARPA (Secretaria de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación) and FIRCO (Fideicomiso de Riesgo Compartido), provide capital subsidies. Grants up to Mex$120,000 (US$10,724) are available for tractors, and grants up to Mex$500,000...
Box 4.2. Examples of AJD’s Rural Leases

1. Jaime Trujillo Montejano leased a harvester worth Mex$1.2 million (US$107,239) in 2000. The lease was financed with FIRA funds at a variable interest rate; the rates have ranged between 12 and 13 percent in the past five years. No additional collateral was provided, but a higher equity (40 percent) was required. The lease payment schedule is Mex$100,000 (US$8,937) half-yearly, and Jaime has been prompt in his payments. Jaime owns 50 hectares of farmland, of which 20 are irrigated. In addition to using the harvester for farming, Jaime also rents out the harvester. Jaime considers the lease benefits to be the money saved on leasing the harvester and the additional income from renting it out.

2. Margarito Alwarez has leased a seeding machine worth Mex$240,000 (US$21,448). The lease period is two years and the lease payment schedule is annual. AJD financed 70 percent of the equipment cost and has a lien on the tractor already owned by the lessee as additional security. Margarito farms 60 hectares, of which 20 hectares is irrigated. Of this, he owns 3 hectares and rents the remaining hectares. Margarito sees the lease benefits to be the ability to seed in a timely fashion and increases in the area farmed.

3. Indelascio Tajeda is an Ejido farmer, that is, he does not have legal title to the land he owns, but he traditionally has inherited use rights. He farms nine acres of land, of which six are irrigated. Indelascio cultivates sugarcane in the irrigated land and corn in the rain-fed land, and reports an average annual income of Mex$100,000 (US$8,937). He has leased cultivating implements worth Mex$123,000 (US$10,992) on a two-year lease with an annual lease payment schedule and has provided three trucks as additional security. Indelascio prefers AJD over Financiera Rural (the state-owned rural bank) because Financiera Rural takes longer to process applications and because they require land and houses as security.

Source: Authors, field interviews.

Figure 4.1. AJD: Trend in Lease Numbers and Disbursements

Source: Authors’ creation from data provided AJD.
Figure 4.2. AJD: Trend in Portfolio and Portfolio at Risk

Source: Authors’ creation from data provided AJD.
5. Discussion and Conclusions

The key message that can be taken from these three case studies is that leasing can be a viable and profitable means to finance acquisition of productive assets by rural enterprises. The companies studied for this paper provide leases in rural areas because it is profitable to do so. Major factors that make it profitable include the existence of significant demand for asset financing in rural areas, the absence of or low lease losses, and an enabling legal and policy framework.

Access to finance at a reasonable cost appears to be the most significant benefit for clients of the case-firms. For several clients of NLCL and DFCU, their first lease was also their first access to formal finance. Other benefits cited by clients interviewed included no additional collateral required (NLCL) or less additional collateral required (DFCU, AJD), less time for processing, and approachability of the provider.

None of the case-firms reported lease losses to be an issue; only one (NLCL) had write-offs in the past four years. Relatively few cases of repossessions were reported and, because of legal or regulatory constraints, the companies did not report repossession to be difficult. The stronger security of the lessor (ownership of the leased assets) appears to reduce the incentive to default.

In all three countries, the common feature in the legal framework for leasing is strong lessor rights, particularly for repossession of leased assets. The countries differ in their taxation and regulatory frameworks. While leasing companies are subject to prudential regulation in Pakistan and Mexico, they are not subject to such regulation in Uganda. Only Pakistan has a taxation framework particularly favorable to leasing.

Five lessons specific to rural leasing are drawn from these case studies:

- **Rural leasing is a means to acquire productive assets:** All rural leases provided by the case-firms are finance leases. The lease is primarily a means to finance the acquisition of an asset (in contrast to renting an asset under operational leases). The lease agreements include an “option to buy” clause—that is, at the end of the lease period, the lessee can purchase the leased asset for a token price, an option the lessees invariably use.

- **Rural enterprises of different sizes benefit from leasing, but a provider may not be able to serve enterprises of all sizes:** The reason appears to be a difference in skills and capacities that staff need to serve enterprises of different sizes. While the categories of enterprises served by the case-firms overlap, each focuses on one or the other. NLCL focuses on microenterprises, but it also serves small enterprises; DFCU focuses on medium enterprises, but it also serves small enterprises; and AJD focuses on medium farming enterprises. DFCU is attempting to reach microenterprises by linking up with microfinance organizations, but the success of this effort has not yet been assessed.

- **Non-farm enterprises account for a significant proportion of rural leases:** In the case of NLCL and DFCU, leases to non-farm rural enterprises accounted for a larger proportion of the portfolio than leases to farming enterprises. Major
sectors in the clientele include agroprocessing (rice and maize mills, cotton ginning), service sectors (photoprocessing, bakeries), education (furniture and modern cooking equipment), and health (laboratory equipment). This suggests that non-farm sectors can be a significant source demand for lease financing.

- **Rural leasing can be profitable, but jump-starting rural leasing may require government and donor support:** All three companies visited are profitable. However, they all have benefited from access to government or donor funds. DFCU has benefited from the operational and capital grants from USAID, DFID, and The Shell Foundation in expanding their rural outreach. AJD reports being able to increase its operations significantly after being permitted to borrow from FIRA, the Mexican government’s trust fund for agriculture. NLCL has benefited from being able to borrow from government and donor funds, but it has not been able to do so specifically for rural operations.

- **A rural leasing company may not be viable:** All three case-firms provide their services in rural and urban areas. In the case of NLCL and DFCU, the larger proportion of clients is urban. Because leasing is a specialized financial activity, economies of scale, cost, and risk factors may require that, in most economies, leasing companies have larger urban operations.

These three case studies show that rural leasing—particularly financial leasing—can be a profitable and useful tool to finance rural assets. It can be particularly useful in economies in which rural credit markets do not function well. Development of rural leasing markets requires an enabling policy environment and institutional-level initiatives; the World Bank and other donors can provide support in both these areas. The three case studies provide examples of possible areas for such support at the institutional level.
## Appendix 1: Case-Firm Profiles

<table>
<thead>
<tr>
<th>Organization</th>
<th>Network Leasing Corporation Limited (NLCL), Pakistan</th>
<th>Development Finance Company (DFCU) Group, Uganda</th>
<th>Arrendadora John Deere (AJD), Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational Type</td>
<td>Public Limited Company</td>
<td>Public Limited Company</td>
<td>Fully owned subsidiary of John Deere Capital Corporation, USA</td>
</tr>
<tr>
<td>Primary Client Group</td>
<td>Micro and Small Enterprises</td>
<td>Small and Medium Enterprises</td>
<td>Farm Enterprises</td>
</tr>
<tr>
<td>Year</td>
<td>2004</td>
<td>2004</td>
<td>2004</td>
</tr>
<tr>
<td>New Leases</td>
<td>1,535</td>
<td>Not available</td>
<td>1,497</td>
</tr>
<tr>
<td>Lease Disbursements (US$)</td>
<td>5.12 million</td>
<td>13 million</td>
<td>37.2 million</td>
</tr>
<tr>
<td>Average lease size (US$)</td>
<td>3,336</td>
<td>Not available</td>
<td>24,850</td>
</tr>
<tr>
<td>Lease Portfolio (US$)</td>
<td>11.75 million</td>
<td>25.7 million</td>
<td>74.2 million</td>
</tr>
<tr>
<td>Percentage of Rural Leases</td>
<td>43% by numbers; 21% by volume</td>
<td>Approximately 25% by volume</td>
<td>Approximately 85% by numbers</td>
</tr>
<tr>
<td>Type of Lease</td>
<td>Finance leases</td>
<td>Mostly finance lease; some sales and leaseback; rarely operational leases</td>
<td>Simple finance leases</td>
</tr>
<tr>
<td>Type of Asset</td>
<td>New and used</td>
<td>New and used</td>
<td>Mostly new, rarely used</td>
</tr>
<tr>
<td>Security Deposit/Down Payment</td>
<td>20%</td>
<td>10–20%</td>
<td>30% for farm equipment, 15% for construction equipment</td>
</tr>
<tr>
<td>Implicit Interest Rate</td>
<td>15–22%</td>
<td>16–26%, average is 18%</td>
<td>Variable and fixed rates; 11–18% in pesos; 7–9% in US$</td>
</tr>
<tr>
<td>Term/Duration</td>
<td>18 months to 5 years</td>
<td>2–5 years, average 3 years</td>
<td>Up to 5 years</td>
</tr>
<tr>
<td>Lease Payments</td>
<td>Monthly</td>
<td>Monthly, quarterly, or annually, depending on the cash flow of enterprise</td>
<td>Mostly annual for farm equipment; mostly monthly for construction equipment</td>
</tr>
<tr>
<td>Additional Security</td>
<td>None</td>
<td>Usually chattel mortgage for at least 20% of asset value and personal security</td>
<td>Sometimes chattel mortgage on movable assets; mortgage on house and land never taken</td>
</tr>
<tr>
<td>Repossession</td>
<td>Approximately 1% of leases</td>
<td>Once arrears exceed 3 months</td>
<td>Approximately 40 in the past 4 years</td>
</tr>
<tr>
<td>Portfolio Quality (%)</td>
<td>PAR (90): 4.4</td>
<td>Not available</td>
<td>PAR (30): 6.2</td>
</tr>
<tr>
<td>Write-offs</td>
<td>Cumulatively, US$94,117 in the past 5 years; &lt;1% of current portfolio</td>
<td>Not available</td>
<td>None in the past 4 years</td>
</tr>
</tbody>
</table>

*Source: Authors’ creation.*

*Note: PAR (portfolio at risk) is a financial indicator that measures quality of a loan or lease portfolio. For example, PAR (90) refers to the lease portfolio that has lease installments overdue for more than 90 days.*
## Appendix 2: Regulatory Framework

<table>
<thead>
<tr>
<th>Country</th>
<th>Per Capita GDP (US$)</th>
<th>Pakistan</th>
<th>Uganda</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>566</td>
<td>285</td>
<td>5968</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regulation</th>
<th></th>
<th>Pakistan</th>
<th>Uganda</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is there a specific leasing law?</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Which institutions are permitted to lease?</td>
<td>Commercial banks, development banks, leasing companies, <em>modarbas</em> (Islamic mutual benefit funds)</td>
<td>Only leasing companies</td>
<td>Only leasing companies</td>
<td></td>
</tr>
<tr>
<td>Are leases subject to prudential regulation?</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Who is the supervising agency for leasing companies?</td>
<td>Securities and Exchange Commission of Pakistan</td>
<td>not applicable</td>
<td>Central Bank of Mexico</td>
<td></td>
</tr>
<tr>
<td>Are there caps on lease rates?</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Does repossession require a court order?</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accounting and Taxation</th>
<th></th>
<th>Pakistan</th>
<th>Uganda</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are IAS-17 norms followed?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Who is permitted to take capital allowances on finance leases?</td>
<td>Lessor</td>
<td>Lessee</td>
<td>Lessee</td>
<td></td>
</tr>
<tr>
<td>Are lessees permitted to deduct full lease payments or only interest from their income?</td>
<td>Full lease payments</td>
<td>Only interest</td>
<td>Only interest</td>
<td></td>
</tr>
<tr>
<td>Are lease payments subject to VAT?</td>
<td>No</td>
<td>Yes, but agricultural equipment is exempt</td>
<td>Yes, but agricultural equipment is exempt</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Authors’ creation.*

*Note: GDP = gross domestic product; IAS-17 = Schedule 17 of the International Accounting Standards; VAT = value added tax*
References and Individuals Interviewed

References


Key Individuals Interviewed

Network Leasing Corporation Limited (NLCL)
Asif Siddiqi, Managing Director
Musaret Siddiqi, Director, and Chief Executive, Network Microfinance Bank
Muhammad Rafiq, Branch Manager, NLCL Lahore Branch

Arrendadora John Deere (AJD)
Raymundo Olalde, Director General
Alvaro Marcelo Orona, Director of Marketing
Francisco Lamas, Regional Sales Manager

Development Finance Company Uganda (DFCU)
Ng’oroge Ng’ang’a, Head of Development Finance
Chris Serunkuma, Head of Credit
Kenneth Agaba, Business Development Manager
Shahbano Lodhi, Manager, Development Projects and Funding Relationships
Mark Muyobo, Business Development Manager
Margaret Mukhaye, Branch Manager, Mbale Branch
Endnotes


2. Translates as John Deere Leasing


5. NLCL’s experience has also been documented in more detail in a case study commissioned by the International Labour Organization (ILO). See references.

6. NLCL defines leases up to PRs 100,000 (US$1,681) as microleases and leases up to PRs500,000 (US$8,403) as small leases.

7. In 2001, the Government of Pakistan allowed for the establishment of microfinance banks with lower capital than required by commercial banks. The maximum loan that can be granted by a microfinance bank to a client is PRs 100,000. Other microfinance banks incorporated under this ordinance include Khushali Bank and The First Microfinance Bank.

8. The latest set of prudential regulations for leasing companies was specified in the Leasing Companies and Non-Bank Finance Companies Rules of 2004.

9. The proportion of portfolio that has repayment installments late for a given number of days. The data tracked by NLCL are PAR (90), which is the proportion of the portfolio that has installments overdue for more than 90 days.

10. In 2004, 40 percent of the shares held by the International Finance Corporation (IFC), the World Bank’s private sector financing arm, and Uganda Development Corporation were offered to the public as part of the initial public offering (IPO) of the company. The IPO was the most successful in Ugandan history and raised more than US$10 million.

11. The decrease in portfolio in 2003 appears primarily to be a result a significant devaluation of the Uganda schilling against the U.S. dollar. The portfolio does not show a decrease in the Uganda schilling.

12. This translates to John Deere Leasing.

13. Fideicomisos Instituidos Relación Agricultura en el Banco de México (Trust Funds for Agriculture at Central Bank of Mexico).

14. The network includes 42 tractor dealers, who have a total of 110 dealer-outlets, and 7 construction equipment dealers.

15. AJD reports PAR (30), which is the proportion of portfolio that has installments overdue for more than 30 days.