

Technical Assistance Facility for Latin America and the Caribbean

LEASING MAP (HONDURAS)

Project dates: May 2005 – July 2006

Country: Honduras

Partners: The ALTA Group

Sponsors: Canadian International Development Agency (CIDA)

Leasing and Small Business Development

In emerging economies, smaller business development is often hindered by the lack of access to long-term finance required for capital investment. The development of leasing as a complementary tool to bank loans provides an alternative solution that can significantly expand access to capital for these businesses. Leasing promotes investment in capital equipment, increases competition in the financial sector, and facilitates the transfer of new technology. IFC has been very active in leasing, both as an investor and as a technical assistance implementer. In the last 30 years, IFC has committed over \$850 million in 177 leasing projects. In 25 countries, IFC invested in the first leasing companies established.

Surveying the Leasing Landscape in Honduras

In order to assess the potential for leasing development in Honduras, the Facility partnered with the ALTA Group Latin American Region, a consulting firm with experience in Latin American leasing markets, to survey and analyze the market as well as the legal and regulatory framework for leasing.

The mapping initially drew on existing studies conducted by IFC's investment partners, and took into account lessons learned from other leasing intervention experiences, particularly in Eastern Europe. The Leasing Map consisted of: (i) a legislative review, and (ii) a market study.

Legislative Review: This is a comprehensive study of the regulation, taxes and property rights for the financial leasing sector in Honduras, with particular attention to the level of existing small business equipment financing, leasing, and existing sources of financing. It includes a survey that provides a general overview of the legal barriers for financial leasing and an assessment of the legislative framework for leasing.

Market Study: This is a study of the leasing companies and financial institutions and their current and potential markets. It also assesses the existing and potential funding for these activities among multilateral and bilateral organizations.

The study pointed out that even though the leasing industry in Honduras represents a minimal stake of the total financial institution portfolio, it has excellent prospects for growth and development. Among the barriers the most relevant are the lack of clear and consistent leasing regulation, underdeveloped capital markets, and lack of long term funding in local and foreign currency. The firm recommended areas for improvement, with specific activities identified that the LAC TA Facility could support in an effort to strengthen the sector over the next 3 years.