

## **SAMPLE LEASING DISCUSSIONS AND CONCERNS RAISED BY STAKEHOLDERS IN TANZANIA**

### **Government:**

*1. The Government of Tanzania is of the opinion that Tax incentives for leasing development may be important. However the issue of incentives is highly controversial in Tanzania, as it is generally felt that the country is giving too much by way of tax incentives, and should instead focus on improving the macro economic and business environment for investment. By giving incentives for leasing, losses of revenue in the preliminary stages of developing financial leasing will have to be compensated by other economic sectors.*

*TANZALEP:* Ultimately there has to be correlation between economic growth and tax incentives that are given i.e. incentives should result into economic growth in reality. However, the experience has been that if tax rates in a country are too high, then leasing investment may not be forthcoming. However, some of the taxation issues regarding financial leasing in Tanzania are to do with rationalization of taxes and not incentives as such (e.g. clarity for financial leasing under Value Added Tax). On going government programmes to streamline business registration, such as the Business Environment Strengthening in Tanzania Programme (BEST) are commendable as they will bring down the cost of doing business that in turn will stimulate investment, whether domestic or foreign.

*2. The Government of Tanzania is keen to develop long- term development finance for the country in order to benefit economic sectors such as agriculture. Can leasing be categorized as long term development finance?*

*TANZALEP:* Leasing can help develop long term development finance, as by its nature leasing finance is short to long term finance. The experience is that financial leasing is normally provided for a term of 2 to 4 years.

However, where leasing companies provide a financial lease for 2 – 3 years, they must have matching funding capabilities. That is to say, the leasing company's liabilities maturities must match its assets maturities. One of the most important tools for development of leasing companies is availability of long term facilities made available to them in order for leasing companies to provide longer term lease facilities. The capital markets and stock exchange are important instruments for leasing companies to trade maturities: (<http://www.darstockexchange.com>)

*3. What are IFC's intentions after completion of the Tanzania Leasing Project? Will IFC invest in leasing companies?*

*TANZALEP:* The Tanzania Leasing Project is a Technical Assistance ("Advisory") project that typically precedes IFC investment in leasing. The International Finance Corporation has two arms i.e., the Technical Assistance and the Investment arm. The experience in other regions where IFC ran leasing Technical Assistance projects is that IFC made investments in leasing companies. However, IFC investment has set criteria that should be met by investee companies in order for IFC investment. These can be found on:

[http://www.ifc.org/externalhttp://www.ifc.org/ifcext/about.nsf/Content/How\\_Apply\\_Financing](http://www.ifc.org/externalhttp://www.ifc.org/ifcext/about.nsf/Content/How_Apply_Financing)

The role of the Project is also to mobilize domestic and international investment in leasing and the Project is consulting a variety of institutional investors for this purpose.

**4. Air Tanzania leased aircrafts from South African Airways and the lease arrangement is what brought Air Tanzania Company Ltd down. Where did Air Tanzania go wrong in leasing?**

*TANZALEP:* It is difficult to respond in general terms to this question, as TANZALEP does not have specific facts and details of this arrangement. However, generally the airline industry worldwide is not doing well, and it is important for businesses in this industry to understand both the airline and the leasing businesses, as well as to improve their bargaining/negotiating capacity.

Leasing companies (as well as lessee companies) need to have asset management advisory capacity within the business. With the history of recent bankruptcies and restructuring in the airline industry, negotiating skills are also very important for Government and private sector. Negotiation courses are being offered by various universities, such as Harvard University in the United States.

**Private Sector:**

**1. Can a leasing company obtain a Certificate of Incentives from the Tanzania Investment Centre (i.e. grant of investors incentives from the Government) for financial leasing operations?**

*TANZALEP:* The Project's early discussions with the Tanzania Investment Centre (TIC) were to the effect that financial leasing is considered a financial service and therefore an investment activity eligible to investment incentives. The reality in practice is that it may be difficult for a leasing company to obtain a Certificate of Incentives until such time that leasing is specifically mentioned as an investment activity, should this course be opted by Government. Prospective leasing companies should consult the Tanzania Investment Centre (<http://www.tic.co.tz>) and the Finance Act, 2005 which introduced some changes to investment criteria.

**2. The problem that leasing companies in Tanzania will face is inadequate secondary markets for leased equipment (i.e., other than motor vehicles). What is the opportunity of developing secondary markets for equipment in Tanzania? How has this been done elsewhere? Are there leasing brokers?**

*TANZALEP:* Secondary market for equipment can only be developed if there are first primary markets of equipment. Leasing companies must start to bring in equipment in order for secondary markets for such equipment to develop. Leasing companies need to understand how the asset market works. This has been the experience of big equipment manufacturing and supply companies that offer financial leasing services. Leasing brokers are can be an important part of this equation.

**3. What are the experiences and failures of hire purchase in Tanzania? What are the experiences of the failures of leasing companies in other markets?**

*TANZALEP:* The Alta Group (<http://www.altagrouplar.com>) has done an analysis of why leasing companies fail based on the experiences of leasing companies in Latin American countries. The

most significant cause of failure for leasing companies was identified as being rapid growth, i.e., where leasing companies have not been able to manage rapid growth and assumed bad risks. Likewise, relaxation of internal credit controls has led to failure of leasing companies in the Latin American region. These experiences are very relevant to Tanzania.

Hire Purchase: The experience of Hire-Purchase in Tanzania is that a number of issues surrounding Hire Purchase – including repossession, judicial process, and poor management controls of institutions engaged in H-P had led to the failure of these companies. TANZALEP consulted companies and Banks that were previously involved in these transactions, and also believes that Hire Purchase in Tanzania is not a suitable mechanism for financing capital equipment because of onerous obligations imposed on owners of assets for hire under the existing Tanzania Hire Purchase Act of 1966. TANZALEP is also aware of the disputes surrounding these transactions in Tanzanian courts.

In most developing countries, Hire Purchase has been retained to finance consumer assets or as part of consumer protection legislation.

### **3. Should leasing companies be allowed to accept deposits?**

*TANZALEP:* The experience in some countries such as the United States is that leasing companies are not allowed to accept public deposits. However, leasing companies are allowed to issue commercial paper and to make private placements through the stock market. In these countries, credit rating agencies provide information to prospective creditors of leasing companies to inform their investment decisions, i.e., whether or not to provide finance to leasing companies under private placements.

In some countries, leasing companies are not allowed to accept public deposits. If leasing companies are allowed to accept deposits, then there will be need for a greater role of regulation by the Central Bank as depositor's money may be at risk.

### **4. There a number of issues in Tanzania that will affect the healthy development of leasing, including inability of lenders to properly identify borrowers (due to lack of National Identification and inefficient registry systems); registration of assets and adequate tracking of assets under lease.**

*TANZALEP:* In countries such as China, leasing companies have been able to combine legal registration systems with technology to enable them monitor and repossess assets. For example, some leasing companies have used systems that enables them track equipment anywhere in these countries. The private sector in Tanzania may be able to put this technology together. However, this technology should be supported by self – help repossession that enable leasing companies repossess leased assets, provided that they do not breach the peace in the process.

### **5. What is the role of Banks in leasing?**

*TANZALEP:* Sometimes Banks prefer to create a subsidiary leasing company to engage in leasing operations, rather than establish an internal leasing department within the Bank. The reason being that in most cases leasing operations within Banks are unsuccessful, because banking operations tend to get merged with leasing operations. Leasing operations require additional skills than normal credit operations, such as asset management and monitoring. The principle resource that leasing requires is “people”. In countries where leasing markets are developed, banks have formed leasing companies. Examples include; Citicapital (a subsidiary of CitiBank), HSBC,

Barclays as well as Rabobank of the Netherlands. In these cases Banks can make use of existing credit infrastructure, experience, and credit analysis skills and successfully transfer these to leasing operations.

(2) Banks may also provide financial resources to independent leasing companies –i.e. credit lines/ on-lending to leasing companies; micro-leasing companies etc.

(3) Banks can have arrangements with dealerships/ equipment supply companies whereby a customer of the Bank identifies equipment from a supplier and pays the supplier for the equipment identified by the lessee and enter a lease agreement with the customer. This is known as “financial leasing” and is the type of arrangements that the Tanzania Leasing Project wants to promote.