LEASING IN BURKINA FASO
INVENTORY OF FIXTURES & POTENTIAL

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Report summary

In an economic environment characterized by a low global productivity level of factors hence a low long-term competitiveness of enterprises and, in the face of the difficulties for SME to have access to credits, the development of leasing in Burkina will have as direct impact the recovery of productive investment. Indeed, it is admitted that leasing is one of the most appropriate products to finance investment aimed to renovate and expand firms, owing to its adaptability and its great flexibility. Its development, through the promotion of leasing institutions may also contribute towards strengthening the specialization of the Burkinabe banking system and to make it more oriented towards SME financing. The diversification of banking products through leasing and its various by-products will certainly be a response to the numerous demands for investment made by SME, the majority of which are satisfied through bank credits.

Burkina’s experience in the field of leasing is not in its beginnings. Thanks to the market survey carried out, we could realize the existence of a significant demand for leasing whose level reached 10,460 million per year. These needs are expressed by nearly 250 SME every year. This level of demand contrasts with the evolution of the level of the outstanding leasing credit that amounts to 2,264 million only, today. Hence the relevant issue of the need to boost leasing so as to satisfy SME’s investment needs. The Tax Department, the professional association of banks and financial institutions who set up an ad hoc committee, are making a lot of efforts to define and provide for regulatory arrangements aimed to popularise and promote this new method of financing. Indeed, the finance act for the year 2004 provided for a number of advantages. But, despite these efforts, this method of financing remains less competitive compared to traditional bank credits, because of several deficiencies of legal and fiscal nature. The development of leasing in Burkina requires more measures for an incentive and stimulating technical, legal and fiscal management.

But, in any case, the comparative study of the arrangements governing or remotely connected with leasing in other countries as well as the inventory of fixture that was made about this activity in Burkina, it clearly appears that this country is ahead as concerns the laws and regulations with some incentive measures (investment and labour code), but it is also behind as concerns the promotion of the leasing activity which is extremely useful to its economy. So, we are convinced that the few draft amendments under consideration will be successful very shortly and will, therefore, give leasing a dimension equal to the country’s ambitions in terms of economic growth.

Needless to say that, beyond these legal aspects that need to be improved, actions should be undertaken to improve the capacities and competences of SMEs and leasing companies; as far as mesoeconomy is concerned, the coordination of actions by structures supporting SME is perfectible. The recent creation of the “Maison de l’Entreprise” (House of the Enterprise) should help to record meaningful progress at this level; which will contribute towards making Burkinabe SME play again a key role in the competitiveness of the country’s economy.
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INTRODUCTION:

FOUNDATIONS AND PRESENTATION OF THE STUDY

Before starting this study, it would be proper to agree on the terminologies: “leasing”, “Crédit-bail” and “SME” used. These terms were the subject matters of many debates aimed to find a definition universally agreed upon. Indeed, whether you favour the English term « Leasing » (in the broader sense) for the one or the French term « Crédit-bail » (in a more restrictive sense), for the other, the choice of one of the main features, i.e. the turnover, the number of employees, the results..., to attempt to come to a unanimously shared definition of these notions is a daring task. We do not intend to involve ourselves in this argument that is often opposing theoreticians and practitioners or economists and jurists. Therefore, we decided to choose, for these two notions, the definitions given by practitioners and which fits better in the context of this study.

So:

1) **Leasing** means an operation through which an authorized company acquires capital goods or factory equipment with a view to renting them out to a lessee with the possibility for the latter to acquire whole or part of the rented goods against payment of a price agreed upon, taking into account the rentals paid, at least for one part. The term “crédit-bail” is often misused as synonym of the English term “leasing”, whereas it actually refers to only one variance of leasing that is **finance lease** (cf. table below). In this study, leasing refers to “finance lease”.

<table>
<thead>
<tr>
<th>Table No. I: Variances of leasing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial leases or full-payout leases</td>
</tr>
<tr>
<td>Leasing</td>
</tr>
<tr>
<td>Hire-purchase</td>
</tr>
</tbody>
</table>

*Source: M. A. SORY speech to Accra Afrolease seminary, September 2003*
2) **SME** means an enterprise with a turnover comprised between 50 and 2,000 million that employs 5 to 250 permanent staff. Smaller enterprises are micro-enterprises and bigger ones are major enterprises.

**I.1 CONTEXT**

This study follows from the market survey mission financed by IFC within the framework of its strategy aimed to SME capacity building and to the creation of a business friendly environment, inter-alia.

**I.2 OBJECTIVES**

The main objective of this study is to take stock of the offer of financial products to SME in Burkina, with a particular emphasis on the offer and demand for leasing as well as on the necessary conditions for its development.

To this end, the actions undertaken within the framework of the study made it possible:

- To analyse the typology of the offer and the conditions for SME to accede to Burkinabe financial services;
- To make an inventory of leasing in Burkina Faso and to determine the potential demand for Leasing;
- To identify the obstacles to the development of Leasing and the conditions for its recovery;
- To analyse the legal and fiscal frameworks of leasing companies and to make proposals to make them more favourable to the development of leasing.

**I.3 RESULTS**

The results of the study are gathered in two parts: the market survey and the proposed amendments to be made to the legal or legislative framework in force to make them more favourable to the expansion of the leasing activity.

- For the market survey, the results concern:
  - The offer of financial products to Burkinabe SME;
  - The features of the financial products offered;
  - The Leasing potential.

- About the conditions for the recovery of the leasing activity, the results concern:
  - The threats to and weaknesses of leasing companies in Burkina;
  - The regulations of the leasing activity with a proposed:
    - table of comparative analysis between existing regulations and the necessary improvements to be made.
    - document, draft law to regulate leasing activities in Burkina Faso.
a comparative analysis sheet on the standards for the posting of leasing operations in force in Burkina with the international standards for the posting of leasing operations (IAS C 17)

a table of recommendations aimed to protect the rights stemming from the leasing operation.

the different recommendations with specifications as to the actions and persons in charge for a better implementation.

I.4 METHODOLOGY OF THE STUDY

To meet the above-mentioned preoccupations, the study was carried out following a methodology organized in 3 phases: the collection of information; the analysis and interpretation of the information; the writing of draft regulations and of the final report.

i.4.1 Collection of information

It targeted two main objectives:

To make an inventory of the offer of financial services to SME: basic conditions, structures, products, access conditions and strategies.

To identify the barriers to the development of credit through an inventory of existing legal instruments.

This phase of collection of information was also divided into three activities:

- The documentary research carried out with the Enterprises, the Tax Department and the financial institutions.

- The discussions took place with a panel of actors involved including:
  ✓ SME managers,
  ✓ banks,
  ✓ leasing companies,
  ✓ the Directorate of Transport,
  ✓ the Bar and the Chartered Accountants’ Associations,
  ✓ the Government Tax Authority,
  ✓ concessionary companies and suppliers of equipment,
  ✓ CCIA (Chamber of Commerce, Industry and Arts and Crafts).

- Surveys made with some SME to cross-check some of the information collected.

i.4.2 Analysis and interpretation of information

A combined analysis of the information collected from the documentary research with the various sources made it possible:

- To assess the offer of financial services to SME;
- To determine the Leasing potential in Burkina Faso;
– To expose the barriers or obstacles (economic, financial, legal standards) to the development of Leasing;

i.4.3 Writing of draft regulations and of report

This phase results from the two previous ones that were dedicated to the writing:

of draft amendments and of regulations as well as of comparative tables;
the drafting of the final version of the report to be submitted to IFC.
CHAPTER I:
THE BURKINABE FINANCIAL SYSTEM AND
THE OFFER OF FINANCIAL SERVICES TO SME/SMI

1.1 OVERALL ECONOMIC SITUATION

Thanks to the subsequent effects of the internal and external adjustments undertaken since the late 1980s, Burkina’s economy recorded a steady growth over the last ten years. Indeed, the average GDP growth rate was about 5% from 1994 to 2003, against 3% during the period from 1980 to 1993. Similarly, the investment rate improved significantly, increasing from 20 to 26% of GDP between 1990 and 2003. The improvement of these performance levels in terms of macro-economic growth shows that Burkina can, with the pursuit of its restructuring and incentive policy, remove many obstacles to the development of its economy whose current weaknesses remain, among others:

- The low degree of openness to the outside (sub-regional and international);
- The high costs of factors and the low price competitiveness;
- The low overall productivity of factors of production and, therefore, a low long term competitiveness.

Hence the need for a competitive strategy based on all the mainstays of growth of its economy, especially agriculture, services but also industry and human resources. This shows, once again, that human resources, economic infrastructures and the finance sector are amongst the key levers of our economic growth.

This study by ICF finds its justification in this context. It aims at identifying measures and actions likely to promote the development of the leasing activity in Burkina. A development of leasing will contribute towards strengthening SME’s production capacity and, therefore, improving their price competitiveness.

Indeed, the Burkinabe banking sector was strengthened after the restructuring undertaken by the authorities in the mid 90s, since enterprises and SME, in particular, are still subject to a policy of de facto credit rationing. Most of their investment and working capital continue to be financed by their equity capital or by inadequate resources. This situation can be explained by the low level of the offer of financial services. Credit institutions seem to prefer the strategy that consists in doing the work of traditional banks which is mainly based on the financing of trade, that is to say short-term financing. The new financial products, tool levers of growth and elements of the technique of deconsolidation of modern SME such as factoring and, above all, leasing are not well marketed. Several elements characterize this situation. These mainly include the overall economic situation prevailing in the country and the rules of the game of the business environment that should be considered.
1.2 BASIC CONDITIONS

1.2-1 Geographic and human features

Burkina is a country of the hinterland of West Africa covering an area of 274,122 sq.kms with a population estimated at 13 million inhabitants, that is to say a density of 47.4 inhabitants/sq.kms. The majority of the population are Mossis, but there are about sixty other ethnic groups in Burkina, mainly including the Bobos, the Gourounsis, the Senoufos and the Lobis. French is the official language but other vernacular languages are also used.

The average population growth is 2.38%. The urban population represents 17.4%. The main cities are: Ouagadougou, Bobo-Dioulasso and Koudougou with a population of 980,000; 350,000 and 115,000 inhabitants, respectively.

With a life expectancy of 46 years, 44.9% of the population of Burkina are living under the poverty line (less than $1.00 per day) and the adult literacy rate is only 12.8%.

1.2-2 Economic and social indicators

The country’s main economic indicators given by the national accounts are shown in the table below.

Tableau N°II Comptes nationaux du Burkina Faso

<table>
<thead>
<tr>
<th></th>
<th>2000,00</th>
<th>2001,00</th>
<th>2002,00</th>
<th>2003 (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RESSOURCES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PIB (au prix du marché)</td>
<td>2 744,0</td>
<td>1 953,9</td>
<td>2 116,8</td>
<td>2 312,9</td>
</tr>
<tr>
<td>Importations de biens et services</td>
<td>468,2</td>
<td>476,8</td>
<td>487,5</td>
<td>512,7</td>
</tr>
<tr>
<td><strong>EMPLOIS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consommation Finale</td>
<td>1 588,0</td>
<td>1 735,3</td>
<td>1 876,4</td>
<td>2 002,3</td>
</tr>
<tr>
<td>Publique</td>
<td>442,8</td>
<td>479,0</td>
<td>514,4</td>
<td>542,9</td>
</tr>
<tr>
<td>Privée</td>
<td>1 145,2</td>
<td>1 256,3</td>
<td>1 362,0</td>
<td>1 459,4</td>
</tr>
<tr>
<td><strong>Formation brute de capital fixe</strong></td>
<td>455,5</td>
<td>504,9</td>
<td>523,8</td>
<td>606,5</td>
</tr>
<tr>
<td>Exportations de biens et services</td>
<td>168,7</td>
<td>190,5</td>
<td>204,1</td>
<td>216,8</td>
</tr>
<tr>
<td><strong>Taux d’investissement (en %)</strong></td>
<td>26,1</td>
<td>25,8</td>
<td>24,7</td>
<td>26,2</td>
</tr>
</tbody>
</table>

Variations en pourcentage

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Taux de croissance du PIB en volume</td>
<td>2,2</td>
<td>5,7</td>
<td>4,6</td>
<td>8,0</td>
</tr>
<tr>
<td>Déflateur du PIB (en moyenne)</td>
<td>-1,8</td>
<td>6,0</td>
<td>3,6</td>
<td>0,7</td>
</tr>
<tr>
<td>Prix à la consommation en moyenne annuelle</td>
<td>-0,3</td>
<td>4,9</td>
<td>2,3</td>
<td>1,8</td>
</tr>
</tbody>
</table>

(a) Estimations
(*) y compris variation de stocks
Source : BCEAO
The country’s economic development which depends on an economic base mainly dominated by cotton exports is also impeded by high costs of production and a narrow local market. The GDP growth (8%) recorded in 2003 is mainly due to the performances recorded in the primary sector which increased by 11.2% (against 2.4% in 2002).

1.2-3 Business environment and economic assets

Burkina is, together with eight other West African countries, member of a common economic and monetary zone called WAEMU. Its currency called CFA Franc (XOF) is handled by BCEAO. The CFA Franc is pegged to the Euro at the rate of E 1.00 = FCFA 655.957.

1.2-3.1 A «Private Sector»-oriented policy

Since 1993, Burkina strengthened its private sector promotion policy by setting up a private sector support programme (PASP). The objectives of this programme include the reform of the environment, both institutional and regulatory, fiscal and legislative to make it more attractive and more favourable to private initiative. The programme has four aspects:

1. setting up of an environment favourable to the development of private initiative;
2. privatisation of public enterprises;
3. restructuring of the banking sector;
4. strengthening of institutions supporting the private sector.
In order to involve the private sector in the preparation, monitoring and implementation of this programme and, therefore, better meet the expectations of economic actors, a Consultative Committee between the Government and the Private sector was set up. On the occasion of one of the sessions of this committee held in Bobo Dioulasso on 12 July 2002, the important role of leasing in enterprise financing was underlined as well as the need to provide incentives for its development.

Since the said programme was set up, a number of actions are being undertaken. They specifically concern:

- The downward revision of the rate of corporate tax from 40% to 35% with effect from the fiscal year ended on 31/12/2000;

- The reduction of the scale of the tax on revenue from land while maintaining the additional tax allowance applied to income from new buildings, from 30% to 25% (article 13, 2001 Finance act);

- The adoption of some specific tax measures proper to leasing and concerning, firstly: the alignment of the term of the term of the depreciation of the leased property with the term of the contract; secondly: the VAT exemption granted to the rental of goods already exempted from the said tax and, lastly: the refund of the VAT credit (finance act for 2004).

Besides, a customs reform for the adoption of a new tariff with the reduction of the number of customs duties and taxes and the simplification of the customs tariff was carried out. Henceforth, the rate is fixed on the basis of the customs valuation of the product.

A programme for the verification of imports entrusted to a private company (COTECNA since 2004, after the departure of SGS) was also set up.

Finally, since January 2000, a Common External Tariff (CET) is being enforced in conformity with WTO rules. It provides for a tariff exemption for the intra-community trading of local products and of approved industrial products.

1.2-3.2 basic legal instruments and structures

In the field of business law, the ratification of the treaty on the Harmonization of Business Law in Africa by the Assembly of the People’s Deputies, in 1997, is a major contribution towards ensuring a sound business environment.

This treaty ensures a legal and judicial security and provides for the strengthening of the economic customs unions that exist or that should be set up. Henceforth, the unsettled disputes within one country shall be referred to the supra-national Court whose decisions may not be challenged.

The 1992 labour code was reformed in December 2004 so as to introduce more flexibility and deregulations in the contractual relations between employers and employees.

Similarly, the investment code that had been adopted on 14 December 1995 and that already provided for many tax exemptions, for a period extending till 7 years,
depending on the amount of the investment and on the remoteness of the production site from the main built-in areas, is in the process of being reformed. The innovations expected concern, among others, the broadening of the area of application of exemptions; the flexibility of conditions of eligibility to the system of approval from the investment code; the extension of advantages granted through the approval from the investment code given to leasing companies.

1.2.3 Economic assets

Burkina’s GDP growth remains strongly influenced by the primary sector (40% of GDP), the secondary sector (18%) and the tertiary sector (39%). The mainspring of the growth of the primary sector is cotton production, in particular and, to a lesser extent, the stockbreeding activity. In view of their possibilities, these two sub-sectors are potential growth sectors (intensification). The secondary sector is influenced by the public buildings and works sector. As concerns the tertiary sector which recorded an average 7.8% growth per year since 1995, it is dominated by merchant services that are more and more standing as the second pillar of the GDP growth.

a - An industry with a strong growth potential

The Burkinabe industry remains underdeveloped. It employs 1% of the working population and contributes 15% to the GDP in the country’s wealth. The industrial fabric comprises about sixty units only. 95% of them are concentrated in the two main urban centres, namely Ouagadougou and Bobo-Dioulasso.

Table No. III Distribution of industrial units per city (December 2004)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Ouagadougou</th>
<th>Bobo-Dioulasso</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural processing industries</td>
<td>15</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Tobacco factory</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Textiles and Clothing</td>
<td>3</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>Leather and hides factory</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Paper and packaging factory</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Printing</td>
<td>3</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Chemical industry</td>
<td>13</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Rubber and plastic manufacture</td>
<td>9</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Metallic products manufacture</td>
<td>6</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Mecanical construction and transport</td>
<td>4</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>56</strong></td>
<td><strong>29</strong></td>
<td><strong>24</strong></td>
</tr>
</tbody>
</table>

Source: Chamber of commerce

The industrial sector’s activities concern several fields; the most important ones include:

- The food industry (sugar, flour, beer and soft drinks, edible oil, alcohols, fruit juices, syrups, cigarettes, pasta);
- The textile industry (cotton ginning, hides and leather processing, spinning mills);
- Chemical industries (tyres, phytosanitary products, plastic items, soaps and cosmetics, medicines, battery cells...);
Woodwork and metal industries (metal sections, agricultural implements, motorcycles and bicycles...).

Three sectors produce 93% of the industrial value added: agricultural processing industries are largely predominant in the Burkinabe industrial fabric with 35% of the value added against 31% for tobacco and drinks with three entities. Textile account for 25% and chemical industries 15%. Since the devaluation which occurred on 1st January 1994, the sector of processing of agricultural products grew in such way that it could be a support to leasing.

Over 75% of the value added in the secondary sector is coming from the manufacture and extractive industries; 20% is coming from the public buildings and works sector and less than 5% from the electricity, gas and water sector. Most of agro-industrial units are operating below their actual capacity with a utilization rate of about 10 to 40%. The informal sector is very active in the secondary sector, especially in the manufacture industries and in arts and crafts.

The informal sector is comprises the most diverse occupations often exercised independently. This sector contributes to GDP for over 20% and provides 80% of jobs in urban areas with 54% of women and 46% men.

Manufacture industries can be found in varied activities and they operate in a situation of monopoly or duopoly and most of their productions are intended to the external market. Some of these products could be exported to the region, especially cycles and motorized bikes, tyres, battery cells, cardboards for packaging, soft drinks...

Extractive activities represent 1% of the total GDP and 3% of the value added in the secondary sector.

In 1998, Burkina adopted an industrial development strategy that was based on twelve sectors, namely: cotton, cereals, fruits and vegetables, oil products, milk, meat, leathers and hides, manufacture and metal works, polymers, rubber and plastics, quarries and construction metals, chemical products: fertilizers and phytosanitary products, pharmaceuticals.

**b - Refocusing Government’s role**

In 1991, the Government of Burkina initiated a process of disengagement from production sectors in order to favour the liberalization of the national economy through a privatisation programme that targeted the following objectives:

- refocusing the Government’s role in piloting the economy,
- the abandonment of repeated subsidies in favour of enterprises,
- the stimulation of private initiative.

These actions favour the game of competition and contribute towards putting an end to the eviction effect of which the country’s private SME had fallen victims because of public enterprises.
An overcautious but stabilized banking sector

The Burkinabe banking sector is relatively active. It comprises eight banking institutions (mainly retail banks) and five financial institutions (only two of them are active in the financing of corporate investment and in the field of leasing).

Following the 1991 stabilization programme, the country’s banking industry is showing signs of a secure sector that is offering intermediation services favourable to the development of enterprises. However, it should be pointed out that, as concerns the observance of financial orthodoxy rules and in view of the structure of bank resources, which are mainly short resources (about 77% of total resources) and of the strong environment marked by informational asymmetry, banks in Burkina are more inclined to finance only the short-term applications of enterprises. It is difficult to find solutions to investment needs with the banks, owing to the absence of long-term visibility mainly connected with the method of management used by enterprise managers. The fact remains that the stabilized financial system and the good risk control assure the economy of chances of a stable monetary policy management.

1.3 CREDIT OFFER TO SME

1.3.1 SME in Burkina: the structures and the financing problem

There are about 1,200 to 1,600 SME in Burkina (according to the definition given in the introduction). But the country has a multitude of small structures estimated at 2,738 in 1998, according to a study by INSD. But, according to another evaluation made by the Tax Department and based on returns in its books, the number of these structures is 12,332.

1.3.1.1 Counting

In 1998, there were 2,738 enterprises in Burkina, according to INSD statistics. A distribution of these enterprises per town shows their concentration (81.6%) in the two biggest cities, namely Ouagadougou and Bobo Dioulasso. Besides, 24% of them are very small enterprises with a turnover of less than 5 million FCFA. 60% of them have a turnover of less than 100 million FCFA.
Table N°IV : Enterprises inventoried in Burkina on 30th September 1998

<table>
<thead>
<tr>
<th>Per town</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Banfora</td>
<td>62</td>
</tr>
<tr>
<td>Bobo-Dioulasso</td>
<td>636</td>
</tr>
<tr>
<td>Dédougou</td>
<td>52</td>
</tr>
<tr>
<td>Dori</td>
<td>36</td>
</tr>
<tr>
<td>Fada</td>
<td>43</td>
</tr>
<tr>
<td>Gaoua</td>
<td>20</td>
</tr>
<tr>
<td>Kaya</td>
<td>61</td>
</tr>
<tr>
<td>Koudougou</td>
<td>128</td>
</tr>
<tr>
<td>Ouagadougou</td>
<td>1,600</td>
</tr>
<tr>
<td>Ouahigouya</td>
<td>65</td>
</tr>
<tr>
<td>PO</td>
<td>14</td>
</tr>
<tr>
<td>Tenkodogo</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,738</td>
</tr>
</tbody>
</table>

Table N°IV : Enterprises inventoried in Burkina on 30th September 1998

<table>
<thead>
<tr>
<th>Per turnover bracket</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5m</td>
<td>656</td>
</tr>
<tr>
<td>5m-10m</td>
<td>326</td>
</tr>
<tr>
<td>10m-50m</td>
<td>531</td>
</tr>
<tr>
<td>50m-100m</td>
<td>145</td>
</tr>
<tr>
<td>100m-200m</td>
<td>126</td>
</tr>
<tr>
<td>200m-500m</td>
<td>112</td>
</tr>
<tr>
<td>500m-1000m</td>
<td>44</td>
</tr>
<tr>
<td>1000m-5000m</td>
<td>53</td>
</tr>
<tr>
<td>5000m-20000m</td>
<td>19</td>
</tr>
<tr>
<td>20000m and above</td>
<td>2</td>
</tr>
<tr>
<td>Undeclared turnover</td>
<td>724</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,738</td>
</tr>
</tbody>
</table>

Conversely, there was a total of 12,332 enterprises established in Burkina in February 2003, according to information collected from DGI. These statistics only take into account enterprises with a fiscal identification number and subject to VAT. Their regional distribution is indicated in the following table.

Table V : Number of enterprises per region as on 19/02/03, according to data provided by DGI

<table>
<thead>
<tr>
<th>REGION</th>
<th>TOWNS PER REGION</th>
<th>Number of enterprises</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centre</td>
<td>Ouagadougou, Pô, Kaya</td>
<td>10,115</td>
<td>82.02</td>
</tr>
<tr>
<td>Centre-West</td>
<td>Koudougou, Dédougou</td>
<td>236</td>
<td>1.91</td>
</tr>
<tr>
<td>West</td>
<td>Bobo-Dioulasso, Banfora, Gaoua</td>
<td>1,314</td>
<td>10.66</td>
</tr>
<tr>
<td>East</td>
<td>Fada, Tenkodogo</td>
<td>321</td>
<td>2.60</td>
</tr>
<tr>
<td>North</td>
<td>Ouahigouya, Dori</td>
<td>346</td>
<td>2.81</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>12,332</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source : ADOP

Undeniably, a significant number of enterprises were created between 1998 and 2003. But, it should be noted that Burkina has a multitude of very small informal units called « Ets. XY. » The number of enterprises that would correspond to the definition of SME as given above would be between 1,200 and 1,600.

1.3.1.2 Features of Burkinabe SME

a - A multitude of informal merchant units

The Burkinabe economy is dominated by a proliferation of informal merchant units that are small scale units without wage earners (or with a limited number of wage earners), with a low capital but with, nonetheless, a money circulation and the production of goods and services for sale. The dominant rules are not the payment of salaries but are
customary, hierarchical and affective rules. The proximity relations are essential. This proximity is spatial (small scale activities within a limited area), temporal (short prospects of agents, allowing reversibility and the consideration of ups-and-downs) and social (confidence, reputation, credibility of personalized relations).

These units reinvent new forms of socialization; meet the basic needs in urban circles (eating, clothing, accommodation, movement...) for most of the population who do not have access to collective public services and to industrial goods. They are characterized by a low dissociation between the productive and domestic spheres, the absence of permanent wage earners, the non-existence of bookkeeping and of appeal to institutionalised credit. These small units capitalize on low production costs, extensive flexibility, and the possibility to divide the productive processes and to create divisibility.

In 2000, there were about 8,000 units of this type in Burkina. These small structures are characterized by relations of proximity based on neighbourhood relations, interpersonal relations where confidence plays a major role. They are the privileged target of micro-finance. Leasing is not suitable to these units whose forecasts rarely go beyond 6 months and whose investment needs, if any, are estimated at a few thousands CFA Francs.

b - Newly created structures

Until recently, the private SME/SMI sector was less developed. Existing structures of that kind were quasi-branches of foreign companies, mostly French companies operating in the sectors of soft drinks, tobacco, agribusiness, finance. This was due to several reasons including:

- the public enterprises’ eviction effect;
- the over-cautiousness of credit institutions about investment credit risks or even the inadequacy of the financial products offered;
- the narrow national market;
- the profitability of import-export sectors.

The Burkinabe entrepreneurs, who are operating in an unstable and uncertain environment, tried to minimize the risks by performing several activities simultaneously and, in general, by looking for the most rapid rate of return on the monetary advance. That is why they long opted for trade. But, for nearly ten years now, it has been noted that foreign groups have been strengthening their SME branches and that a new private entrepreneurship has been developing at national level, based on a will to change this type of organization, to observe official rules, to accede to visibility and to internalise entrepreneurs’ risks.

The Burkinabe entrepreneur is, henceforth, in a process of diversification and not of accumulation, allowing for apprenticeship and greater productivity.

Burkinabe SME/PMEs are established in various forms. However, most of them are individual enterprises or family businesses; then follows limited liability companies (Ltd) -many of them resulted from the conversion of former individual business
concerns- and limited companies (SA). Promoters are from various horizons. They include, firstly: economic operators -most of them are illiterates who made money in the trading sector or in services before they turned towards better organized structures. Then, we have a growing number of young national actors who received a more or less advanced educational and vocational training. Quite often, they acquired experience within a family business or a company before leaving it to set up their own businesses. Finally, we have foreign investors (Lebanese-Syrians, French, Libyans etc...) who are also active in the SME/SMI sector, either individually or in association with national interests.

c - Fields of activity

In general, Burkinabe SME/SMIs operate in the sectors of public building and works, transport, mining, industry and liberal professions. However, the large majority of micro-enterprises are found in the trading sector.

d - Weaknesses

The first reason explaining the weakness of entrepreneurs in Burkina relates to the great risks and, above all, to the uncertainties and to the fact that agents prefer an acceptable solution to an optimal solution in a system of information asymmetry. Because of the strong depreciation of the future and the option for the reversibility of decisions, most agents are not allowed to take any entrepreneurial risk. As a result, there is a clash between rationalities; the one of macro-decisions is generally opposed to the one of micro-decision makers. This behaviour is all the more important as it favours pessimistic anticipations and, thus, reduce SME/SMI’s chances to accede to long-term bank financing.

Besides, the managerial capacities of some SME managers need to be improved. The organizational type needs to be revised so as to move from a restrictive, closed, if not opaque, family-type management to a better structured management that makes it possible to ensure a good enterprise governance and to ensure both readability (transparency) and remote visibility.

1.3.1.3 A more selective policy

In a general offering context like the one of Burkina, it is difficult to emphasize the persistence of the practices of credit rationing to SME. However, some converging elements strengthen, nonetheless, the assumption that they persist in some specific sectors characterized by a particular difficulty to assess the risk and/or to find adequate guarantees. Certain studies (GTZ in 96 and ADOP in 2003) show that SME’s access to medium and long term credit would be all the more rationed as the enterprise is small. The difficult access to credit would, therefore, mainly concern micro-enterprises and SME. More often than not, such enterprises have serious difficulties to obtain bank financing and, thus, resort to self-financing which is proportionally more important. So, it was recently demonstrated that some Burkinabe SME were self-financing more than half of their investment against only one third using bank credits.
In general, Burkinabe SME, who often have inadequate equity capital and are confronted with a rapid increase in their needs for working capital, can only find a solution to their financial constraints through the banking network. Indeed, company managers first turn to their bankers to have an adequate “line” of cash flow for their cycle of activity and to demand for financing for their long-term investment projects. The quasi-absence of some specific financial products like intercompany credits, leasing and investment capital only strengthen this situation of strong dependence of SME on their bank, especially for smaller SME, most of which are still mono-banking.

Of course, this dependence was badly felt by enterprise managers, especially in periods of slump. In such periods, the bank-enterprise relation is marked by an atmosphere of mutual distrust. Consequently, SME’s difficulty to accede to credit persists, mainly for the smallest ones and in some critical phases of their development.

Though some difficulties of access are unquestionable, like the requirements in terms of management standards that do not allow banking institutions to take unnecessary risks, we observe, on the other hand, that many SME yet destined for a rapid growth and provided with adequate equity capital, find it difficult to accede to bank financing, either for lack of guarantees (security) or because they were newly created and, therefore, do not have the necessary anteriority (traditionally three years) to benefit from a bank assistance. Now, the indispensable renewal or strengthening of the Burkinabe productive fabric rests on these SME.

1.3-2 Actors of the credit offer

The Burkinabe banking system is composed of eight banks, five financial institutions and micro-finance structures (cf. Annexure I.)

1.3.2.1 commercial banks

5 of these 8 banks are commercial banks performing general activities. Only one of them, namely BACB (ex-CNCA) is specialized in the financing of agriculture. However, this bank re-orientated its activities towards the financing of trade.

In terms of bank applications, BIB and BICIA-B are the market leaders with respectively 21.94% and 18.21% of market shares in late November 2004. The number of banking institutions could increase by late 2005 with the arrival of new actors, namely Banque Régionale de Solidarity (BRS) and Banque de l’Habitat du Burkina.

In general, all the banks are authorized to perform leasing operations, but in practice, none of them is performing leasing operations.

1.3.2.2 Financial institutions

Four of the 5 financial institutions operating, namely SOBCA, FIB, SOBFI and Burkina Bail, are authorized to perform leasing operations. The others are dealing in the financing of credit sales. However, it should be underlined that, of the 5 financial institutions, only Burkina Bail was exclusively performing leasing operations. This institution holds almost all the 2,264 million outstanding leasing credit declared to the
central credit surveillance of BCEAO, on 31 December 2004. SOBCA received their authorization in 2000, but have not yet started their leasing activity. Following the institution of the 5% withholding in 2000, SOBFI decided to stop performing leasing operations in 2002.

1.3.2.3 Structures of the decentralized financial system

The activity of micro-credit structures has been growing steadily for practically ten years. BECEAO statistics show that, from 1993 to 2003, the number of micro-financing networks increased from 11 to 39 and the number of beneficiaries from 80,000 to 547,000. On the other hand, the number of counters dropped from a record level (778) noted in 1995 to stand at 254 in 2003. BCEAO estimated deposits at 26 billion CFAF and credits at 32 billion FCFA, which means that they increased by 128% and 187% respectively, compared to 1998. About 1.3 million people or small structures directly benefited from the services of micro-finance bodies, since late 2001.

Despite the rapid growth recorded over the last few years, the micro-finance sector remains marginal in the Burkinabé financial system. In total, these networks draw a very limited share of total deposits (5.2%) and they distribute a low share of credits (8.8%). Since the beginning of its activities in the early 1990s, the sector developed towards greater professionalism. Its portfolio deterioration rate sharply improved: from 1999 to 2002, it constantly dropped from 12.5% to 4.5% and stood at 6.0% in 2003.

1.3-3 Structure of the offer

The Central Credit Surveillance of December 2004 shows a total credit stock amounting to 291,163 million CFAF, representing the outstanding credits declared by banks and financial institutions. The outstanding bank credits totalling 228,660 million represent 99% of the total amount. Of these 228,660 million, the proportion of short-term credit works out at 69% against 30% for medium and long-term credits. The amount of outstanding leasing credits working out at 2,264 million represents a little less than 1% of total outstanding credits, but 4.7% of outstanding medium-term credits.

A distribution according to the nature of the activity shows that the largest share of credits extended go to the trading sector with 45% of the total. The industrial sector is
ranking third with a contribution of 44,777 million FCFA, that is to say 15.4%, while the transport and communication sector contributes 11%. The mining sector is last with only 53 millions of credits.

Table No. VI: Distribution of outstanding credits per field of activity
(Data in millions of CFAF)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Short-Term</th>
<th>Medium and Long-term</th>
<th>Leasing</th>
<th>Total</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural and related activities</td>
<td>11,156</td>
<td>520</td>
<td>-</td>
<td>11,676</td>
<td>4.01%</td>
</tr>
<tr>
<td>Mining activities</td>
<td>53</td>
<td>-</td>
<td>-</td>
<td>53</td>
<td>0.02%</td>
</tr>
<tr>
<td>Industrial Activities</td>
<td>31,547</td>
<td>12,398</td>
<td>832</td>
<td>44,777</td>
<td>15.38%</td>
</tr>
<tr>
<td>Public Buildings and works</td>
<td>19,25</td>
<td>2,38</td>
<td>72</td>
<td>21,35</td>
<td>7.6%</td>
</tr>
<tr>
<td>Trade</td>
<td>82,61</td>
<td>46,23</td>
<td>811</td>
<td>130,495</td>
<td>44.2%</td>
</tr>
<tr>
<td>Transport and Communication</td>
<td>20,854</td>
<td>10,197</td>
<td>352</td>
<td>31,403</td>
<td>10.79%</td>
</tr>
<tr>
<td>Other services</td>
<td>34,801</td>
<td>16,087</td>
<td>197</td>
<td>51,085</td>
<td>17.55%</td>
</tr>
<tr>
<td>Total</td>
<td>200,497</td>
<td>88,163</td>
<td>2,264</td>
<td>290,924</td>
<td>99.92%</td>
</tr>
</tbody>
</table>

Proportion: 68.86% 30.28% 0.78% 99.92%

Source: BCEAO Central Credit Surveillance, December 2004
CHAPTER II: LEASING, TECHNIQUE
AND INVENTORY OF FIXTURES IN BURKINA FASO

Leasing is a centuries-old practice, although it did not grow considerably over the last 50 years. Initially, leasing was a technique of sale by manufacturers. It became a specialized financial service after the creation of the first independent leasing company in the United States, in 1950. Leasing developed in Europe and in Japan in the 60s. Shortly afterwards, precisely in 1965, leasing was introduced to Africa through Morocco, at the joint initiative of the Banque de Paris and the Netherlands, within the framework of the re-utilization of the local share of the allowance from the buy-out of Energie Electrique du Maroc and of Chemins de Fer du Maroc by the Moroccan State with the purpose of strengthening the financing of capital goods for the emerging Moroccan industry. It was introduced to WAEMU countries in the early 70s with the creation of the first Independent leasing company in Cote d’Ivoire (SABAIL), in April 1971, then with the branches of an American company Taw-Lease International in Burkina Faso and in Mali, in the mid 1970s.

The West African leasing industry recorded a significant growth only in the mid 90s, following the devaluation, with the doubling of the number of leasing companies to 12 structures, in 1998, namely:

1. EQUIPBAIL (Benin) 7. SOGEFIBAIL (RCI)
2. BURKINA BAIL (Burkina) 8. SOMAFI (Mali)
3. SOBFI (Burkina) 9. EQUIPBAIL (Mali)
4. AFRIBAIL (RCI) 10. SOGECA (Senegal)
5. BICI BAIL (RCI) 11. LOCARFRIQUE (Senegal)
6. SAFBAIL (RCI) 12. SFE (Senegal)

Less than half of these companies still exist today.

Indeed, the outstanding leasing credits inside WAEMU reached a record level with 49,900 million CFAF, in 1998. Since then, they have been recording a downward trend, now standing at less than 25,000 million CFAF. The current decline in the leasing activity inside WAEMU contrasts with its development in countries with a high level of productivity like North African countries (Tunisia, Morocco and recently Mauritania) and English-speaking countries (Ghana, Nigeria, South Africa,...). Indeed, in 2002, leasing productions contributed 6% to the gross fixed capital formation in Nigeria; 5% for the six leasing companies in Ghana. It should be pointed out that this rate works out null for WAEMU zone, against 30% in the United State, 15% in England and Germany and 10% in Japan. In these last four countries, the contribution of leasing to GDP formation is estimated at 2.44% for the USA; 1.42% for England and 1.6% for Germany and Japan.

What are the reasons? They may slightly differ from one country to another; but the basic reasons remains:
the situation of a very risky political and economic environment (war);
- the absence of incentive measures to develop leasing;
- the constraints of an inappropriate taxation system;
- the narrow consumer market.

Table No.VII Evolution of outstanding leasing credits inside WAEMU zone

<table>
<thead>
<tr>
<th>Years/Countries</th>
<th>Benin</th>
<th>Burkina Faso</th>
<th>Côte d'Ivoire</th>
<th>Mali</th>
<th>Senegal</th>
<th>Total WAEMU</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2 836</td>
<td>1 997</td>
<td>30 570</td>
<td>1 531</td>
<td>5 229</td>
<td>42 415</td>
</tr>
<tr>
<td>2001</td>
<td>2 369</td>
<td>2 577</td>
<td>24 676</td>
<td>1 282</td>
<td>5 351</td>
<td>36 482</td>
</tr>
<tr>
<td>Variation 2000-2001</td>
<td>-16.5%</td>
<td>29.0%</td>
<td>-16.3%</td>
<td>2.3%</td>
<td>-14.0%</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>1 673</td>
<td>2 856</td>
<td>20 836</td>
<td>1 002</td>
<td>5 647</td>
<td>32 271</td>
</tr>
<tr>
<td>Variation 2001-2002</td>
<td>-29.4%</td>
<td>10.8%</td>
<td>-15.6%</td>
<td>-21.8%</td>
<td>5.5%</td>
<td>-11.5%</td>
</tr>
<tr>
<td>2003</td>
<td>1 945</td>
<td>3 050</td>
<td>14 496</td>
<td>1 395</td>
<td>7 158</td>
<td>28 276</td>
</tr>
<tr>
<td>Variation 2002-2003</td>
<td>16.3%</td>
<td>6.8%</td>
<td>-30.4%</td>
<td>39.2%</td>
<td>26.8%</td>
<td>-12.4%</td>
</tr>
</tbody>
</table>

Source: Reports by WAEMU Banking Commission

In Burkina, the leasing activity grew steadily until 2003. Then, there was a downward trend because of the adverse effects of the 5% withholding that forced leasing companies to either abandon or reduce their leasing activity from 2002.

2.1 LEASING: TECHNIQUES AND AVANTAGES

2.1-1 Origins and foundations

Leasing has a very old history. The idea of “leasing” existed amongst the Sumerians, in lower Mesopotamia, 7 000 years ago. 4 000 years ago, the Hammourabi code -named after the king of Babylon engraved on a basalt stele that can be seen at Louvres Museum- explained the main rules thereof quite precisely. This method of financing was commonly practiced by the banks in the region of Baghdad, 3,000 years ago. Aristotle himself defined the essence thereof: “wealth consists more in the usage than in the ownership”. But, “leasing” practically came to being in its current form in the United States in 1950. Ten years late, it took the name of credit-bail in France after crossing the Atlantic.

2.1.1.1 Leasing, evolution phases and by-products

The evolution of leasing practise in Burkina is not different from the one noted at international level, precisely in some counties where it has now become a proven technique for the financing of SME’s investment. This evolution is subdivided into 4 stages.

1°) The first stage is the one of simple financial lease, that is to say leasing. It is the basic level of leasing. The 2,264 million outstanding leasing credits declared, in respect of Burkina, to the Central Credit Surveillance of the National Directorate of
BCEAO, on 31 December 2004, represent 95% of the outstanding credits of the basic financial lease.

2°) The second phase is the one of the elaborate financial lease with, in addition to the basic system, some other services like insure, maintenance. This financial lease which is most suited to car leasing is not much practiced by leasing companies in Burkina; only Burkina Bail, through their system known as endorsed leasing, developed a partnership with a concessionary company (DIACFA ATOMOBILE) to rent out vehicles on long-term basis to a multinational company established in the country.

3°) Operating lease is the third stage in the evolution of leasing. It involves for the leasing company, the provision of comprehensive services for a determined use: equipment for transport, Public Building and Works and quarries. Hence the need for the leasing company to have a stock/fleet of equipment. For the time being, no leasing establishment in Burkina is performing operating lease, certainly because of the important capital and costs involved; however, there are some companies governed by common law practicing this activity in favour of SME, specially for Public Building and Works equipment.

4°) The last phase of the evolution of leasing is the one of the elaborate offer marked by alliances and partnership between the various actors, namely the user, the supplier and the leasing company.

These evolutions are more or less noted in Burkina but the base -especially in the countries we can compare ourselves with- remains the traditional finance lease that still has a bright future ahead.

2.1.1.2 Foundations

Leasing is a contractual arrangement that allows one party (the lessee) to use an asset belonging to a leasing company (the lessor) against the periodical payment of an agreed amount. This system is mainly characterized by the fact that the right of ownership (held by the leasing company) is dissociated from the economic right of use (held by the lessee) for the leased property.

The lessor considers more the lessee’s aptitude to generate adequate income to pay the rentals than his past credit history, his assets or his capital base. This system is particularly adapted to the needs of newly created small and medium enterprises (SME) that are yet unable to produce financial statements proving several years of activity. The transactions guaranteed by the asset itself.

The basic contribution of leasing consists in distinguishing between the ownership of a property that is kept by the lessor and the usage made of it in the hands of the user (lessee). Throughout the duration of the contract, the legal ownership represents the supreme guarantee held by the financing body in exchange for which it deals with enterprises that would not accede to traditional credits because of the range of additional guarantees required. For the lessor, the ownership of the financed property makes the difference and everything actually follows from this principle.
1.2 - Leasing technique

2.1.2.1 The contract: basic clauses

The leasing contract formally translates the reciprocal obligations of the lessor and the lessee. The supplier’s obligations are commercially governed by the sale deed.

It basically les on the following features:

- **Irrevocable nature of the contract.** The term of the contract is agreed upon in advance and it is irrevocable. To financially balance his operation, the lessor may depreciate the equipment over the duration of the contract and does not assume the risk of commercialisation before the term.

- **The term of the contract.** It is a compromise between the duration of the economic life of the property, its fiscal depreciation period and the lessor’s refunding possibilities. To limit his risks, the latter may try to reduce the term of the contract, unlike the lessee who may try to extend it to spread his charges. In any case, the term of the contract should not exceed the duration of the economic life of the equipment. In Burkina the time for the depreciation of the leased property is supposed to coincide with the term of the contract.

- **Rents.** The rent starts from the date of reception of the equipment by the lessee as materialized by the signing of the minutes of the taking over by the latter and the supplier. The rents payable in advance with a generally constant frequency. (monthly, quarterly, half yearly. The amount of the rents cannot be revised, but it can be constant, degressive and even seasonal. Finally, non payment of one term of the rent may lead to the termination of the contract, by right, by the lessor. As a general rule, the lessee should, in such case, return the equipment to the lessor, at once, and he may be condemned to pay the outstanding rents.

- **Holding and maintenance the equipment.** The user is not the owner of the equipment, but he should behave as such throughout the duration of the contract. The lessor has the right to verify the conditions of use and maintenance of the equipment owned by him and even obliges the lessee to subscribe a maintenance contract. All the expenses incurred for the use, maintenance and repairs are chargeable to the lessee and, in case the equipment is not working, whatever the reason or duration may be, he is obliged to continue to pay the rents to the lessor.

- **Insurance of the equipment.** In his capacity as custodian of the equipment, the lessee is responsible for the damages caused by this equipment, of any risk, deterioration or total or partial loss of this equipment. So, he is obliged to subscribe an insurance policy covering all the risks the equipment is prone to, with delegation of the allowance of the lessor, in case of disaster;

- **Expiry of the contract.** At the expiry of the contract, the restitution of the equipment may be envisaged but, because of the low residual value, purchase options are more common. It is an option and not an obligation for the lessee to buy back the equipment for the residual value set at the beginning of the
contract. It is also possible to opt for a new lease of the equipment on conditions set in advance or negotiated during the new lease.

2.1.2.2 Advantages

The foundation of leasing is based on a tripartite relation that brings involves, the customer who wishes to provide himself with an equipment, the supplier who sells the equipment and the financial institution that buys the equipment and rents it to the customer. Each of them draws his own advantages. The most important advantages are summarized below.

\[
a - For the lessee:\n\]

1) \textit{Financing of up to 100\% of the price inclusive of all taxes}: through leasing, it is possible to finance up to 100\% of the price inclusive of all taxes. The only seed money is the first rental whereas traditional bank credits often require an initial deposit of 20 to 30\%. The lessee’s cash flow is thus spared.

2) \textit{Choice of rents according to the activity}; the lessor may choose the periodicity of the payment of rent, per month, per quarter, per half year or even on a yearly basis. The rents may be modulated with the time. The lessee may agree with the lessor, at the start of the contract, to modulate the rents according to the term or according to the seasons. Thus, an enterprise that has a seasonal turnover may benefit from rents that vary with the time; more important rents in times of strong activity and lowers rents in times of low activity. The cash balance is thus put in phase with the activity generated by the investment and the expected cash inflows. This flexibility is a real advantage for the lessee.

3) \textit{Deductibility of rents and soft collection of the VAT}: with leasing, rents are operating expenses and are, therefore, fully deductible from the taxable profit provided, of course, that the rents are « normal » which underlies that the residual value should not be too high and that the proportional share should be applied properly. When the amount of the leasing investment, in relation to the level of the enterprise’s immobilization, allows an enterprise to post the rents as operating expenses, it takes a double advantage:

1) First, a fiscal advantage as the BIC tax will decline since the leasing rents is totally deductible, and,

2) Then, in terms of management, since the non-budgeted capital expenditure may be posted as overhead expenses.

4) \textit{Besides, the lessor is the owner of the equipment}, so, he buys the equipment, inclusive of all taxes, from the seller and rents it out. The lessee does not have to pay the full amount of the VAT at once, which makes possible its “soft refunding”, as the rents are paid. So, he will not pay it once as if the was directly buying the equipment for himself. So, there is a spreading of the VAT, which is particularly interesting for companies that have a credit VAT balance. Thus leasing helps to avoid cash flow jolts by suppressing the imbalance of the initial payment of the VAT on the leasing.
5) **Financing of significant investment:** leasing makes it possible for SME to make significant investment with regard to the turnover. Quite often, it happens that some customers wish to acquire equipment whose investment exceed the level of their annual turnover. In general, when the amount of the equipment which the customer wishes to acquire exceeds the customer’s financial capacity, bankers are, in most cases, reluctant to provide such financing. Leasing companies may envisage financing this type of operation. Indeed, one of the principles of leasing is that the equipment should be self-financed, to a large extent. That is to say the current earnings it generates or the savings it gives rise to, compared to an earlier solution, should cover almost the total amount of rents.

6) **Seizing an immediate opportunity:** It happens that an SME be in the face of a business opportunity whose satisfaction requires the acquisition of new equipment. Owing to its flexibility and its rapidity of placing, compared to other methods of financing, leasing is an interesting alternative to finance the purchase of these new equipments with a view to meeting an evolution of its market, even if it is not foreseen. Very often, experience shows that the production of leasing files is more rapid than the equipment credits offered by the banks. Besides, the implementation formalities are indeed more flexible and simplified: the time required to process the files are short since the leasing banks know the field of activities they are financing, the guarantees are quite light: payment of a deposit, insurance...

**b - For the lessor**

1) **Ownership of the equipment:** the fact that the leasing company is the owner of the equipment gives a better guarantee than a security or a mortgage. In case of dispute and if the legal mechanisms are properly defined, the repossession of a leased property is simple. The lessor registers to the Clerk’s Office of the Commercial Court the equipment it is renting out. The purpose of such registration is to make opposable to third parties the ownership of the equipment subject of the leasing contract.

The only inconvenience for leasing companies in Burkina is the fact that the second-hand market is not well developed, worst still some socio-cultural considerations make the resale of some equipment taken back from lessees more laborious, a credit institution confided to us.

2) **Better profitability:** In general, leasing makes it possible to apply better margins for the same overall cost, close or even lower than one of the credit. The profitability compared to the risk is interesting and it gives a more precise and less costly guarantee offer owing to the ownership.

3) **Better monitoring of customers:** of course, the use of leasing really allows one to better monitor a customer, because the latter must show up when taking up
the purchase option. As the financier knows that the lessee may invest for a new equipment, he may thus propose a new financing.

4) **Simplified formalities**: though the submission of credit or leasing files are almost similar, as concerns guarantees, the leasing requires lesser formalities as there is no collateral or security to take. The formalities are therefore simplified.

\[c - For the supplier: \]

1) **Development of sales**: leasing is the best means for suppliers of capital goods to develop their sales. Indeed, through a partnership with the leasing company, suppliers may offer their customers the financing of a property through leasing. This is an additional argument to convince the customer.

2) **Quick and guaranteed payments**: leasing companies make it a point of honour to quickly pay their supplies. As soon as they have given their consent about a file, that the contract documents are finalized and signed and that they receive the invoice from the seller as well as the minutes of the taking over, the lessors settle the bills in the following days.

**2.2 EVOLUTION OF LEASING ACTIVITY IN BURKINA**

**2.2-1 Actors and conditions of exercise**

\[2.2.1.1 - Who and How? \]

In Burkina, as in all the member countries of WAMU, the exercise of functions of leasing institutions is subject to a prior agreement from the Minister in charge of Finance, after a favourable opinion has been given by the Banking Commission as to the conformity of the file. Leasing companies are either banks or financial institutions subject to the banking laws governing them.

Besides the banks that are entitled, ex-officio, to perform leasing operations, there are four financial institutions authorized to perform leasing operations in Burkina Faso, namely: Financière du Burkina (FIB), Société Burkinabé d’Équipement et de Crédit automobile (SOBCA), Société Burkinabé de Financement (SOBF) and Burkina Bail. Besides SOBFI (they stopped performing leasing operation in 2002 following the enforcement of the measures relating to the 5% withhold) and Burkina Bail, none of the companies is performing leasing operations; A present, Burkina Bail is the only really active company in this field. Almost all the outstanding leasing debts declared to the Central Credit Surveillance of BCEAO on 31 December 2004, were outstanding debts declared by Burkina Bail.

For this reason, the study mainly focused on the experience of the said structure which, originally, was not authorized to perform leasing operations and this until late 2003 when it broaden the range of its activities, after it received the permission required. This means that, despite the constraints resulting from the unfavourable taxation system in some of its provisions, Burkina Bail continued to market the leasing product through a special commercial approach.
2.2.1.2 - Burkina Bail’s experience

The synoptic table below shows the evolution of the main indicators of Burkina Bail’s activity since its creation.

<table>
<thead>
<tr>
<th>Headings</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing Excluding Tax</td>
<td>116</td>
<td>913</td>
<td>964</td>
<td>1544</td>
<td>1756</td>
<td>2820</td>
</tr>
<tr>
<td>Turnover Excluding Tax</td>
<td>16</td>
<td>241</td>
<td>534</td>
<td>1006</td>
<td>1515</td>
<td>1705</td>
</tr>
<tr>
<td>Amount of Files received</td>
<td>4823</td>
<td>3591</td>
<td>2592</td>
<td>6496</td>
<td>5480</td>
<td>9007</td>
</tr>
<tr>
<td>Number of Files received</td>
<td>13</td>
<td>41</td>
<td>56</td>
<td>81</td>
<td>82</td>
<td>104</td>
</tr>
<tr>
<td>Number of mef files</td>
<td>4</td>
<td>12</td>
<td>27</td>
<td>38</td>
<td>30</td>
<td>44</td>
</tr>
</tbody>
</table>

An analysis of the applications made over the last four years gives a structure of files received per type of equipment as follows:

**Absolute values**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>1 325</td>
<td>3 923</td>
<td>2 891</td>
<td>5 508</td>
</tr>
<tr>
<td>Industrial</td>
<td>455</td>
<td>559</td>
<td>1 945</td>
<td>2 334</td>
</tr>
<tr>
<td>Public Building and Works</td>
<td>433</td>
<td>971</td>
<td>460</td>
<td>524</td>
</tr>
<tr>
<td>IBD</td>
<td>380</td>
<td>1 042</td>
<td>185</td>
<td>201</td>
</tr>
<tr>
<td>Total</td>
<td>2 593</td>
<td>6 495</td>
<td>5 481</td>
<td>8 567</td>
</tr>
<tr>
<td>Redemption of debts</td>
<td></td>
<td></td>
<td></td>
<td>440</td>
</tr>
<tr>
<td>Total</td>
<td>2 595</td>
<td>6 495</td>
<td>5 481</td>
<td>9 007</td>
</tr>
</tbody>
</table>

**Relative values**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>51%</td>
<td>60%</td>
<td>53%</td>
<td>64%</td>
</tr>
<tr>
<td>Industrial</td>
<td>18%</td>
<td>9%</td>
<td>35%</td>
<td>27%</td>
</tr>
<tr>
<td>Public Building and Works</td>
<td>17%</td>
<td>15%</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>IBD</td>
<td>15%</td>
<td>16%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

We can see that applications for financing concerning transport equipment are more important over the period. They reached a record level of 5.5 billion in 2003 probably due to the increase in the demand for transport resulting from the Ivorian crisis that had obliged the country’s economic actors to invest in the purchase of lorries to satisfy the country’s need to receive supplies by road (as the railways and the port of Abidjan have been cut off). Industry is the second most important sector with 27% in 2003.
Statistics on the production of leasing contracts by the institution grew as shown on the graph below.

In terms of duration, the majority (58%) of contracts of leasing credits lasted 36 months on average. Contracts that lasted 48 months represented 26% and the ones that lasted 60 months, 11%.

2.2.2 Banking regulations

2.2.2.1 - Legal framework

The banking activity is governed by law No. 18 of 12 May 1996 on banking regulations. The supervision of credit institutions is the responsibility of monetary authorities.
(BCEAO), political authorities (the Minister of Finance) and a specialized body (WAMU Banking Commission). The joining of new competitors is subject to a very tight control.

2.2.2.2 - External supervisory bodies

The activities of leasing companies are supervised by the banking commission, on the one hand, and by external auditors whose auditing methodology is governed by banking regulations, on the other.

The Banking Commission: the body in charge of supervising and auditing banks and financial institutions is WAMU’s Banking Commission. It is set up under an agreement that came into force on 1st October 1990. It is governed by the provisions mentioned in the annexure to the Agreement and it fulfils its task through the following actions.

- Checking of accounts and spot check of banks and financial institutions;
- Providing advice on applications for approval submitted by banks and financial institutions;
- Taking of administrative measures in case of non observance of provisions applicable (warning, injunction, disciplinary procedure);
- Disciplinary sanctions according to the seriousness of the breaches noted (warning, reprimand, suspension or ban of whole or part of operations, restrictions in the exercise of the profession or dismissal of managers, as a matter of course, withdrawal of approval).

- Auditors: the auditing of accounts is done by external auditors approved by the Banking Commission.

2.2.2.3 Management standards and supervision of leasing companies

a - Prudential rules and rate conditions

Like the banks, leasing companies are obliged to observe the prudential rules applicable to WAMU’s credit institutions. These include inter-alia:

- the level of the actual equity capital: 300 million at least;
- the solvency ratio (net equity capital/commitments), which should be equal to 8% at least;
- the risk division ratio (total risks incurred on the same beneficiary/net equity capital), which should be equal to 75%, at least;
- the liquidity ratio (quick assets and commitments by signature received/current liabilities and commitments by signature given) equal to 75%, at least;
- rules on the displacement of outstanding debts and their coverage by an adequate level of provisions.

Moreover, in the same way as credit institutions, leasing companies keep their books in accordance with the Bank Accounting System (PCB) that came into force in January 1996. Leasing companies should publish their annual financial statements in a legal notice paper and in the official Bulletin. They should also observe the usury rate fixed every year by an order issued by the Ministry in charge of Finance. The current usury
rate is 27% for financial institutions and 18% for banks. In practice, the average rates applied by leasing companies vary between 14 and 16% per year, excluding tax.

b - Internal auditing

Leasing companies are obliged to provide themselves with an internal auditing system suited to their activity and their size, under the conditions fixed by banking regulations.

In this regard, they are mainly obliged:

- to formalize the general organisation of internal auditing and to provide for adequate human and material means to ensure its proper functioning;
- to have a proper system of information for the production of a good quality of accounting and financial information;
- to have systems for the assessment, mastery and monitoring of the risks incurred.

The main levels of risks incurred by leasing companies that should be monitored include:

1. **The counterpart risk**: it is the risk of default by the lessee. This risk should be assessed in the same way as the one incurred on a traditional bank credit [consideration of the financial situation, of the profitability of the investment (rents/income generated), field of activity...] This assessment should also take into account the material risk (depreciation of the property, difficulties to recover it, difficulties to sell it on the market...) and the supplier’s risk (maintenance and quality of the leased equipment);

2. **The liquidity risk**: it is the gap that may exist between the inflow and outflow of liquidities that puts the credit institution in a situation where it cannot meet its commitments when they come to maturity, under normal conditions;

3. **The rate risk**: it results from an unfavourable evolution of interest rates: the classical example is the one of credits granted at a fixed rate and refinanced at variable rates. In such case, the institution is exposed to the risk of higher rate;

4. **The legal risk**: it is the risk of occurrence of disputes likely to involved the responsibility of a credit institution due to lack of precision, shortcomings or deficiencies in the contracts and other deeds of legal nature that bind it to third parties.

2.2-3 Commercial environment

2.2.3.1 Target customers

In Burkina Faso, leasing customers are mainly comprised of SME/SMI. These include private enterprises set up in the form of companies or individual enterprises operating in various fields of merchant activity and who want to acquire equipment or productive material.
According to the statistics of a study conducted in 1999 by INSD (National Institute of Statistics and Demography), Burkina Faso has 2,082 enterprises with a turnover exceeding 5 million Francs, including 74 with a turnover higher than 1,000 million. A distribution per locality shows that 81.6% of enterprises inventoried were concentrated in the two largest cities, namely Ouagadougou and Bobo-Dioulasso.

2.2.3.2 Financeable equipment

In general, in Burkina, goods and equipment intended for professional use that is to say utilized within the framework of the enterprise’s production activity are eligible to lease financing. These equipments include, among others:

- Industrial machinery - Machine tools
- Handling equipment: Elevators, cranes...
- Public building and works equipment, Bulldozers, loaders, compressors, concrete mixers...
- Transport equipment: company cars, Lorries, commercial vehicles, pick-ups...
- Medical equipment: radiology equipment, scanners, dentist’s chair equipment for dialysis, ultrasound scan, radiology equipment, laboratory equipment.
- Premises: offices, consultants’ offices, workshops, warehouses, factories.

In general, leasing companies highly value equipments of standard use that have a high market value and are, therefore, likely to be quickly sold on a second-hand market in case of dispossession or trade-in at the end of the contract. On the Burkinabe market, the transport equipment seems to be most appropriate for this type of standard equipment.

Specific equipment (equipment not commonly used or specialized equipment) are less attractive to leasing companies. Intangible property (software, stock in trade) and shares as well.

2.2.3.3 Resources

Besides their equity capital, leasing companies ensure the financing of their activities through resources provided by local banks (bridging credits or credit lines of 2 to 5 years maximum) or by the financial market (uncommon practice). Only one institution is using external resources (European banks).

2.2.3.4 Analysis of strengths, weaknesses opportunities and threats

On the basis of exchanges of views with some managers of leasing companies, the table of “swot analysis” of the following Burkinabe leasing companies could be drawn.
Table No. VIII SWOT (strengths, weaknesses, opportunities and threats) analysis of leasing companies in Burkina

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Appreciable quality of services</td>
<td>✓ Risk taking over a relatively longer period (36 months on average)</td>
</tr>
<tr>
<td>✓ Reactivity and pro activity</td>
<td>✓ Limited capacities (in terms of competences) to analyse SME risks (and in terms of staff) to cover areas outside Ouagadougou and Bobo-Dioulasso,</td>
</tr>
<tr>
<td>✓ Rapidity of actions and of decision</td>
<td>✓ Apparent high cost of services</td>
</tr>
<tr>
<td>✓ Accessibility and availability</td>
<td>✓ Focus on one occupation or one signature</td>
</tr>
<tr>
<td>✓ Securities on the goods financed</td>
<td>✓ Poor knowledge of some subtleties of the leasing trade</td>
</tr>
<tr>
<td>✓ Good communication capacity</td>
<td>✓ Limited means of coercion on certain clients</td>
</tr>
<tr>
<td>✓ Good level of information</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Global environment favourable to investment</td>
<td>✓ Dependence on the banking system for the funding and collection of rents</td>
</tr>
<tr>
<td>✓ Emergence of a new generation of Burkinabe entrepreneurs</td>
<td>✓ High cost of resources</td>
</tr>
<tr>
<td>✓ Strengthening of SME’s capacities through mesoeconomy structures (house of the Enterprise, to be specific)</td>
<td>✓ Competition between banks</td>
</tr>
<tr>
<td>✓ Privatisation of enterprises and creation of new industrial units</td>
<td>✓ Long delays for the import of equipment</td>
</tr>
<tr>
<td>✓ Sub-regional markets (WAEMU)</td>
<td>✓ Material risk</td>
</tr>
<tr>
<td>✓ Suitability of leasing to micro-needs (motorcycles) micro leasing</td>
<td>✓ Fiscal constraints on leasing</td>
</tr>
<tr>
<td>✓ Development of long-term lease</td>
<td>✓ Legal constraints for the realization of guarantees</td>
</tr>
<tr>
<td>✓ Legal advantages (medical sector)</td>
<td></td>
</tr>
<tr>
<td>✓ - Funding possibilities on the financial market or with international institutions (WADB, IEB...)</td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER III: REGULATORY FRAMEWORK AND MAJOR CONSTRAINTS

Further to a request by the Chairperson of APBEF resulting from pressures by leasing companies, a think tank on the regulation of leasing activities was set up in mid-2001 (see Annexure II). The proceedings of this think tank led to the introduction of some tax adjustments in favour of leasing through the finance act for the year 2004. However, these adjustments were not enough for the recovery of the leasing activity in Burkina as many obstacles remain as shown below.

3.1 Legal and fiscal environment of leasing in Burkina Faso

3.1.1 - Inventory of fixtures about leasing regulations

3.1.1.1 - Definition and sphere of leasing

At national level, leasing and its sphere are defined by laws, in particular order 69-46 of 11 September 1969 and decree No. 83-213 of 25 May 1983. Contrary to the French banking regulation, these laws give a broad definition of leasing described as an operation aimed to lease a property, without exclusive, acquired or built by the lessor and authorizing the lessee to acquire it against payment of a price already fixed or than can be fixed. The notion of French leasing only refers to operations concerning property intended for office premises.

The banking law (article 5) lists leasing amongst credit operations, even if it is considered to be a « theoretical financial contribution » through directive No. 94-11 of 16 August 1994 for accounting purposes.

Proposal: on this point and in their concern to make the leasing technique leverage on the development et creation of enterprises, the Authorities could, as it is the case in France, restrict leasing to the acquisition of property intended for office premises only or real property for housing purposes (first accommodation or others) and give it protection and specific tax incentives. It is understood that the leasing technique, in the broader sense, would apply to the acquisition of the other property, with the possibility to re-orientate the area of application of leasing according to economic policy needs. It is doubtless that the justification of specific advantages would therefore be more simplified.

3.1.1.2 -Provisions taken into account

- Order 69-46 of 11 September 1969 setting out the conditions under which leasing companies are authorized to exercise their activity.
Article 1: « Leasing operations listed under this order include operations of rental of real property for office or housing purposes; the rental of tools or capital goods, purchased specifically with a view to such rental by the lessor who remains the owner thereof, if such operations, whatever their denomination, give the lessee the possibility to acquire whole or part of the rented property, upon expiry of the lease, at the latest, against payment of a price agreed upon, taking into account the payments made as rents, at least partly. »

Article 2: « Enterprises usually professing that they practice the operations mentioned under article 1 » are considered to be financial institutions and are subject, as such, to the provisions (laws) regulating the conditions of activity of financial institutions. »


Article 2 « Financial institutions are classified into three groups according to the type of transactions they are authorized to perform.

First group: it includes, among others, institutions usually professing that they perform, on their own behalf, loan transactions, discount operations, repurchase operations, acquisition of credits, of securities, of credit sale or lease financing.

Article 3, paragraph 5 « « the rental of a property acquired or built to this end by the lessor is regarded as a leasing operation, if the contract authorises the lessee to become the owner of the rented property for a price that is already fixed or that can be fixed. »

- BCEAO: directive No. 94-11 of 16 August 1994, regarding the posting of leasing, lease-option agreement and hire-purchase operations

Article One « In terms of social accounting, the banks and financial institutions hereinafter called liable institutions, that perform leasing, lease-option agreement or hire-purchase operations, post to their assets the leased tangible asset owned by them and they depreciate them according to the accounting and tax rules applicable to their statutory income determination, by virtue of the common law. »

Article 2 « Liable institutions should also have financial accounts that analyse leasing, lease-option agreement and hire-purchase operations as a financial assistance extended to their customers. Such theoretical assistance is refunded according to a financial depreciation plan set up at the beginning of the operation and taking into account the conditions of the schedule applied.”

- Law No. 2/96 ADP of 02 May 1996 known as banking law

Article 5: « Operations relating to loans, discounts, repurchases, acquisitions of credits, of securities, lease-option agreements and leasing are regarded as credit operations ».  

- Uniform act relating to the general commercial law:  
  Title III: Registration of securities
Chapter I: Conditions for the registration of securities
Section 7 - Registration of leasing contracts

- Article 61: « In case of conclusion of a leasing contract, the lessor may submit to the Clerk’s Office of the competent jurisdiction where the natural person or legal entity taker of this leasing contract is registered:

  - the original leasing contract, if it is a private deed or the exemplified copy thereof, if the deed is in the form of minutes;
  - a registration form in four copies indicating:
    - the lessee’s surnames, names, corporate name, domicile or head office, as well as his registration number;
    - the nature and date of the deed(s) presented;
    - a description of the property leased so that it can be identified;
    - the amount of sums due on the last day preceding the registration and, if need be, the conditions on which the debt is payable;
    - the election of domicile by the lessor within the jurisdiction where the Trade and Movable Property Register is kept.

Article 62: « After checking the conformity of the form with the deed presented to him, the Clerk’s Office proceeds to the registration of the leasing contract as indicated in article 49 above. The form given to the applicant after registration clearly shows the date of issuance thereof corresponding to the date of registration to the Trade and Movable Property Register. Any contractual or juridical amendment should be the subject of a modifying inscription under the conditions and forms provided for in case of initial registration. »

It turns out that, in practice, leasing companies are obliged to pay to the Clerk’s office registration fees whose amount is calculated on the basis of a proportional rate of 1.50% of the value of the property financed. This amount should be reduced to the flat duty of 4,000 as is the practice for the registration of leasing contracts.

3.1.1.3 - Legal status of leasing companies

It is established by order 60-46 of 11 September 1969 (articles 2 and 3), by decree 83-213 of 25 May 1983 (article 2, paragraph 2) and by the banking law No. 12/96 of 02 May 1996 (article 4).

These are financial institutions governed by banking regulations and enjoying a protection of their field of activity, on a regular basis, in the same way as the surveillance by the monetary authorities. They are subject to PCB, in particular, as far as their bookkeeping is concerned (directive No. 94-11 of 16 August 1994 regarding the posting of leasing, lease-option agreement and hire-purchase operations).

3.1.1.4 - Conclusion and renewal of leasing contracts

The leasing operation which is different from the leasing contract is composed of two contracts: the one relating to the purchase of the property is concluded between the supplier of the property and the leasing company and the other is a rental contract with commitment to sell concluded between the lessor and the lessee.
Since the lessor becomes the owner of the property but is reselling it, tax provisions could be provided for to exempt him, either totally or partially, from the payment of fees for the registration of his right of ownership.

As concerns the leasing contract, it may be registered to the RCCM because of its opposability to third parties, as stipulated under article 61 of the Uniform Act regarding the general commercial law. Such registration will prove to be very important in case of initiation of a collective procedure for the settlement of liabilities.

3.1.2. Tax system applicable to leasing enterprises

It is defined by the provisions of the tax code and of the finance acts for the years 2000 and 2004 as specified above.

3.1.2.1 - Value added tax, VAT

Article 84B: « It is instituted to the benefit of the State budget, a withholding tax on the amounts paid by debtors established in Burkina Faso to individuals residing therein in payment of any kind of services provided or used throughout the national territory. Any kind of services provided or used means any lucrative operation, other than the sale of property or the rental of real property, whose amount is equal to 500,000 Francs, at least». By virtue of the provisions of article 322 listing the persons subject to VAT, in its point 4, leasing enterprises fit within the area of application of the said tax.

The refund of the VAT credit is, on an exceptional basis, authorized for leasing companies, according to the provisions of Article 331A, paragraph 4 revised (Finance act for the implementation of the State Budget for the fiscal year 2004): « No refund is authorized except for export enterprises, enterprises that are no longer liable to VAT and leasing companies. »

Other provisions of article 331B 1. revised of the same law specify the conditions thereof: « Within one month of the monthly declaration showing a refundable credit amounting to two hundred and fifty thousand (250,000) francs, at least, for enterprises that perform their activities through export and for leasing companies. »

Moreover, the provisions of article 331F table I-B paragraph 19 revised exempt from VAT, rents effected by leasing companies.

3.1.2.2 - Registration fees (Registration Code)

The application of a fixed registration fee of 4,000 Francs on leasing contracts is authorized by the provisions of article 248, 14. So, the said contracts are excluded from the area of application of the provisions of article 33 of the Registration Code regarding the proportional duty: “The proportional duty or progressive duty is established for transfers of ownership, usufruct or enjoyment of movable or real property, either inter vivos or on death, sentences to pay sums and values as well as
for the sharing of movable or real property and for contracts. The rate of the proportional duty and of the progressive duty is fixed by articles 257 to 318 of this codification. »

3.1.3 - Collective procedures for the settlement of liabilities

OHADA provides that all creditors are involved in the liquidation procedure. The owner, i.e. the leasing company has a right to claim and a right to refund, but the start of the procedure does not lead to the immediate termination of the contract. The Uniform Act on the organization of collective procedures for the settlement of liabilities compels the leasing company to produce documents, as from the start of a collective procedure, under penalty of foreclosure, and to submit its right of ownership to the receiver for auditing, after it has observed the claim procedure: Articles 78, 79, 84 to 890 and 103.

On this point, the French law that also used to demand the claim by the owner of a property, henceforth exempts the owner of a property « from asserting his right of ownership, if the contract concerning that property has been registered » (article L 621-116 of the Commercial Law quoted by Prof TH Bonneau (page 35, Banking Law 4th edit. Montchrestien).

Proposal: So, it is advisable that it should be officially established that a leasing company that officially registered its right of ownership does not have to prove its right of ownership again by claiming it; it would only have to initiate the procedure of refund provided for under Title II of the Uniform act on the organization of the simplified procedures of recovery and the measures of execution, to recover its property in case of need.

Special observations on the draft reforms of the regulation

1. Reforms that will have an immediate impact on the boosting of the leasing sector as desired mainly concern the taxation system. Following the example of Senegal which is in the same Union as Burkina, it is advisable to suggest a law modifying the Tax Code on all the issues regarding leasing operations, from the purchase of the property to be rented to the sale thereof including its rent.

2. Laws on leasing do not make a distinction between tangible property leasing, intangible property leasing and real property leasing; quite the opposite, they indicate that it can be any leasing since its meaning is very broad. So, it does not seem to be particularly important to make any distinction, but specific provisions may be made for each category.

3. As concerns the provisions of the SYSCOA system that require the lessor to retreat his balance sheet so as to take into account the property under leasing contract, a national law may not depart from it; the ministry in charge should be led to introduce a draft amendment to be addressed to the Organization.
3.2 - Methods of posting

Two conceptions are in direct opposition as concerns the posting of leasing operations.

- The first one favours the legal aspect: the leasing company is the owner of the leased property which is part of its tangible assets; it depreciates it according to the rules in force and collects a rental that remunerates its investment and its risks. This is called social accounting.

- The second one favours the economic aspect: the leasing company grants a credit that is guaranteed by the leased property and the refund thereof is effected through rentals that include, like traditional credits, one share of capital and one share of interests. This is called financial accounting and is more appropriate to give an image faithful to the financial situation of a leasing company, according to the provisions of standard 17 of the International Accounting Standard Committee (IASC).

Indeed, this standard makes a distinction between two categories of contracts: the finance lease which means leasing and the operating lease. This distinction lies on the degree of transfer to the lessee of the risks and advantages inherent in the ownership of a property. The effect of a finance lease contract is to transfer, substantially, to the lessee the advantages and risks inherent in the ownership of a property, whether the ownership is eventually transferred or not. Operating lease contracts concern the other cases.

In Burkina, the regulations in force (directive No. 94-11 of 16 August 1994 regarding the posting of leasing, lease-option agreement and hire-purchase operations) give leasing companies the possibility to keep their books according to the methods of financial accounting but oblige them to keep social accounts.

These two conceptions may be illustrated by the following example. A property acquired 100 is considered, in the first column, as a tangible asset and depreciates over a period of 4 years, in a straight-line manner. In the second case, the credit depreciates after 4 annuities, at the rate of 12%. The variance between the two methods is meaningful and, whether the institution is using either of these methods, it achieves quite different results. if the institution uses the method of outstanding credit accounting system, the tax-free variance shown will constitute a latent reserve.
<table>
<thead>
<tr>
<th>YEAR</th>
<th>ACCOUNTABLE LIABILITIES RATE: 25%</th>
<th>FINANCIAL LIABILITIES RATE: 12%</th>
<th>RENTS RATE: 12%</th>
<th>ACCOUNTING INCOME (RENTS 25)</th>
<th>NON-OPERATING REVENUES AND EXPENSES</th>
<th>ANNUAL LATENT RESERVE</th>
<th>ACCUMULATED LATENT RESERVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>100</td>
<td>100</td>
<td>32.9</td>
<td>7.9</td>
<td>12.0</td>
<td>0</td>
<td>4.1</td>
</tr>
<tr>
<td>1</td>
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<td>32.9</td>
<td>7.9</td>
<td>9.5</td>
<td>1.6</td>
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</tr>
<tr>
<td>2</td>
<td>50</td>
<td>55.7</td>
<td>32.9</td>
<td>7.9</td>
<td>6.6</td>
<td>-1.3</td>
<td>4.4</td>
</tr>
<tr>
<td>3</td>
<td>25</td>
<td>29.5</td>
<td>32.9</td>
<td>7.9</td>
<td>3.5</td>
<td>-4.4</td>
<td>0</td>
</tr>
<tr>
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<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
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<td>131.6</td>
<td>31.6</td>
<td>31.6</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

### 3.2.1 Social accounting

In accordance with the provisions of the above-mentioned directive, in social accounting, liable institutions that perform leasing, lease-option agreement or hire-purchase operations post to their credit the tangible assets rented of which they are owners and depreciate them according to the accounting and tax rules of common law for the determination of their social income.

Since the leasing company remains, by right, the owner of the leased property, it posts it to its balance sheet like any other tangible asset by nature, while taking into account possible incidental expenditures. The depreciation of the leased property should be done in accordance with the provisions of article 4 paragraph 36 revised, of the finance act for the year 2004: “... the depreciation period [...] is supposed to coincide with the term of the leasing contract, whenever the duration of the normal depreciation exceeds the agreed term of the leasing.”

The chart of accounts used is the one of the banking chart of accounts.

### 3.2.2 Financial accounting

Liable institutions should, together with their social accounts, keep financial accounts that analyse the leasing operation as if it was a financial assistance extended to their customers. The refund of this theoretical assistance is effected according to the financial depreciation plan worked out at beginning of the operation, taking into account the conditions of the schedule applied.

#### 3.2.2.1 - Terminology used and method of financial calculation

- Financial depreciation: the share of the rental allocated to the refund of the capital,
- Outstanding debt: the outstanding capital due after the financial depreciation
- Margin: the share of the rental corresponding to the interests on the capital lent

In practice, there are at least two types of financial calculation:
The calculation of IERT (Interest at the End of the Rental Term) for which the first rental is not a financial depreciation, that is to say it is fully allocated to the refund of the capital. In other words, this first rental does not include interests. The interests are calculated at the end of each term on the capital due at the beginning of the term. The second rental includes interests relating to the first period and the financial depreciation of the second period and so on and so forth; In this type of calculation, the residual value includes part of interests.

The calculation of IPA (Interests Collected in Advance) for which the first rental includes interests; in this case, the residual value does not include the financial depreciation.

This last type of calculation is the one used by leasing companies in Burkina.

Example of the two methods of calculation based on the following assumptions:

- Cost of the tangible asset equal to the capital lent: 50,000
- Terms of rent: quarterly,
- Term of contract: 3 years,
- Residual value 6% that is to say 3,000
- Overall effective rate: 15% (periodical rate: 3.75%),

1st method of calculation (ITE): interests payable at the end of the rental term on the capital actually lent.

<table>
<thead>
<tr>
<th>TERM</th>
<th>OUTSTANDING DEBT START OF TERM</th>
<th>RENTALS</th>
<th>MARGINGS</th>
<th>FINANCIAL DEPRECIATIONS</th>
<th>OUTSTANDING AMOUNTS END OF TERM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>50,000</td>
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<td>0</td>
<td>4,865.62</td>
<td>45,134.38</td>
</tr>
<tr>
<td>2</td>
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<td>1,692.54</td>
<td>3,173.08</td>
<td>41,961.30</td>
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<tr>
<td>3</td>
<td>41,961.30</td>
<td>4,865.62</td>
<td>1,573.55</td>
<td>3,292.07</td>
<td>38,669.24</td>
</tr>
<tr>
<td>4</td>
<td>38,669.24</td>
<td>4,865.62</td>
<td>1,450.10</td>
<td>3,415.52</td>
<td>35,253.71</td>
</tr>
<tr>
<td>5</td>
<td>35,253.71</td>
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<td>1,322.01</td>
<td>3,543.60</td>
<td>31,710.11</td>
</tr>
<tr>
<td>6</td>
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<td>1,189.13</td>
<td>3,676.49</td>
<td>28,038.62</td>
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<tr>
<td>7</td>
<td>28,038.62</td>
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<td>1,051.26</td>
<td>3,814.36</td>
<td>24,219.17</td>
</tr>
<tr>
<td>8</td>
<td>24,219.27</td>
<td>4,865.62</td>
<td>908.22</td>
<td>3,957.40</td>
<td>20,219.17</td>
</tr>
<tr>
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<td>20,261.87</td>
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<tr>
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</tr>
<tr>
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<td>446.11</td>
<td>4,419.81</td>
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</tr>
<tr>
<td>12</td>
<td>7,476.81</td>
<td>4,865.62</td>
<td>280.38</td>
<td>4,585.24</td>
<td>7,476.81</td>
</tr>
<tr>
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<td>108.43</td>
<td>2,891.57</td>
<td>2,891.57</td>
</tr>
<tr>
<td>TOTAL</td>
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<td>11,387.41</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In this first case, the first rental payable at the beginning of the first term does not include interests as such interests are only payable at the end of each rental term. The second rental includes the interests on the amount actually lent that is to say:

\[
50,000 \times 4,865.62 = 45,134.38
\]

\[
45,134.38 \times \frac{15}{100} \times \frac{90}{360} = 1,692.54
\]
2\textsuperscript{nd} method of calculation (ICA): interests payable in advance on the capital actually lent.

<table>
<thead>
<tr>
<th>MATURITY DATE</th>
<th>OUTSTANDING DEBT BEGINNING OF TERM</th>
<th>RENTALS</th>
<th>MARGINGS</th>
<th>FINANCIAL DEPRECIATIONS</th>
<th>OUTSTANDING DEBT END OF TERM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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<td>1,692.54</td>
<td>3,173.08</td>
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<td>1,573.55</td>
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<tr>
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<td>43,534.85</td>
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<td>1,450.10</td>
<td>3,415.52</td>
<td>40,119.33</td>
</tr>
<tr>
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<td>1,322.01</td>
<td>3,543.10</td>
<td>36,575.73</td>
</tr>
<tr>
<td>5</td>
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<td>1,189.13</td>
<td>3,676.49</td>
<td>32,899.24</td>
</tr>
<tr>
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<td>1,051.26</td>
<td>3,814.36</td>
<td>29,084.88</td>
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<tr>
<td>7</td>
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<td>908.22</td>
<td>3,957.40</td>
<td>25,127.49</td>
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<tr>
<td>8</td>
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<td>759.82</td>
<td>4,105.80</td>
<td>21,021.69</td>
</tr>
<tr>
<td>9</td>
<td>21,021.69</td>
<td>4,865.62</td>
<td>605.85</td>
<td>4,259.76</td>
<td>16,761.93</td>
</tr>
<tr>
<td>10</td>
<td>16,761.3</td>
<td>4,865.62</td>
<td>446.11</td>
<td>4,419.51</td>
<td>12,342.42</td>
</tr>
<tr>
<td>11</td>
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<td>280.38</td>
<td>4,585.24</td>
<td>7,757.18</td>
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<tr>
<td>12</td>
<td>7,757.18</td>
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<td>108.43</td>
<td>4,757.18</td>
<td>3,000</td>
</tr>
<tr>
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<td>4,865.62</td>
<td>0</td>
<td>3,000</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>61,387.44</td>
<td>11,387.41</td>
<td></td>
<td>50,000</td>
<td></td>
</tr>
</tbody>
</table>

In this second case, the first rental payable in advance includes the quarterly advance payment of interests on the amount actually lent that is to say:

50,000 – 4,865.62 = 45,134.38

On the whole, the use of either method of calculation leads to an equal allocation of the rentals and the residual value, between the margins and the financial depreciations. The calculation of the interests payable in advance anticipates the collection of the margin and delays the depreciation of the outstanding debt; it is more interesting for the lessor.

3.2.2.2 - Latent reserve

In financial accounting, the latent reserve is represented by the difference between the outstanding debt and the net book value of the property rented. At each date agreed on, the latent reserve is analysed as the difference between the amount of outstanding debts, since they result from the financial depreciation plans as defined above and the sum of net book values; this difference could be corrected from the deferred tax due to the shifting from social accounting to financial accounting. In the case when the latent reserve is negative, a provision for risks is set up with due concurrence in social accounting.
+ Gross Fixed Investment
  - Amortizations
  - Provisions for depreciation

= Net Fixed Investment (A)
+ Gross Outstanding debts
  - Provisions for depreciation

= Net outstanding debt (B)

Positive latent reserve = (B) - (A)

Negative latent reserve = (A) - (B)

Given an example with the following hypotheses:

- Cost of the fixed investment equal to the capital lent: 10,500
- Refunding, by capital: 10,500
- Straight-line economic and fiscal depreciation over 12 years
- Term of leasing contract: 10 years
- Rental payable every year at the beginning of the term (Calculation ICA): 1,600
- Annual rate: 11.3803%
- Residual value: 500

<table>
<thead>
<tr>
<th>Payment No.</th>
<th>DATE</th>
<th>RENTALS</th>
<th>Outstanding Debt Before Maturity</th>
<th>MARGIN</th>
<th>Financial depreciation</th>
<th>Outstanding Debt after Maturity</th>
<th>Amortization</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>01.01.97</td>
<td>1,600</td>
<td>10,500</td>
<td>1,013</td>
<td>587</td>
<td>9,913</td>
<td>875</td>
<td>1,750</td>
</tr>
<tr>
<td>2</td>
<td>01.01.98</td>
<td>1,600</td>
<td>9,913</td>
<td>946</td>
<td>654</td>
<td>9,259</td>
<td>875</td>
<td>1,750</td>
</tr>
<tr>
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<td>9,259</td>
<td>872</td>
<td>728</td>
<td>8,530</td>
<td>875</td>
<td>1,750</td>
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<tr>
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<td>3,440</td>
<td>209</td>
<td>1,391</td>
<td>2,049</td>
<td>875</td>
<td>1,750</td>
</tr>
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<td>2,049</td>
<td>51</td>
<td>1,549</td>
<td>500</td>
<td>875</td>
<td>1,750</td>
</tr>
<tr>
<td>11</td>
<td>01.01.07</td>
<td>500</td>
<td>500</td>
<td>0</td>
<td>500</td>
<td>0</td>
<td>875</td>
<td>1,750</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>16,500</td>
<td>6,000</td>
<td>10,500</td>
<td></td>
<td>10,500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In social accounting, the following entries are posted:

**01.01.2004**

Debit No. 4613 Real property leasing: 10,500
Credit No. 114 Banks and correspondents: 10,500
Debit No. 1141 Banks and correspondents: 1,600
Credit No. 704611 Rentals on Leasing: 1,600

**31.12.2004**

Debit No. 604611 Provision to depreciations on leasing: 875
Credit No. 468
Depreciation on leasing operation: 875

In financial accounting, the following entries are posted:

01.01.2004
Debit outstanding leasing debt 10,500
Credit banks and correspondents 10,500
Debit banks and correspondents 1,600
Credit investment income 1,013
Credit outstanding leasing debt 587

At the end of the financial year, admitting that the rate of the profit tax is fixed at 50% (to simplify), the balance and the operating account will show the following, in the case of social accounting, on the one part, and in financial accounting on the other.

<table>
<thead>
<tr>
<th>Balance Sheet Social Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
</tr>
<tr>
<td>Fixed investment free of depreciation</td>
</tr>
<tr>
<td>Tax payable</td>
</tr>
<tr>
<td>After-tax profit</td>
</tr>
<tr>
<td>Capital</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operation Social Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation allowance</td>
</tr>
<tr>
<td>Tax</td>
</tr>
<tr>
<td>After-tax profit</td>
</tr>
<tr>
<td>Rental</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Balance Sheet Financial Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
</tr>
<tr>
<td>Outstanding debts</td>
</tr>
<tr>
<td>After-tax profit</td>
</tr>
<tr>
<td>Latent reserve</td>
</tr>
<tr>
<td>Social profit</td>
</tr>
<tr>
<td>Tax</td>
</tr>
<tr>
<td>Social tax</td>
</tr>
<tr>
<td>Deferred tax</td>
</tr>
<tr>
<td>Capital</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
The latent reserve (288) is made of the difference between the outstanding debt (9,913) and the net book value of the balance (9,625). This reserve is positive since the outstanding debt is higher than the net book value.

In financial accounting, the tax payable and actually paid (362.5) is the same amount as in social accounting. Therefore, the deferred tax represents the difference between the tax actually paid (362.5) and the tax calculated (506.5) on the basis of the profit made (1,013) by the operating financial account. In the financial balance, this deferred tax is deducted from the latent reserve.

On the basis of the same example above, there is a method that makes it possible to shift from social accounting to financial accounting with a view to integrating the same social accounting in the consolidated balance sheet, by virtue of article 6 of the directive on the posting of leasing operations.

To this end, it is proper to balance all the accounts recounting the operation in social accounting, hence the following entries:

| Debit financial debts: | 10,500 |
| Credit No. 4613 real property credit | 10,500 |
| Debit No. 468 depreciation on leasing operation: | 875 |
| Credit No. 604611 depreciation allowance On leasing: | 875 |
| Debit cash flow: | 1,600 |
| Credit investment income: | 1,013 |
| Credit financial debts: | 587 |

The offsetting of accounts « financial debts (total of rentals payable) » and « deferred products » (margin) makes it possible to have the outstanding debt, that is to say the outstanding capital payable. The balance sheets and the operating account are, therefore, in the same form as the one we analysed earlier. Therefore, one may proceed to the consolidation in accordance with the principles laid down under article 6 of the directive on leasing operations. The latent reserve free of deferred tax is notably included in the consolidated reserves.
Finally, it should be underlined that institutions performing leasing operations should send to the Central Bank and to the Banking Commission, as annexure to their accounts, a statement on their outstanding debt.

3.3 - OBSTACLES TO THE DEVELOPMENT OF LEASING IN BURKINA FASO

Within the framework of this study, the poll taken of leasing companies (that are operating or have got permission to operate) showed that the development of leasing in Burkina remains hindered mainly by:

- The result of some inappropriate tax provisions,
- The unavailability of appropriate resources,
- The narrow market,
- Capacities of leasing companies.

3.3.1 Inappropriate taxation system and regulations

In Burkina Faso, some tax provisions put a brake on the rapid development of leasing to the extent that, today, leasing companies are inclined to totally abandon this activity.

3.3.1.1 - 5% withholding tax

Article 17 of the finance act for the year 2000 institutes, with effect from 1st January 2000, a withholding tax on the amounts paid for all kinds of services offered in the fields of real property works and public building and works whose amount is, at least, equal to 500,000 CFAF, inclusive of all taxes. Such withholding tax at the rate of 5% is codified under article 84B of the tax code. The absence of specific provisions that exclude leasing companies from the area of application of this provision led the Burkinabe Tax Department to ask SME that benefit from a leasing contract to withhold 5% from the total amount of the rent, inclusive of all taxes, as advance payment on the BIC tax payable by lessor companies. Naturally, this posed a number of difficulties relating to:

- The foundation of the provision: the leasing operation was purely and simply likened to a mere rental (kind of car rental) without respecting the spirit of the banking law that established leasing Companies. Leasing is a banking activity that may be exercised subject to an approval given by the Central Bank, unlike the rental activity which comes within the remit of the common law. Hence the need for the Tax Administration to give a new description to leasing as a banking product and, therefore, subject it to the same tax provisions applicable to the other banking products.

- The enforcement of this provision made inoperative in view of the method of collection of leasing rentals. Indeed, the payment of leasing rentals is effected either through standing transfer orders or through pre-established promissory notes signed by the customer and deposited with the paying bank. Therefore, it is difficult to effect the 5% withholding tax. The customer’s account is directly debited by his bank. Envisaging another means of payment of rentals that is
different from the above-mentioned one exposes leasing companies to the risk connected with the inability to have a material evidence of non-payment of one or more rentals due, in case of default.

- The method of calculation of the 5% withholding which is assessed on the basis of the rental, inclusive of all taxes, results in the payment of an advance duty from a tax, that is VAT.

- The fact that the payment of a 5% advance on BIC on a rental, inclusive of all taxes, would correspond to an advance on the gross interest income of about 40% (taking into account a rate of financing of 15% per year) against 35% for the BIC rate applicable to leasing companies.

More than a 5% advance on the BIC, it is a matter of paying, through this practice, more than the full amount of this tax whenever a rental is invoiced and paid. This will result in a tax credit at the end of the fiscal year, without counting the negative implications on the cash flow of leasing companies this will give rise to.

Considering the average level of the cost of medium-term resources made available to leasing companies (9%), on the one hand and the level of the rates of the market offer (14%), on the other hand, institutions performing leasing operations have limited room for manoeuvre.

Proposal: This provision to withhold 5% is the main cause that led some institutions to refrain from performing leasing operations and others to strongly restrict them. Leasing operations should be excluded from the area of application of this provision.

3.3.1.2 - Limitation of the provisions of the finance act for the year 2004

By taking tax measures to promote the development of leasing in Burkina Faso, the finance act for the year 2004 limited the area of application to property leasing operations only. It ruled out real property leasing operations concerning the sector of office premises, warehouses, workshops...etc from the area of application of the provisions of the above-mentioned law.

3.3.1.3 - Provisions of SYSCOA system

The above-mentioned provision raises the issue of the ownership of the leased property. According to this provision which gives precedence to economic reality, when a property financed through leasing has a value higher than 5% of the total value of fixed investment on the balance sheet of the enterprise that benefits from the leasing, the latter is obliged to retreat the leasing operation as a bank loan and to post the said property to its balance sheet and, therefore, as part of its assets. This provision is not only in contradiction with the provisions of banking regulation that stipulate that the property remains the ownership of the lessor company who posts it as an asset and ascertains the depreciation normally, but it is also contrary to the basic principle of leasing: the property is and remains the ownership of the leasing company until the end of the irrevocable contract when it may be sold.
Because of this provision, financial institutions performing leasing operations fear the risk that the ownership of the property financed through leasing be challenged and that they would not have any means to exert pressure on a customer of bad faith to receive the payment of rentals payable; it needs to be revised.

### 3.3.2 Narrow market

Banking is seriously challenging the leasing market, which makes the task of leasing companies difficult. Besides, the leasing market is narrow because of the low demand for investment. In addition to that, the second-hand market is not strong. These are as many obstacles to be taken into account for any policy aimed to the development of leasing.

### 3.3.4 Difficulties connected with Funding

Lease financing requires medium and long-term resources. The difficulties met by leasing companies in the country relate to their capacity to mobilize appropriate resources (in terms of duration) that are not costly and for a volume that is in phase with the development of their activity. The traditional sources of mobilization commonly used remain the channel of local banks for almost all the financial institutions (that finance SME’s investment needs), except for one or two of them that also mobilize resources in the sub-region (WADB) and in Europe (BEI and of private banks and European development institutions).

According to the structure of local bank resources (mainly 77% short-term resources), the access to the medium-term credit lines remains very limited and the banks are practising high rate conditions. The possibility to mobilize resources on the financial market remains a solution but such resources remain either inappropriate or inaccessible. They are inappropriate owing to the fact that, if the institution does not have in its pipeline projects that allow it to use, within a reasonable period, the resources it mobilises on the market, there is a risk that they erode its margins. As a result, the institution will find itself with very expensive resources. The solution of the financial market is inaccessible owing to the absence of support or security mechanisms for some institutions that do not fulfil the conditions although they need resources.
CHAPTER VI: POTENTIAL OF LEASING
IN BURKINA AND CONDITIONS FOR ITS DEVELOPMENT

The Burkinabe economy has a number of assets to develop business. But an effective exploitation of these assets through the main actors of its economy, namely SME can be achieved through a strategy of strengthening productive capacities. Leasing as a tool for the development of investment may be a response. After a difficult start, the financial technique suitable to the financing of the productive equipment of SME with a particular typology, like the ones in Burkina, has had a positive impact, despite some constraints. In this country, the demand for leasing is estimated at about 10,460 billion per year.

But, considering a number of constraints relating to the tax provisions in force, the availability of resources and the capacities of existing leasing companies, the penetration rate of this market still needs to be increased. Hence the need for public authorities, leasing companies, SMI and institutions financing or supporting SME’s capacity building to devote themselves, as far as each of them is concerned, to adopting measures aimed to promote leasing in Burkina.

4.1 GROWTH SECTORS

In general, Burkinabe SME are operating in the sectors of transport, industry, public building and works, mining and liberal professions. The present situation in these various sectors is described as follows:

4.1.1 Transport sectors

The inter-city transport of persons, which is very profitable, remarkably developed over the last ten years, supported by the creation of several travel companies. On the other hand, the transport of hydrocarbons, formerly profitable, has started experiencing difficulties for several reasons connected with the plethora of second-hand tanker lorries, the safety standards more and more imposed by oil companies, which resulted in high maintenance costs; the freeze on the price of transport for over five years, while the price of petrol has been increasing steadily and, finally, the competition of the rail transport. As concerns the urban transport of persons by taxi and the transport of various goods, the activity is mostly informal.

So, this sector is subdivided into:

- The transport of persons: (bus, taxis, vehicles for rent and private cars...). The main SME operating in this sector are: STMB, SOTRAO, SOGEBAF, TRANSPORT RAYI’S, BOURO et Frères, STPW, STAF, STGF, SOTRAKOF, TCV, RAKIETTA, STK’, SOTRAKO. According to number of passengers transported, the market leaders include STMB, SOGEBAF, TCV and TSR.
The transport of goods: (hydrocarbons, commodities); the activity of this sub-sector remained mostly informal and the main SME operating are: STMB, les Rapides, SOBA, BURKINA TRANSPORT, IMEXTRA, SOTRANS. The first three enterprises are the market leaders, according to the tonnage transported.

Because of the country’s geographic situation (hinterland country), it is necessary to use this means of transport to ensure the regular supply of goods and other products. The country’s car fleet was comprised of 100,074 vehicles in 2002, against 87,730 vehicles the previous year.

Table No. IX: Car fleet per province and per type according to the years

<table>
<thead>
<tr>
<th>Lorries</th>
<th>5 517 1 190 172 217 8 697</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Transport</td>
<td>2 291 694 63 119 4 506</td>
</tr>
<tr>
<td>Road Tractors</td>
<td>3 047 841 64 41 4 521</td>
</tr>
<tr>
<td>Trailers</td>
<td>29 146 1 2 180</td>
</tr>
<tr>
<td>Articulated lorries</td>
<td>2 864 754 53 41 4 193</td>
</tr>
<tr>
<td>Special Vehicles</td>
<td>218 25 1 2 306</td>
</tr>
<tr>
<td>Others</td>
<td>141 51 - - 411</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>72 696 13 953 1 086 1 383 100 074</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Private cars</th>
<th>42 053 7 454 405 586</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pick-ups</td>
<td>8 445 2 425 291 356</td>
</tr>
<tr>
<td>Lorries</td>
<td>4 706 1 133 159 212</td>
</tr>
<tr>
<td>Public transports</td>
<td>1 997 657 63 117</td>
</tr>
<tr>
<td>Road tractors</td>
<td>2 543 814 61 40</td>
</tr>
<tr>
<td>Trailers</td>
<td>27 146 - 2</td>
</tr>
<tr>
<td>Articulated lorries</td>
<td>2 364 719 51 39</td>
</tr>
<tr>
<td>Special vehicles</td>
<td>200 23 1 2</td>
</tr>
<tr>
<td>Others</td>
<td>124 51 - -</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>62 459 13 422 1 031 1 354</strong></td>
</tr>
</tbody>
</table>

Source: Directorate General of Transport

On average, between 1999 and 2003, 11,857 new registrations of transport vehicles were recorded every year: 62.5% were private cars; 21% pick-ups and lorries; 4% public transports.
The transport equipment remains the main support to leasing. It represents between 40 and 57% of leasing companies' portfolio. But 65% of applications received by Burkina Bail in 2004 concerned transport equipment.

According to the statistics given by Burkina Bail, the leasing market in the field of transport is assessed at 205 new registrations every year for a value estimated at 5,180 million.

Table No. XI Evaluation of the demand for leasing in the transport sector

<table>
<thead>
<tr>
<th>Type</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private cars</td>
<td>12 680</td>
<td>5 764</td>
<td>5 597</td>
<td>7 656</td>
<td>5 395</td>
<td>7 418</td>
</tr>
<tr>
<td>Pick-ups</td>
<td>3 214</td>
<td>1 033</td>
<td>987</td>
<td>1 437</td>
<td>757</td>
<td>1 486</td>
</tr>
<tr>
<td>Lorries</td>
<td>1 960</td>
<td>724</td>
<td>661</td>
<td>1 045</td>
<td>785</td>
<td>1 035</td>
</tr>
<tr>
<td>Public transport</td>
<td>1 043</td>
<td>380</td>
<td>300</td>
<td>408</td>
<td>166</td>
<td>459</td>
</tr>
<tr>
<td>Road tractors</td>
<td>1 158</td>
<td>447</td>
<td>281</td>
<td>574</td>
<td>1 141</td>
<td>720</td>
</tr>
<tr>
<td>Trailers</td>
<td>22</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>19</td>
<td>9</td>
</tr>
<tr>
<td>Articulated lorries</td>
<td>1 073</td>
<td>417</td>
<td>270</td>
<td>579</td>
<td>869</td>
<td>642</td>
</tr>
<tr>
<td>Total motor cars</td>
<td>21 247</td>
<td>8 804</td>
<td>8 356</td>
<td>11 744</td>
<td>9 132</td>
<td>11 857</td>
</tr>
<tr>
<td>Total motorcycles (capacity &gt;=50 cc)</td>
<td>7 712</td>
<td>10 309</td>
<td>18 470</td>
<td>26 033</td>
<td>15 631</td>
<td></td>
</tr>
</tbody>
</table>

Source: Directorate of land and maritime transport

The development of the industry sector is hindered by a quite high level of the cost of factors of production (electricity, transport,...). However, this sector seems to be going through a new process with the establishment of new production units. Indeed, since the reform of the private sector undertaken by the public authorities in 1993, through a more attractive investment code, to be specific, several SMI have been created in the fields of bicycles, soft drinks, building materials (structural steel) thus giving the leasing activity a more significant development potential.

According to our study, the needs in this sector concerned 35 projects, on average, over the last three years. The cost per project varied between 20 and 375 million CFAF while the average cost worked out at 78 million. So, the demand of the industry sectors likely to be eligible to lease financing is estimated at 2,730 million.
4.1.3 Public buildings and works sector

This sector is quite active with the regular creation of new enterprises or the establishment of foreign enterprises. This is mainly explained by the existence of an important potential of activities in the field of construction or rehabilitation of roads. From 2001 to 2004, this potential had been estimated at 921 kms for the roads to be asphalted; 385 kms for the restoration of asphalted roads and 952 kms for the periodical maintenance of asphalted roads. Then, a multitude of development projects are being carried out in the communities and many buildings and urban infrastructures are regularly achieved in the main cities of Ouagadougou and Bobo-Dioulasso.

But, because of the difficulties connected with uncontrollable terms of payment, on the one hand, and, uncertainty about SME’s capacity to regularly fill their order books, on the other hand, the institutions are now very cautious with this sector. Despite the very important level of demands for investment, the share of investment made through remains very marginal. According to the declarations made by managers of leasing companies, it appears that the prudence being observed is going to continue and, therefore, the leasing potential in this sector will vary between 300 and 800 million every year and would only concern small equipment in the public buildings and works sector such as compressors, compactors, vibrators and building site vehicles.

4.1.4 ICT sector

It is a growing sector in Burkina. It concerns telecommunication equipment, computer and office equipment. There are growing demands in this sector reaching proportions of 500 million per year.

4.1.5 Mining sector

Since the drop in the price of gold in 1998, this sector has fallen in a state of lethargy. Some potentials have been discovered but, as long as the price of gold does not go beyond USD 350/ounce, it is unlikely that big mines will be opened and exploited. At present, hopes are turned towards small scale mining. The follow-up costs that may entail the financing of small scale mining equipment is deterring leasing companies from intervening in this sector. But new opportunities are expected in the years to come with financing needs for heavy vehicles used in quarries.

4.1.6 Real property sector

Real property leasing is non-existent in Burkina. No company is practising it for the simple reason that the taxation system relating to the transfer of ownership of real property is quite deterring.
Besides, the finance act for 2004, which brought about some changes to the taxation system applicable to leasing, totally ignored real property leasing. Consequently, we did not include in the assessment of the demand for leasing in Burkina, the yearly assessments of 500 to 1000 made for this sector which is developing considerably.

On the basis of a sectoral approach, we note that the yearly demand for leasing in Burkina may reach a level of 9,210 million.

4.2. TARGET SME

According to information received during the study, 96% of leasing companies’ customers are SME/SMI. They include legally registered private enterprises (registered to the trade and movable property credit register) and recognized by the Tax Department regardless of:

Their legal form: Limited Liability Company, Limited Company, SNC, individual firm
Their status: SME/SMI, organized artisans, traders, liberal professions, major enterprises, public enterprises

In terms of number of enterprises eligible, the statistics stemming from the study by INSD (National Institute of Statistics and Demography) show that the number of SME eligible to leasing may be estimated at 1,400. According to data collected by the Chamber of Commerce in December 2004, this figure may be estimated at 1,200.

On the basis of the discussions with managers of leasing companies, it appears that every year, the number of SME that may be eligible to apply for lease financing varies between 250 and 300. And it was established that 85% of these enterprises had settled in the 4 main cities of the country, namely Ouagadougou (155), Bobo-Dioulasso (82), Banfora (15) and Koudougou (12). It was also noted that, in Burkina, the average level of applications for leasing for investment purposes, varied between 45 an 60 million in 2002 and 2003, according to the signatures received.

Considering the lower bracket of 250 SME per year and the one of an average investment of 45 million, the demand for productive equipment for Burkina SME made by leasing companies is estimated at 11,25 million. It should be noted that this assessment seems to correspond to the projections of the leasing market made by the Burkina Bail as shown in paragraph 3.3.2 below.

4.3. ASSESSMENT OF DEMAND FOR LEASING

4.3.1. - According to private criterion of FBCF

According to the statistics of the IAP (Automated Forecasting Institution) of the Ministry of Finance and Budget, the average growth rate of the private FBCF is estimated at 9.62% between 2000 and 2004 (provisional data).
Table No. XII Evolution of the Gross Fixed Capital Formation

*Data in billions of CFA F*

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>∆2000 to 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>FBCF</td>
<td>276</td>
<td>304</td>
<td>299</td>
<td>290</td>
<td>363</td>
<td></td>
</tr>
<tr>
<td>%</td>
<td>-0.5</td>
<td>10.2</td>
<td>-1.7</td>
<td>-3</td>
<td>25</td>
<td>6%</td>
</tr>
<tr>
<td>Including private FBCF</td>
<td>111</td>
<td>115</td>
<td>125</td>
<td>134</td>
<td>167</td>
<td></td>
</tr>
<tr>
<td>∆ %</td>
<td>4.1</td>
<td>4</td>
<td>8.7</td>
<td>7.3</td>
<td>24</td>
<td>9.62</td>
</tr>
</tbody>
</table>

Source: IAP

Besides, considering the table of the evolution of outstanding credits below, we note that the level of outstanding medium and long-term credits recorded between 2000 and 2003; a steady growth at an average rate of 17% and the share of leasing stood at about 3% of the outstanding long and medium-term credits. This confirms the low level of growth of the levels of production of new leasing contracts. However, the evolution of outstanding medium and long-term credits fits within the same process as the one of the private FBCF.

Thanks to a study that was conducted by a local leasing company in 1998 and was updated in 2000, it was possible to assess at 5% of the FBCF the share of investment that can be financed through leasing in Burkina Faso, that is to say 6 billion, and concerning:

- Industrial equipment 12%
- Public building and works sector 10%
- Transport equipment 60%
- Other equipment 18%

100%

On this basis, and considering IAP data shown above, the leasing market may be evaluated as follows:

Table No. XIII Evolution of the potential demand for leasing according to the FBCF method

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand for leasing</td>
<td>5 550</td>
<td>5 750</td>
<td>6 250</td>
<td>6 700</td>
<td>8 350</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Industrial equipment</td>
<td>12%</td>
<td>666</td>
<td>690</td>
<td>750</td>
<td>804</td>
</tr>
<tr>
<td>- Public buildings and Works</td>
<td>10%</td>
<td>555</td>
<td>575</td>
<td>625</td>
<td>670</td>
</tr>
<tr>
<td>- Transport equipment</td>
<td>60%</td>
<td>3 330</td>
<td>3 450</td>
<td>3 750</td>
<td>4 020</td>
</tr>
<tr>
<td>- Computer office automation</td>
<td>18%</td>
<td>999</td>
<td>1 035</td>
<td>1 125</td>
<td>1 206</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>5 550</td>
<td>5 750</td>
<td>6 250</td>
<td>6 700</td>
</tr>
</tbody>
</table>

Thanks to the analysis below, we can compare the results of this method with the demands actually expressed by the SME from 2000 to 2004.

4.3.2 By cross-checking existing statistics

In order to verify the hypotheses of the method of evaluation of the leasing market by FBCF in Burkina, the results achieved could be confronted with the statistics of leasing companies.
This comparison clearly shows that the level of the potential demand for leasing estimated according to the FBCF method is lower than the level of demands expressed between 2000 and 2004. This real fact shows that there is a potential for the leasing market that may be developed further, provided that incentive measures, mainly fiscal, are taken to this end.

Besides, we can see that, if we compare the demands expressed with the approvals (financing agreements), the average rate of applications rejected by Burkina Bail was 52%, between 2000 and 2005, while the national average would be 67% in 2000, according to a study conducted by ADOP (a Danish Programme of Direct Support to Private Operators).

In short, for this part and on the basis of the above hypotheses, it appears that the total market of Burkinabe SME in the field of leasing is estimated at average 10,460 million per year. On this basis, about 5,000 million (50%) concern transport equipment; 2,100 million (20%) industrial equipment; 1,500 million (14%) ICT equipment.

### Table No. XIV Evolution of compared analysis of the potential demand of leasing

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>Moyenne</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand expressed (A)</td>
<td>3 800</td>
<td>8 495</td>
<td>7 481</td>
<td>9 560</td>
<td>9 007</td>
<td></td>
</tr>
<tr>
<td>Estimated demand (B)</td>
<td>5 550</td>
<td>5 750</td>
<td>6 250</td>
<td>6 700</td>
<td>8 350</td>
<td></td>
</tr>
<tr>
<td>Burkina Bail's evaluation (C)</td>
<td>7 486</td>
<td>8 384</td>
<td>9 390</td>
<td>10 517</td>
<td>11 779</td>
<td></td>
</tr>
<tr>
<td>Gap (B-A)</td>
<td>1 750</td>
<td>-2 745</td>
<td>-1 231</td>
<td>-2 860</td>
<td>-657</td>
<td></td>
</tr>
</tbody>
</table>

Source: Leasing companies

### Table No. XV Demands for leasing expressed and acceptance rate

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>Moyenne</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demands expressed</td>
<td>3</td>
<td>6 495</td>
<td>5 480</td>
<td>9 007</td>
<td>9 237</td>
<td>6 044</td>
</tr>
<tr>
<td>Approvals</td>
<td>1 139</td>
<td>2 224</td>
<td>2 120</td>
<td>5 412</td>
<td>4 706</td>
<td>3 120</td>
</tr>
<tr>
<td>Acceptance rate</td>
<td>43%</td>
<td>34%</td>
<td>39%</td>
<td>60%</td>
<td>51%</td>
<td>52%</td>
</tr>
</tbody>
</table>

Subsequent rate of rejection | 56% | 66% | 61% | 40% | 49% | 52%

Source: Burkina Bail

4.1-3 Penetration rate and projected demand

On the basis of the hypothesis of 10,460 million as SME’s investment needs per year, and taking into account the current penetration rate revised of 28% (to take into account the investment made on the basis of traditional financing), we established the following statistics on the evolution of the leasing market. We considered that the demand for investment, for the next five years, would increase in the same proportion as the level of the FBCF, which is to say at the rate of 6% per year. Besides, the market penetration rate could reach 45% in three years with the removal of all the obstacles hindering the development of leasing at present.

Table No. XVI Evolution of the projected leasing market in Burkina
This table shows that, by 2008, about 24,500 million CFAF may be invested in the strengthening of SME’s productive capacities thanks to the development of leasing in Burkina.

These results may only be reached if arrangements are made to remove some obstacles to the development of the leasing activity in Burkina.

4.4 LEASING: DEVELOPMENT CONDITIONS AND IMPACT ON SME

4.4.1 Conditions to promote leasing

The stake of the development of SME, in terms of growth and employment, justifies a special focus on the specific conditions for the promotion of leasing, which is a tool for the strengthening of their productive and competitive capacities. The success of such task mainly requires a mobilisation of all the actors concerned: leasing companies, SME, public authorities and institutions in support to SME’s capacity building.

To perform, leasing companies in Burkina need four things:

- A favourable change in the legislation,
- Availability of reliable financing,
- Quality services provided with professionalism and a good risk-taking policy combined with a good portfolio management,
- A macroeconomic environment favourable to investment in industry and in service sectors.

4.4.1.1 For lessor companies

It is well known that the success of leasing companies lies on the mastery of the following comparative advantages:
- Rapid processing: the average time to process a demand for leasing is 2 weeks compared to 4 to 8 weeks for banks,
- An aggressive marketing approach based on the « one to one » strategy makes it possible to better target the customers and control costs,
- Financing for Small tickets where factors others than cost are important,
- The proximity relations with the customers who facilitate the communication and make it possible to reduce the risks or consequences of the asymmetry of information.

Hence the need for these companies to promote teams of professionals.

a - Managerial capacities and professionalism

By experience, leasing companies that « perform » are the ones whose management model makes it possible:

- To ensure a management system based on the criteria of good enterprise governance and the keeping of quality relations with all the partners,
- To ensure quality services to the customers,
- To ensure an upgrading of the competences of human resources with the aim to ensure to the customers, quality services marked with professionalism. The officers in charge of the professional customers or the enterprise are often reproached for their exclusively commercial approach justified by the situation of the credit market. The enterprise managers interviewed wished to have a better quality of services in their relations with their bank interlocutor. There is often a lack of regular relations between chargés d’affaires and managers of SME; such regularity would yet be favourable, first to the good knowledge of the enterprise - it is doubtless that it is more difficult to apprehend in case of a big enterprise - then to the prevention of such conflicts. There is a need to upgrade the commercial competence of managers of leasing companies;

b - Developing risk analysis competences

As they are operating in a sector that has more important risks than the one of SME, leasing companies should strengthen their competences in the field of risk analysis. A good knowledge of SME’s environment and of the techniques for the evaluation of risks becomes a decisive factor for the success of a leasing company. The approach of the analysis by cash flows should be combined with a good faculty of analysis of the sectors of the economy, of the material risks. Moreover, a capacity to anticipate should be developed. Most financial institutions have training needs in this field. A strengthening such competence will help the said companies:

1. to perform a good weighting of their risks per sector per type of equipment and per signature;
2. to look for maximum objectivity decision-making in financing;
3. to secure further the risks they have taken by investing in SME with strong growth potential.

\[c\] - Diversification of products

Leasing companies should necessarily try to adapt their offer of investment products to SME’s requirements. Some initiatives have been taken but they should be strengthened to cover the various forms of leasing, namely secured leasing and long term lease. The extension of the area to small equipment should also be a solution for a better satisfaction of SME’s investment needs.

\[d\] - Observance of financial orthodoxy rules (ALM)

In order to better secure their financial balance, which a basic asset to look for lines of refinancing, leasing companies should always see to it that their employments are financed by resources of the same term. Besides, the managers of leasing companies should see to it that their institutions do not run important risk connected with exchange rates or variable rates. A good management of risks combined with the client assets and the commitments by lending institutions is strongly recommended. In short, these companies should be trained to define and establish a good system "Assets Liabilities Management."

\[e\] - Respect for commitments

The success of leasing companies is a good keeping of their commitments towards partners.

\[f\] - Market knowledge

4.4.1.2 For SME

How can Burkinabe SME take advantage of leasing?

On the basis of the typology of Burkinabe SME as shown above, a good use of this method of financing requires that:

- At the level of the structure: SME managers should revise their system of organisation so as to take into account the constraints connected with the exercise of good enterprise governance, thus ensuring a transparency and a visibility. The method of family management characterizing the large majority of SME should be replaced by a method of management suitable to the context of the enterprise. They should use the competences required in all the functions of the enterprise.

  - Strengthening the readability and visibility
  - Cultivating professionalism (culture of quality)
- Setting up competence upgrading programmes

4.4.1.3 For the Authorities

a - Incentive juridical and legal frameworks

According to the experience acquired, leasing cannot develop without a favourable environmental regulation. Leasing companies need, at least, a regulatory, legal and fiscal environment that ensures an equitable treatment comparatively to other sources of capital financing. It is important to have clear, simple and effective legal procedures to claim the property, in case of breach of leasing terms.

b - Incentive measures for SME's capacity building

In Burkina, there are too many structures in support to SME including the Maison de l’Entreprise which was set up in 2004. However, the actions of these structures deserve to be coordinated with a view to setting up a real programme for the upgrading of Burkinabe SME. Such upgrading programme should be combined with investment incentives. Competence building activities should be better organized and should be entrusted to offices that have the required expertise.

c - Supportive financial tools, guarantee fund

4.4.1.4 Lending institutions

a - Favourable conditions of lines

b - Capacity building for leasing companies

Training Partnership

4.4.2 Impact of leasing on SME management

4.4.2.1 Factor of productivity improvement

Investment incentives depend on economic considerations based on profitability; the balance of the short-term management depends on the maintenance of an adequate liquidity rate. The problem being faced by Burkinabe SME resides in the permanent confrontation between the imperatives of the increase of the production potential and the preservation of a cash balance. If the liquidity takes precedence over the application of long-term capital, one should renounce any growth policy. Hence the fundamental role that should be played by leasing companies by providing the lessee with capital on credit. A priori, this role seems to be basically financial but indeed it has some economic effect.
Three cases can be envisaged to illustrate this statement:

1. A recently created SME has a very low capital to establish a development plan by stages: if a leasing company has confidence in the competence of its managers, the stage of the shift from small to medium enterprise may be achieved thanks to the assistance received. In such case, the role of leasing appears to be the one of venture capital companies in the United States, without the intervention of the capitalistic type, since the financial service is often combined with a management consulting service which makes it possible to ensure the implementation of a development plan without cash flow « fits and starts »

2. A medium size SME wants to preserve its financing capacities for applications it deems to be a priority: launch of a new product, diversification, takeover of one competitor, extension of the commercial establishment; it can use leasing to carry through its plan to invest in new equipment and in management equipment, together with its projects. Its productivity should not suffer from the turn it resolved to take: the use of leasing may allow it to do so.

3. In a major enterprise, the financial Management is concerned about avoiding a drift in its investment and financing plan because it ensures the firm’s future financial balance. Whereas, it is easy to make an inventory of basic needs, it is difficult to forecast everything, in particular, the equipment whose urgency would be revealed during the implementation of the plan.

Therefore, leasing appears to be a means to achieve some complementary investment that is marginal compared to the whole plan but whose amount may not be negligible.

Besides, leasing tends to institutionalise itself even for first ranking enterprises: the speeding up of the pace of growth is such that, in some cases, heavy investment are difficult to make if we consider the need to observe the ratios and traditional rules of balance sheet equilibrium that are strictly observed in case of traditional credits. That is why major enterprises with a rapid growth are used to reserving one part of their investment plan to lease financing.

4.4.2.2 Mainspring of innovation

Leasing procures a real assurance against obsolescence; One of the main assessments made by the potential user of certain equipment concerns the useful life (economic) or technical of the equipment? For how long will it be more advantageous to continue to use the same equipment than to replace or abandon it? The recourse to leasing allows enterprises to increase their number of equipment and thus accelerate its renewal.

The entrepreneur will be all the less tempted to keep a technically obsolescent equipment as he can use a recent model without self-financing effort. This does not mean, for all that, that he does not assume the risk of obsolescence on the new equipment.
4.4.2.3 *Element of simplification of SME management*

Leasing procures an administrative service since a number of services that the enterprise should have personally assumed in the case of traditional credits, are included in the rent.

Indeed, the complexity and number of documents required to be granted a rediscordable credit are likely to postpone the date when the decision to invest is taken. At a time when any delay may have huge consequence compared to the lead taken by a new competitor, the rapidity to establish a leasing contract raises the value of the crucial element that is the « time » factor in the life of the enterprise. The average reaction time of leasing companies in Burkina is two weeks against four for banks (according to a poll).

It should be added that the rental immediately gives, not taking into account staff costs, the cost price of an equipment and determines, as from the beginning of the operation, the cost per period of investment compared to the profitability that may be expected. Besides, the cost of leasing includes a number of administrative and financial costs such as:

- Costs for the preparation of the credit application file,
- Financial costs such as commitment commission, debtors’ interests,
- Registration fees in case of establishment of guarantees,
- Bookkeeping expenses for the calculation of depreciations.

It ensue that the comparison of the cost of the leasing compared to the one of other credit is modified. If the systematic use of leasing may increase the financial charge inherent in investment, it does not diminish, at least, the administrative charges of the preparation of the financing and the accounts management.

4.4.2.4 *Instruments for the promotion of sales of capital goods*

Besides its financial role, leasing procures an economic service, it bring a certain « fluidity » in the relations between the various economic agents: suppliers of equipment and user customers. It may replace the supplier credit and thus be an effective instrument for the promotion of sales.

In fact, as concerns the assistance it extends to suppliers, leasing assumes a double function: a mainly economic support that assures the bridge of the supplier credit and, a purely commercial support that allows to give a network of sellers, a means to extend the dissemination of a product.

Besides, this form of cooperation is developing in Burkina with leasing companies. Burkina Bail has just developed a partnership with an SME MEGAMONDE. Auto for the credit sale of small cars called TENGA. Another partnership was developed by Financière du Burkina, FIB, with the same SME to market sell motorcycles on credit. The other leasing company, SOBFI whose pool includes FAO, is developing a vendor programme with the said company on vehicles, household appliances, computers...
CONCLUSION

Leasing is playing an important role in the behaviour of investors. The four most important factors that may influence the future development of leasing in Burkina Faso may be summarized as follows:

- The country’s economic growth and, correlativey, the development of the volume of investment;
- The nature of the investment and the sectors concerned to know if they are eligible to leasing;
- The legislation on leasing including the protection of the right of ownership; legal security ;
- Lessors’ know-how (product policy and marketing) specialists in financial engineering of lease;
- At mesoeconomic level, structure in support to SME capacity building (organisational, human competences and know-how) and to leasing companies (credit lines at good rates).

Why is leasing so successful?

Leasing is, par excellence, the method of financing that is both modern and well suited to the financing of SME’s investment needs.

SME appreciate this method of financing:

- A quick response time;
- 100% financing;
- ownership is sufficient for the lessor who, therefore, does not ask for additional guarantees, in general;
- equity capital savings;
- the fact that rents are likened to charges;
- the ultimate purchase option, provided for originally;
- the free choice of one’s banker;
- the possibility to combine services (insurance, maintenance, assistance, detailed reporting thanks to the new technologies...)

For manufacturers and suppliers of equipment who are also « partner customers »:
- the cash payment, on delivery of the equipment by the lessor: no supplier credit;
- the integration of the financial product in the sale;
- the development of customer loyalty: qualified marketing file;

And, lastly, the satisfaction of the financial institution thanks to:

- the security provided by the ownership of the property
- the profitability: it rents its balance sheet and charges the cost thereof -even though it is sometimes difficult ! in addition to the one of financing and, possibly, the ones of the connected services.
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