EASE FINANCING AND PERFORMANCE OF BANKS IN RWANDA: A CASE OF RWANDA DEVELOPMENT BANK, IN RWANDA (2007-2010)

BY

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DECLARATION

I, **Nshimyiman Jean Baptiste,** do hereby declare that "The lease financing and performance of banks in Rwanda 2007-2010" is entirely my own original work, and that it has not been submitted before to any other University or institution of higher learning for the award of a degree.

SIGNATURE:...

DATE:........20/09/2011..

APPROVAL

This dissertation has been submitted for examination with my approval as the candidate' university supervisor for the award of a Master in Business Administration, specialization in Banking and Finance.

Mr Michael Manyange.

SIGNATURE ....

DATE ....20/09/2011..

DEDICATION

I dedicate this study to God and my parents who supported me to live on this world where i was encouraged to pursue this course. This work is at the same time dedicated to my wife, children, brothers and sisters and classmates of Kampala International University at Kabale Study Centre.

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LIST OF ACRONYMS

A/R: Account Receivables
BANCOR: Banque pour la Confiance d'Or
BBA: Bachelor in Business Administration
BC: Before Christ
BCR: Commercial Bank of Rwanda
BNR: National Bank of Rwanda
BRD: Banque Rwandaise de Developement
CEDP: Competitiveness and Enterprise Development Project
COGEBANQUE: Compagnie Générale des Banques
COMESA: Common Market for Eastern and Southern Africa
FOREX: Foreign Exchange
IFC: International Financial Corporation
KIU: Kampala International University MBA
MBA: Master of Business Administration
Mr: Mister
RDB: Rwanda Development Bank
RML: Rwanda Microfinance Limited
ROA: Return on Asset
RRA: Rwanda Revenue Authority
RWF: Rwandan Francs
US: United States
USA: United States of America
USD: Unit States Dollar/ U.S: Unit States
VAT: Value Added Tax
KCB: Kenya Commercial Banque
BPR: Banque Populaire du Rwanda

SORAS: Societe Rwandaise d'Assurance

MINECOFIN: Ministry of Finance and Economic Planning

ABSTRACT

The research entitled "Lease financing and performance of banks in Rwanda" with case study of RDB located in Kigali. The main problems caused by leasing are increase of non performing laons and bad debts due to no payment or delayed payment of rentals and tax burden. Leasing is specialized business which requires qualified and experienced people. Persons constituting its top management should have expertise in accounting, finance, legal and decision areas. The objectives of the study were to identify lease financing facilities, to analyse the contribution of lease and to find out the gaps hindering the banks leasing objectives.

In the research methodology, the study employed a Simple Random Sampling. A sample size of 30 respondents was chosen from Rwanda Development Bank considered as case study.

The findings of the study reveal the lease financing equipments include vehicles, office equipments, agricultural equipments and software equipments. Lease financing expands business sector, helps getting finances without guarantee, is of low risk compared to normal loans, it has the advantage of lowdown payment, the lessee incurs minimum capital outlay required. The various obstacles hindering the bank to achieve lease financing business objectives were identified. They include the low market awareness, default payment by lessees leading to non performing loans, lack of care of the leased asset, return of asset before maturity, delay of return of asset before maturity etc.

Using the lease financing facilities, together with the measures to remove obstacles to achieve leasing objectives and the Government policy to strengthen the banking sector, and enhance the resilience of the financial system. The objectives will be achieved and leasing investment in Rwanda will be successful.

Among the the recommendations, the research recommended that BRD should establish the leasing department. BRD should reinforce, BRD should establish clear policy of recovery regarding the funds invested in leasing contracts. BRD should train professional staff and the government should prepare accounting guidance for leasing and establish the lease law specifying duties and responsibilities for both the lessor and lessees.

CHAPTER ONE

1.0 Introduction

In order to start and sustain a business one needs finance. Most private enterprises lack the required collateral to secure traditional loan financing from banks. Leasing is one of the alternative methods of financing asset acquisition used today to get funds for investments.

Lease involves a contract whereby the ownership, financing and risk taking of any equipment or asset are separated and shared by two or more parties. The lessor may finance and lessee may accept the risk through the use of it while a third party may own it. Alternatively the lessor may finance and own it while the lessee enjoys the use of it and bears the risk. In other words, lease is a contract between the owner of an asset (the lessor) and its user (the lessee) for the right to use the asset during a specified period in return for a mutually agreed periodic payment (the lease rentals). Lease financing is based on the observation made by Donald B. Grant: "Why own a cow when the milk is so cheap? All you really need is milk and not the cow."

Two important categories of leases are: operating leases and financial leases. Operating leases are short term, cancellable leases where the risk of obsolescence is borne by the lessor. Financial leases are longterm, noncancellable leases where any risk in the use of the asset is borne by the lessee and he enjoys the returns too. Leasing plays an important role in the economic development of a country by providing money incentives to lessees. The lessee does not have to pay the cost of asset at the time of signing the contract of leases. Leasing contracts are more flexible so lessees can structure the leasing contracts according to their needs for finance. The lessee can also pass on the risk of obsolescence to the lessor by acquiring those appliances, which have high technological obsolescence.

The research is concerned with the lease financing and performance of banks in Rwanda for considering the situation of Rwanda Development Bank. The study focuses on identifying lease financing facilities, analysis the contribution of lease financing and the performance of Rwanda Development bank and the provision of the gaps hindering the banks objectives and suggest recommendations.

1.1 Backgroung of the study

The history of leasing dates back to 200BC when Sumerians leased goods. Romans had developed a full body law relating to lease for movable and immovable property. However the modern concept of leasing appeared for the first time in 1877 when the Bell Telephone Company began renting telephones in USA. In 1832, Cottrell and Leonard leased academic caps, grown and hoods. Subsequently, during 1930s the Railway Industry used leasing service for its rolling stock needs. In the post war period, the American Air Lines leased their jet engines for most of the new air crafts. This development ignited immediate popularity for the lease and generated growth of leasing industry. www.fbibusiness.pn-leasing.ru/en/205.

The concept of financial leasing was pioneered in India during 1973. The First Company was set up by the Chidambaram group in 1973 in Madras. The company undertook leasing of industrial equipment as its main activity. The Twentieth century Leasing Company Limited was established in 1979. By 1981, four finance companies joined the fray. The performance of First Leasing Company Limited and the Twentieth Century Leasing Company Limited motivated others to enter the leasing industry. In 1980s financial institutions made entry into leasing business. Industrial Credit and Investment Corporation was the first all India financial institution to offer leasing in 1983. Entry of commercial banks into leasing was facilitated by an amendment of Banking Regulation Act, 1949. State Bank of India was the first commercial bank to set up a leasing subsidiary, SBI capital market, in October 1986. Can Bank Financial Services Ltd., BOB Financial Service Ltd., and PNB Financial Services Limited followed suit. Industrial Finance Corporation's Merchant Banking division started financing leasing companies as well as equipment leasing and financial services. There was thus virtual explosion in the number of leasing companies rising to about 400 companies in 1990. In the subsequent years, the adverse trends in capital market and other factors led to a situation where apart from the institutional lessors; there were hardly 20 to 25 private leasing companies who were active in the field. The total volume of leasing business companies was Rs.5000 crores in 1993 and it is expected to cross Rs.10, 000 crores by March 1995. Htt:/www.leasing solutionsllc.com/index.sutml

Rwanda is a small landlocked and developing country located in Central Africa with over 8.2 million people and a high population density (337 per sq.km). The 90% of Rwanda population is engaged in subsistence agriculture and more than 90% live under the poverty line. (World Food Program 2006). The Goverment has tried to build up its economy by eliminating barriers to trade and development; but, there are still some barriers to the expansion of businesses such as low capacity building, legal, regulatory and poly framework, development of competitiveness of private sector, infrastructure, limited market, and access to financing. To access finance, the businesses need to acquire loans from the banks based on their credit policy and requirements such as credit history, emphasis on collaterals.

Leasing is a financing mechanism available in Rwanda that allows a business to use an asset owned by the leasing company (the lessor) in exchange for specified periodic payments (rent), without necessarily assuming ownership of the asset. The contract gives the lessee possession and use of a specific asset in return for payment of specified rentals over an agreed period of time. (Rwanda Leasing Guidance, IFC Rwanda: May 2009)

The first survey of the leasing sector in Rwanda was prepared by the IFC CEDP Rwanda Leasing Development Program, a project to support the development of leasing being implemented by IFC, a member of the World Bank Group, with support from the Competitiveness and Enterprise Development Project of the government of Rwanda, and the government of the Netherlands, through the Netherlands Partnership Program.The program aims to create new financing opportunities for businesses in Rwanda by promoting leasing as an alternative financing mechanism. (Rwanda Leasing Guidance, IFC Rwanda: May 2009)

Rwanda's financial sector includes provident funds, commercial banks, micro finance institutions and cooperatives, one housing finance provider and one development bank. The sector is regulated by the National Bank of Rwanda (BNR). The Central Bank performs a supervisory role for commercial banks, the government, parastatals and internationally recognized government agencies. It is also responsible for the management of the country's reserves, and the administration of exchange rates to smoothen out fluctuations and ensure stability of the economy (www.bnr.rw).

The government of Rwanda has taken strides to strengthen the banking sector, and enhance the resilience of the financial system. The government is also promoting the introduction of new financial products in the market both by banks and non bank financial institutions. Thus the introduction of financial leasing as one of the alternative methods of financing asset acquisition in 2006 was started. FinaBank launched leasing as a new product on 15th February 2006. BCR is the second commercial bank to provide leasing services in Rwanda. COGEBANK was the third commercial bank to provide leasing services in Rwanda. It started to provide leasing facilities in the second half of the year 2006. BANCOR started providing leasing facilities in 2007. Since 2007, Rwanda Development Bank (BRD) officially invested in leasing sector. By June 2008 the leasing transactions were over US$ 20 million (Rwanda Leasing Guidance, IFC Rwanda: May 2009).

According BRD (2010), Rwanda Development Bank (BRD) is a Public limited liability company created by the Law of August 5, 1967. For more than four decades, BRD has been the sole provider of long term finance and has significantly facilitated the emergence of different productive enterprises in the private sector. The Bank's operational history is subdivided in five following phases: during the years 1968 to 1970, it was the Establishment and development phase, the Bank was being established and no projects were financed. In the four years that followed, the Bank recorded major loans on vehicles (pick-ups) and grinding mills. The financing of the vehicles extended all over the country and marked a crucial step towards improving accessibility of goods in the country. Effective from 1974, the bank embarked on aggressive financing of different sectors of the economy. The investment impact was about FRW 12, 6 billions with a creation of employment opportunities for 8.400 people and cumulative added value of FRW 25, 2 billions. The bank has financed about 80% of the country's medium and long term loan portfolio in the productive ventures. (www.brd.com.rw)

During 1988-1994 was the Maturity phase, the Bank disbursed loans, the priority areas for the loans were agro-industries mainly the sectors of tea and manufacturing, enabled by low cost financial resources available to small and medium scale enterprises in agribusiness; artisans and micro- projects. (www.brd.com.rw)

During1995-2000 was the Post-Genocide phase, the events of the 1994 genocide led to catastrophic results that followed. The bank continues to shoulder a burden of more than 50 % of its portfolio constituting non- performing loans consequential from the 1994 genocide, the loans were mainly invested in modernization and rehabilitation of ventures to the tune of FRW 13, 4 billions, creating an employment of 8.923 people and an added value to the economy of about FRW 8 billions. The war paralyzed the rural areas and revitalization of the activities after 1994 concentrated in the capital city mainly in the secondary and tertiary sectors. This period was a reorganization and consolidation phase. During 2000-2009 was the Growth and Innovation phase, this phase ensues from the necessity for the Bank to contribute to the recapitalization and the monetization of the rural area, in the increase of the export against of challenges of the Rwandan Economy imposed by the needs of fast and long-lasting growth to fight povertyIn order to enhance the Bank mission of development, in 2005 the Government of Rwanda mandated BRD with a mission to become the "Financier" of Rwanda's development. Since then BRD has been transforming itself in order to be able to play its crucial role in Rwanda's development. BRD 2005-2009 Strategic Operating Plan translates BRD mission and vision to become the most profitable bank at the service of poverty reduction. (www.brd.com.rw)

This big and important role involves a more aggressive approach in the research for the profitable projects and in the creation of new instruments of financing which can serve large number of Rwandese. To do that, the Bank created two additional instruments to diversify its activities and generate products necessary to balance the level of its profitability. These new products concern a Microfinance Department and a Leasing Unit opened respectively in 2002 and in 2007. Due to the BRD 2005 -2009 strategic Operating Plan, the Bank plans to inject RWF 132 billion in to the Rwandan economy over 2005-2009 and attain a total loan portfolio of RWF 74 billion by 2009. (www.brd.com.rw)

The Rwanda Development Bank put great products in front of their customers. These Products are: loans, trade finance, leasing, equity, deposit taking, refinancing, mortgage financing, capacity building and advisory. (www.brd.com.rw)

Rwanda Development Bank (BRD) played different roles in the developing private sector in Rwanda as developing country. BRD mobilized resources in several ways such as contracts credit lines from international financial institutions and development agencies, it mobilizes local resources from financial institutions within the country, and it uses its own fund as well as special funds put at its disposal by the government and other partners, it has also introduced also the leasing financing mechanism since 2008 which is the based content of the research. (www.brd.com.rw)

Hence, the reseach will focus on the lease financing and performance of banks in Rwanda, more particuraly at the Rwanda Development Bank (BRD). This research also will offer a depth analysis of the extent of lease financing and performance of banks in Rwanda by taking Rwanda Development Bank (BRD) one of the Rwandan Banks as a case study.

1.2 Statement of the problem

In Rwanda, where the private sector comprises mainly small and medium enterprises, the lack of access to finance is a major obstacle to economic growth and expansion. Most private enterprises lack the required collateral to secure traditional loan financing from banks. As a response, the government of Rwanda has introduced financial leasing as one of the alternative methods of financing asset acquisition since 2006.

Since 2007, Rwanda Development Bank (BRD) one among the Banks working in Rwanda, invested in leasing sector for development of private sector. However, investing in leasing has resulted in a number of problems and its performance in leasing investment is still critical. The main problems caused by leasing are increase of non performing laons and bad debts due to no payment or delayed payment of rentals by lessees who breach the agreed contract. With leasing, business becoming more competitive, the margin of profit for lessors is also affected. The market for leasing has not grown with the same level as the number of lessors leading to over supply of lessors and then to competitor. Also leasing business lead to the tax burden on the part of lessor. Taxes add to the cost of leasing and become more expensive form of financing than traditional mode. The operations of business leasing are bound to suffer because it is difficult to get right man to deal with leasing business. Leasing is specialized business which requires qualified and experienced people. Persons constituting its top management should have expertise in accounting, finance, legal and decision areas. These problems caused by leasing disturb prospects of leasing business, affect the performance of the lessor and lead to non perfoming loans which should lead to leasing busuness failure.

However, they are due to various challenges such as limited public awarenss, irregular rental payment, lack of qualified personnel, inflation, tax on asset, and risk of obsolescence. Thus, the leasing financing and the performance of banks in Rwanda is a matter to be analysed for leasing financing growth sector in Rwanda and the region in general by taking Rwanda Development Bank as a case study.

1.3 Purpose of the Study

The purpose of this study was to explore the lease financing facilities and the performance of banks in Rwanda for considering the situation of Rwanda Development Bank.

1.4 Objectives of the study

(i) To identify the lease financing facilities of financial institutions in Rwanda;

(ii) To analyse the contribution of lease financing and the performance of Rwanda Development bank;

(iii) To find out the gaps hindering the bank's leasing business objectives and suggest recommendations based on findings.

1.5 Research Questions

The study was guided by the following research questions.

(i) What are the leasing financing facilities of financial institutions in Rwanda?

(ii) What are the contributions of lease financing on Bank performance in Rwanda?

(iii) Are there any gaps hindering the banks to achieve their objectives of lease financing?

1.6 Significance of the study

To the researcher, It is hoped that the study will be useful, it will help the researcher to have full knowledge about leasing and the performance of banks, the advantages and limitations of leasing and it will improve the researcher's practice on leasing financing.

To KIU students, it will serve as reference for those who are interested in further research.

TO RDB Managers, the study will be useful because it will help to know their level of leasing financing and performance which should be based on to take appropriate decisions for future growth and development. In addition, this research will benefit banks by knowing the areas that need improvement to attract customers in need of leasing.

To the Rwandan community, this research will help different people to understand how to deal with banks through leasing business as a source of finance.

1.7 Scope of the study

This study was concerned with the lease financing and the performance of banks in Rwanda. It was conducted in Rwanda between 2007 and 2010 using Rwanda Development Bank as a case study. A sample of 30 respondents was selected from the employees, and lessees of that financial institution. The researcher collected information from reports, books and finance and investment departments.

1.8 Conceptual Framework

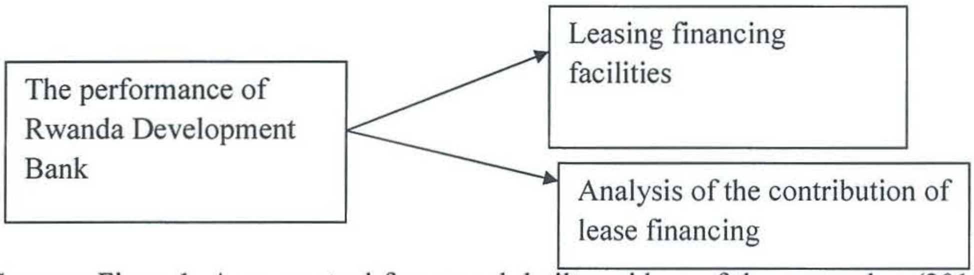
It refers to a set of interrelated variables, definitions and propositions that present a systematic view of phenomenon by specifying relations among variables with the purpose of explaining a phenomenon. In this assumption the researcher justified in the theoretical framework by explaining how and why the independent variable influences the dependent variables.

Independent variable is the circumstances or characteristics which the researcher can manipulate in his effort to determine what their connection with the observed phenomenon is. This means that the researcher has direct control over the variable. On the other hand, the dependent variable is the circumstances or characteristics that change, disappear or appear when the researcher implements the independent variable (Landman, WA 1988 Navorsingsmetodologiese Grondbergrippe. Pretoria: Serva P98)

The dependent variable of the study was the performance of Rwanda Development Bank and lease financing facilities and analysis of the contribution of financing were treated as independent variables.

Figure 1.1.Relationship between variables

Dependent variables **Independent variables**



Source: Figure1. A conceptual framework built on ideas of the researcher (2011) on the baisis of research objectives and research questions

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter discusses the literature related to the lease financing and performance of banks in Rwanda. It particularly focuses on the theories of lease financing, analysis of the role of lease financing on performance of Rwanda Development Bank and the degree of usage of lease facilities. It will also concern to the concepts of other authors related to the topic where to enface on relevant review.

Banking sector consists of three types namely regulatory bank, that refers to central banks; intermediaries or banking institutions refer to financial institutions which offer financial facilities by accepting deposits and channels those deposits into lending activities, either directly or through capital markets, and intermediary or non-banking institution which offers financial services except loan, for example insurance companies and FOREX bureau. A bank connects customers with capital deficits to customers with capital surpluses (www.bnr.rw).

According to Gunn (2010), banking is generally a highly regulated industry, and government restrictions on financial activities by banks have varied over time and location. The current set of global bank capital standards is called Basel II. In some countries such as Germany, banks have historically owned major stakes in industrial corporations while in other countries such as the United States banks are prohibited from owning non-financial companies. In Japan, banks are usually the nexus of a cross-share holding entity known as the keiretsu. In Iceland banks had very light regulation prior to 2008 collapse.

The government of Rwanda has taken strides to strengthen the banking sector, and enhance the resilience of the financial system. The government is also promoting the introduction of new financial products in the market both by banks and non bank financial institutions. Thus the introduction of financial leasing as one of the alternative methods of financing asset acquisition in 2006 was started.

According to I.M Pandey (2004) leasing is defined as "a contract between two parties where one party (the lessor) provides an asset for usage to another party (the lessee) for a specified period of time, in return for a specified payment or series of payments."
Leasing is a medium-term financial instrument for the procurement of machinery, equipment, vehicles, and/or properties. Leasing provides financing of assets equip-ment, vehicles rather than direct capital. Leasing institutions (lessors); banks, leasing companies, insurance companies, equipment producers or suppliers, and nonbank financial institutions purchase the equipment, usually as selected by the lessee, providing the equipment for a set period of time to businesses. For the duration of the lease, the lessee makes periodic payments to the lessor at an agreed rate of interest. At the end of the lease period, the equipment is either transferred to the ownership of the business, returned to the lessor, discarded, or sold to a third party. Under financial leasing, the lessee typically acquires or retains the asset JAMES V.H (1998).

2.1 DEFINITION OF KEY TERMS

2.1.1 Leasing

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time (IAS 17, 3). Therefore, a lease is a contractual agreement between a lessor and a lessee that gives the lessee the right to use specific property, owned by the lessor, for a specific period of time in return for stipulated, and generally periodic, cash payments (i.e. rent). An essential element of the lease agreement is that the lessor conveys less than the total interest in the property. The growth in lease's use suggests that it often has a genuine advantage over owning property for both the lessee and the lessor. Some of the commonly advantages to the lessee of leasing are: less costly financing, financing at fixed rates, protection against obsolescence, alternative minimum tax problems, flexibility, and off-balance-sheet financing. However, the following benefits are available to the lessor: interest revenue, tax incentives, and high residual value (Kieso and Weygandt 1998).

According to I.M Pandey (2004) Leasing is defined as a contract between two parties where one party (called lessor) convey the right to use an asset to another party (called lessee) for an agreed period of time, in return for a specified payment or series of payments.

Leasing a process by which a firm can obtain the use of certain fixed assets for which it must pay a series of contractual, periodic, tax deductible payments. The lessee is the receiver of the services or the assets under the lease contract and the lessor is the owner of the assets. Sometimes a case can be made for leasing rather than purchasing, on the grounds that some equipment quickly becomes obsolete (http://www.rwandagateway.org).

Leasing is a medium term financial instrument for the procurement of machinery, equipment, vehicles, or properties. Leasing provides financing of assets, equipments, vehicles rather than direct capital. Lessors (Banks, leasing companies, equipments producers or suppliers, and non bank financial institutions) purchase the equipment, usually as selected by the lessee, providing the equipment for a set of period of time to businesses. For the duration of lease, the lesse makes periodic payments, to the lessor at an agreed rate of interest and at the end of lease period; the equipment is transferred to the owner of the business or returned to the lessor, or sold to a third party. Under the financial leasing, the lesseetypically acquires or retains the asset (JAMES V.H 1998).

2.1.2 A finance lease

A finance lease is a contract that allows the lessor, as owner, to retain legal ownership of an asset while transferring substantially all the risks and rewards of economic ownership to the lessee.5 A finance lease may also be termed a full payout lease, as the leasing payments made during the term of the lease will repay all of the original cost of the asset plus the interest charged by the lessor. (IFC Leasing Guide 2009, Leasing for Emerging Economies)

2.1.3 An operating lease

An operating lease is a contract that allows the lessor, as owner, to retain legal ownership of an asset but allows the lessee to enjoy the economic use of the asset for a predetermined period before returning the sset to the lessor. (IFC Leasing Guide 2009, Leasing for Emerging Economies)

2.1.4 Collateral

This refers to the security that is made available to secure finance. In leasing, collateral can be a pledge of property, bank guarantee etc., and usually refers to the leased equipment.

2.1.5 Advance Payment

Advance Payment an amount of money required to be paid to the lessor at the beginning of the lease term as part of the execution of the lease. Also known as down payment. Lease Payments Also called rentals. The amount the lessee pays the lessor in return for using the leased equipment.

2.1.6 Financing

The act of providing funds for business activities, making purchases or investing. Financial institutions and banks are in the business of financing as they provide capital to businesses, consumers and investors to help them achieve their goals. (http://www.investopedia.com).

2.1.7 Private sector

The part of the economy that is not state controlled, and is run by individuals and companies for profit. The private sector encompasses all for-profit businesses that are not owned or operated by the government. Companies and corporations that are government run are part of what is known as the public sector, while charities and other nonprofit organizations are part of the voluntary sector. (http://www.investopedia.com)

Private sector companies are ones that are not owned by the government. This is opposed to the public sector that consists of industries such as education and unemployment insurance.On the other hand, the public sector is that portion of society controlled by national, state or provincial, and local governments. (answers.yahoo.com)

2.1.8 Financial institutions

Bhole (2000) defined financial institutions as an institution that provides financial services for its clients or members.Probably the most important financial service provided by financial institution is acting as financial intermediaries. Most financial institutions are regulated by thwe Government.

A Financial Institution is an establishment that focuses on dealing with financial transactions, such as investments, loans and deposits. Conventionally, financial institutions are composed of organizations such as banks, trust companies, insurance companies and investment dealers. Almost everyone has deal with a financial institution on a regular basis. Everything from depositing money to taking out loans and exchange currencies must be done through financial institutions.
http://www.investopedia.com/terms/f/financialinstitution.asp)

There are two types of financial institutions: Banking institutions and Non banking institutions.

Banking institutions, such as banks and credit unions, pay you interest on your deposits and use the deposits to make loans. Non banking institutions, such as insurance companies, brokerage firms, and mutual fund companies, sell financial products.

2.1.9 Bank

BNR's banking act (2008) defined the bank as an enterprise that customarily receives funds from the public and grants loans for its account. However, are not considered as bank, the Micro finance institutions, saving and credit cooperatives, and saving collection organizations.

2.2 Elements of leasing

2.2.1 Parties to the contract

There are two parties to a contract of leasing such as lessor who is the owner of the assets and lessee who is the user of the assets (M.Y Khan 1999).

2.2.2 Assets

The asset, property or equipment to be leased is the subject matter of a contract of lease financing. The asset may be a vehicle, plant machinery, equipment, land, building, factory, a running business, aircraft, software, etc. The asset must, however be of the lessee'schoice and suitable to his needs. (M.Y Khan 1999).

2.2.3 Ownership separated from the user

The essence of a lease financing contract is that during and after the lease period the ownership, of the asset vests with the lessor and its use is allowed to the lessee during the lease period. (M.Y Khan 1999).

2.2.4 Term of lease

The term of lease is the period for which the agreement of lease remains in operation. Every lease should have a definite period; otherwise it will be legally in operative. The lease period may sometimes stretch over the entire economic life of the asset (i.e financial lease) or a period shorter than the useful life of the asset (i.e operating lease). (M.Y Khan 1999).

2.2.5 Lease rentals

The consideration which the lessee pays for the lessor for the lease transaction is the lease rental. The lease rentals are so strechted as to compensate the lessor for the investment made in asset. (M.Y Khan 1999).

2.2.6 Mode of termination lease

At the end of the lease period, the lease is terminated and various courses.The lease is renewed on a perpetual basis or for a definite period, The asset reverts to the lessor, The asset reverts to the lessor and lessor sells it to the third party and The lessor sells the asset to the lessee (M.Y Khan 1999).

2.3 Contents of lease agreement

The lease agreement specifies the legal rights and obligations of the lessor and the lessee. It typically contains terms relating to the following: Description of the lessor, the lessee, and the equipment. Amount, time and place of lease rentals payments. Time and place of equipment delivery. Lessee's responsibility for taking delivery and possession of the leased equipment. Lessee's responsibility for maintenance, repairs, registration, etc. and the lessor are right in case of default by the lessee. Lessee's right to enjoy the benefits of the warranties provided by the equipment manufacturer/supplier. Insurance to be taken by the lessee on behalf of the lessor. Variation in lease rentals if there is a change in certain external factors like bank interest rates, depreciation rates, and fiscal incentives. Options of lease renewal for the lessee. Return of equipment on expiry of the lease period and Arbitration procedure in the event of dispute. www.efinancemanagement.com

2.4 Leasing in Emerging Economies

Emerging economies almost always have an undercapitalized banking system that can only offer its potential clients a limited range of products. For their part, the SMEs in emerging economies possess insufficient collateral or credit history to access more traditional bank finance. This results in a shortage of credit being available to domestic entrepreneurs. Developing the leasing sector as a means of delivering finance increases the range of financial products in the marketplace and provides a route for accessing finance for businesses that would otherwise not have it, thus promoting domestic production, economic growth, and job creation. (IFC leasing Guide 2009)

Many developing countries suffer from weak or imperfect legal institutions. Although in principle secured lending and leasing should be roughly equivalent in terms of risk, experience in many jurisdictions has shown that legal ownership is recognized by all participants, of leasing. Leasing can provide a valuable additional source of finance within these markets. (IFC leasing Guide 2009).

Emerging economies face several challenges, including the need for investment.This is compounded by an under-capitalized banking system that is only able to offer its potential clients a limited range of products. In turn, small and medium-size companies possess insufficient collateral or credit history to access more traditional bank finance.This results in a shortage of credit available to domestic entrepreneurs.

Developing the leasing sector as a means of delivering finance increases the range of financial products in the marketplace and provides a route for accessing finance to businesses that would otherwise not have it, thus promoting domestic production, economic growth, and job creation.

In addition, many developed countries suffer from underdeveloped or imperfect legal institutions. Although in principle secured lending and leasing should be roughly equivalent in terms of risk, in many jurisdictions experience has shown that legal ownership is recognized by all participants, especially courts, more readily and consistently than secured lending.This can reduce the risk to lenders (lessors) considerably. The value of this advantage of leasing should not be underestimated, particularly in more challenging environments. (IFC leasing Guide 2009)

The global leasing landscape in emerging markets is still very diverse today, with nascent leasing industries in the poorest countries in Africa and Asia, and maturing leasing markets in the most advanced economies of Latin America and Eastern Europe. It remains critical to develop a vibrant leasing industry in countries where it does not exist. Leasing fosters economic development and job creation, by providing access to financing to micro, small and medium businesses that often cannot access other forms of financing.

In countries where the leasing market has already built up, encouraging competition can help lower financing rates and expand financing volumes. At this stage, banks generally enter the leasing competition and start using leasing as a way to attract new clients, while stand-alone leasing companies are pushed to develop more specialized products and niches.

Even in markets where leasing is reaching maturity, new products offer opportunities for further growth. For the IFC, one of the most promising avenues for leasing in developing countries is still under-exploited the rapid growth of investments in sustainable equipment (i.e. energy efficiency, renewable energy, and cleaner production). These investments are critical to successfully tackle the global climate change challenge, and are supported by a strong political will worldwide. Because leasing is asset-backed and generally cash-flow based, it is a particularly relevant product to finance these equipments. IFC supports sustainable equipment financing by combining credit lines and risk-sharing facilities with advisory services that aim at building the capacity of leasing firms to identify opportunities, develop business, and appraise the risks and cash-flows of different types of equipments and sub-sectors. (IFC Leasing Guide 2009, Development Guidelines for Emerging Economies 1st edition, 2005 by Matthew)

2.5 Leasing in Rwanda

2.5.1 Financial Industry in Rwanda

Financial industry is among the sectors that are still growing and is composed by thanks, insurance companies, provident funds and Microfinance institutions. The financial industry is not fairly developed and more than half of its activities are held in the capital Kigali. The central bank of Rwanda known as BNR controls and supervises the activities of all the banks and microfinance institutions and acts as the banker of commercial banks, government institutions, government and other international recognized government agencies. The central bank also administrates the exchange rates and regulates the financial institutions operating in Rwanda.

In our country there are only 6 commercials banks, one development bank, and one housing bank. There is no mortgage lending institutions or an investment bank or any venturen capitalists. The commercial banks carry out normal retail and commercial banking activities, offering basic saving and credit products, lending at high interest rate, which goes from 16% up to 18% this justifies the risk environment of high risk that Rwandan commercial banks are working in. at this moment, all the commercial banks have quite heavy bad loan portfolio (19% on average) mostly formed a couple of years before and after genocide. To reduce that risk, the banks require 100% collateral, therefore corporate and SMEs borrowing is limited to few businesses with strong financial statements and reliable credit history. It is almost impossible to for a new business to raise funds through the conventional bank lending.

2.5.2 Rwanda's Leasing Market

The government introduced financial leasing as one of the alternative methods of financing asset acquisition in 2006.By June 2008 there were seven financial institutions pioneers of leasing in Rwanda beginning their leasing. (Rwanda Leasing Guidance, IFC Rwanda: May 2009).

Compared to our neighboring countries which are in East African Community, Rwanda is a little bit far from Uganda and Kenya, but we still at the same level as Tanzania and little in advance to Burundi which has not yet started these kind of services.

In Africa especially in Rwanda the concept of leasing is fairly new but is expected to grow significancy in the near future as it constitutes sources of income to financial institutions and which also facilitate the investors as well as the individual in getting equipments or a range of materials with or without collateral.

Development markets like Rwanda's are characterized by a shortage of medium and long-term moderately priced financing because unsecured lending is not feasible. That is, the Government of Rwanda has realized that it does not exist on its own, even with considerable assistance of the donor community, have the resources to implement strategies.

It has therefore, embarked on a strategy of strengthening the private sector. To do so, measures have been taken among others structural reforms focusing on opening the economy, and enhancing the economic and regulatory environment for privare sector activity.

To promote the private sector development, the GOR has found that there is an urgent need to encourage entrenership through the provision of appropriate financing, infrastructure and training. The GOR has also simplified business licensing requirements, revised the labour code, and established the Rwanda Investment and Export Promotion Agency (RIEPA). Leasing seems to be the rigt solution to the problem of lack of finances to SMEs, which is mainly a result of lack of collaterals and credit history.

"Nevertheless, the biggest obstacles on the way of development of leasing are self-made problems such as certain shortcomings in recently passed on leasing. Unclearity of tax regime and vagueness of accounting treatment" (IFC 2005:8).

In 2006, BCR and Fina Bank transacted a total of 43 currently all the practitioners do the traditional leases with BCR transacting18 leases worth US$ 3.5 finance leasing with only 1% operating leases. The Million and Fina Bank transacting 25 leases worth only operating lease deal transacted during the US$ 4 million US$. Surveyed period was done by BCR bank. The lease included a buy back clause as operating leases are In 2007, Cogebanque and Bancor entered the sector still not a favorite with the option to buy at the end to offer leasing increasing transactions to a total of of lease not a characteristic of this type of lease. 164 leases with a value of over US$ 16 million. By June 2008 the leasing transactions were over US$ 20 million. IFC and its partners have helped transform Rwanda's leasing industry over the last four years, supporting its growth from humble beginnings to a market worth more than $30 million today. Leasing news paper (2008).

Table 2.1: Rwanda institutions involved in leasing

Bank offering leasing	Shareholders	Year incorporated
1. FINABANK	• FINA KENYA-54.55 percent • Enterprise Holdings Botswana limited 27.27 % • Rwanda Government 18.18 percent	2004
2. Commercial Bank of Rwanda	• Actis 80% • Rwanda Government and private investors 20%	2004
3. Development Bank of Rwanda	• Government of Rwanda, local public institutions, International development financial institutions, And the private sector	1967
Bancor (now known as Access Bank)	• Access Bank Group and Private investors	1995
4. cogebank	• Private investors	1999
5. Ecobank	• A conglomerate of private companies	2007
6. Vision Finance	• World Vision	1997

Source: Leasing Market In Rwanda, May 2009, Produced by IFC Rwanda CEDP Leasing Development Program.

2.5.3 Financial Institutions engaged in leasing activities in Rwanda

Rwanda CEDP leasing development program of the International Finance Corporation

The Rwanda Competitiveness and Enterprise Development Project Leasing Development Program (IFC Rwanda CEDP Leasing Development Program) aims to create new financing opportunities for businesses in the country by promoting leasing as an alternative financing mechanism. The program is a joint partnership between IFC; the Dutch Ministry of Foreign Affairs, through the Netherlands Partnership Program; and the government of Rwanda through the Competitiveness and Enterprise Development Project. The leasing program was established to boost and promote legislative review, capacity building, business development, public education and to support the Rwanda

Leasing Association. (Leasing Market in Rwanda, May 2009, Produced by IFC Rwanda CEDP Leasing Development Program)

Eastern and Southern African Trade and Development Bank (PTA BANK)

This is a bank which was created in 1985 to serve customers and entrepreneurs which have their activities in COMESA SUB-REGION. This bank offers leasing services to entrepreneurs in the sub-region. This bank finances the acquisition of equipment whose purchase price is between $300 000 and $7 500 000 Banks finances long term project and it emphasis n mining; product transformation; agro business, infrastructure, services and tourism.

The International Finance Corporation (IFC)

The IFC is a member of the World Bank Group, and as such it shares the World Bank mission: "To fight poverty with passion and professionalism for lasting results. To help people help themselves and their environment by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors". IFC Vision is that people should have the opportunity to escape poverty and improve their lives. IFC Purpose is to create opportunity for people to escape poverty and improve their lives by: l Promoting open and competitive markets in developing countries l Supporting companies and other private sector partners where there is a gap helping to generate productive jobs and deliver essential services to the underserved. In order to achieve its purpose, IFC offers development impact solutions through firm-level interventions (direct investments and advisory services), standard setting, and business enabling environment work. Our commitment to the private sector brings with it a powerful combination of financial products and advisory services that helps create value for our clients and Shareholder governments and foster sustainable, results-oriented development. IFC is the largest global development institution focused on the private sector. We combine financing that helps companies grow quickly and sustainably with advice that helps them innovate, raise standards, mitigate risk, and share Knowledge across industries and regions. We also mobilize additional resources from our many partners, enlarging the pool of available capital and expertise in countries that need it the most. As of June 2009, IFC had 3,402 staff of which 46% work in its Washington, D.C. based headquarters, and the remainder located in more than 86 regional and/or country offices worldwide. IFC's committed portfolio, including off-balance sheet guarantees and risk management products was $34.5 billion. In addition, it managed $8 billion in syndications. The portfolio included investments in 1,579 companies in 122 countries. IFC interventions target all industry sectors including infrastructure, manufacturing, oil gas and mining, the financial sector, transportation, information and communication technology, etc. The financial sector is however the largest sector in IFC, representing 35% of its total investment portfolio in June 2009.

IFC's Role and Impact in Lease Market Development

For the past 35 years, IFC has helped countries around the world develop and enhance a viable and vibrant leasing industry. IFC's knowledge and expertise in leasing are well recognized by both private and public stakeholders, and it has contributed much to the development of the leasing industry in emerging markets through investments and advisory services. Its record of accomplishments includes the following: l financed 222 leasing projects for 130 clients in 58 countries for $1.4 billion; l participated in the setup of the first leasing company in 30 countries; l established or improved leasing regulations in 60 developing countries; and operated 30 leasing advisory services projects across the globe with more than $21 million of its own and donor funding.

Launched in 2007, IFC's Rwanda Competitive and Enterprise Development Project (CEDP) helped grow Rwanda's leasing sector and increased the understanding and use of leasing as an alternative financing mechanism among small businesses across the country. (Leasing Market in Rwanda, May 2009, Produced by IFC Rwanda CEDP Leasing Development Program)

Commercial Bank of Rwanda (BCR)

A lease is a contract between the owner of an asset (the lessor) and another party (the lessee). In BCR, this contract gives the lesee access to the possession and use of a specific asset in return for payment of specified rentals over an agreed period of time. The lessee selects the equipment and negotiates its price and the lessor purchases it for the former to use. (www.bcr.co.rw)

Size of facility: Generally between RFW 5MN and RWF 300MN. Transactions outside this range may be considered. (www.bcr.co.rw).

Lease currency: Facilities can be provided in Rwandese Francs or US Dollars to match the income stream of the lessee. (www.bcr.co.rw).

Selection of equipment: The lessee identifies the equipment and supplier, as well as negotiates the price and terms of supply. The terms and conditions of supply should be acceptable to BCR. (www.bcr.co.rw).

Ownership: As the main guarantee in the contract, the Bank shall retain ownership of the equipment for the duration of the lease and will only transfer to the lessee at the end of the lease term upon exercising and fulfilling the terms of the purchase option (www.bcr.co.rw). .

Insurance: The equipment shall always be comprehensively insured by the lessee against all risks and in such a value as BCR reasonably requires. (www.bcr.co.rw).

Maintenance: The Lessee is required to maintain the leased asset in good working condition during the lease period, as recommended by the manufacturer. (www.bcr.co.rw).

Repayment period or lease period: Normally between 2 to 5 years depending on the nature and useful life of equipment financed as well as the lessee's own anticipated cash flow. (www.bcr.co.rw).

Guarantees: The leased asset is the primary guarantee; in exceptional circumstances, additional guarantees may be required. (www.bcr.co.rw).

Pre-delivery interest: Finance charges accrued between disbursement and delivery are added to the cost price of the asset. (www.bcr.co.rw).

Nature of equipment: Any asset of a durable and identifiable nature can be leased. Examples are tractors, factory equipment, machinery, generators, trucks, buses, medical equipment etc. (www.bcr.co.rw).

Value Added Tax: The amount financed is net of VAT as the lessor claims VAT on cost of equipment. The lessee however pays VAT on monthly rentals over the lease period. (www.bcr.co.rw).

Option to purchase: At the end of the lease period, the lessee shall purchase the asset for a nominal fee determined at the inception of the lease (www.bcr.co.rw).

Rwanda Microfinance Limited

The micro leasing program is offered by Rwanda Microfinance Limited (RML) for the acquisition of equipment whose purchase price ranges between Rw 120 000 and Rwf 2 500 000. The requirement for this type of lease is so far simple as an investor has to have a certificate of registration

Eastern and Southern African Trade and Development Bank

The Eastern and Southern African Trade and Development Bank were established in 1985, under the auspices of the Treaty establishing the Preferential Trade Zone, which was replaced by COMESA. The bank finances clients' projects and trade in the Eastern and Southern African region. Others include, Development Bank of Rwanda (BRD), Fina Bank and Bancor (Leasing Market in Rwanda, May 2009, Produced by IFC Rwanda CEDP Leasing evelopment Program).

2.6 Equipment for lease financing

The equipments required for business and for individuals, Office equipment, machinery,Construction equipment, Industrial equipment, Agriculture equipment, computers, trucks, buses, computers, Vehicles such trucks, buses, business cars, Factory equipment, Medical equipment And other types of equipment. (Leasing Market in Rwanda, May 2009, Produced by IFC Rwanda CEDP Leasing Development Program).

2.7 The leasing process

2.7.1 Lease selection

The first step in leasing transaction is the selection of the asset to be taken out on the lease basis. The lessee does this by giving due consideration to various requirement such as, lease payment, rules and procedures governing leasing. The lessee approaches the leasing company or the leasing brocking company for the purpose of finalizing the lease deal.

2.7.2 Order and delivery

Based on the selection made by the lesee, the lessor goes about placing an order to the manufacture of the asset to be leased. The manufacturer delivers the asset at the site of the lessee who in turn gives a notice of acceptance to the lessor.

2.7.3 Lease contract

Both the parties sign a lease agreement setting about the details of the terms of the lease contract. Lease will normally be full pay out, with varying terms and conditions. The usual lease period ranges from 3 to 5 years.

2.7.4 Lease period

During the currency of the lease period, the lessee will make lease payment at regular interval, as agreed upon between the parties. The lessee will ensure the proper upkeep and maintenance of the asset leased. In additions, the lessee will also be entitled to warranties and after sales services from the lessor. At the end of the lease period, the lessee may either renew the lease or terminate the lease, and return the asset to the lessor, or may even acquire the asset from the lessor. However, it is to be noted that there is no possibility of the lessee being given the purchase option in the agreement itself.

2.8 Lease Types

2.8.1 Operating Lease or service lease

Operating leases, also called service leases, are agreements between two parties in which one provides rent to the other for using an asset. In an operating lease, the borrower uses an asset for only a fixed portion of the assets life. The owner of the asset is responsible for all maintenance costs and other operating costs associated with the leased asset. (Financial Managemet 3rd Edition by Geofrey Knott)

An operating lease is particularly attractive to companies that continually update or replace equipment and want to use equipment without ownership, but also want to return equipment at lease-end and avoid technological obsolescence. An operating lease usually results in the lowest payment of any financing alternative and is an excellent strategy for bypassing capital budgeting restraints. It typically qualifies for off-balance sheet treatment and can result in improved Return on Asset (ROA) due to a lower asset base. It can also result in higher reported earnings in the early years of the lease. (Financial management 1999/2000 R.P RUSTAGI Pg 1075)

The features of operarting lease

It is a short term lease, the lease period being significantly less than the useful life of the equipment.

The lease is not fully amortised, the lease rentals payable during the lease period are not sufficient to cover fully the cost of the equipment along with acceptable return thereon.

The lease is usually cancelable at short notice and the lessor is responsible for maintenance, insurance, and taxes. Computers, vehicles, copiers, and furniture are example of assets that are commonly leased under operating lease arrangement (Geoffrey K.2004)

2.8.2 Finance Lease

A finance lease is a full-payout, noncancellable agreement, in which the lessee is responsible for maintenance, services, and taxes and insurance (Geoffrey K.2004).

Finance leases are most attractive in cases where the lessee wants the tax benefits of ownership or expects the equipment's residual value to be high. These leases are structured as equipment financing agreements with residuals up to 10 percent. The lessee purchases the equipment upon lease termination at a pre-agreed amount. The term of a finance lease tends to be longer, nearly covering the useful life of the equipment. (Financial management 1999/2000 R.P RUSTAGI Pg 1075).

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Moreover, title may or may not eventually be transferred (IAS 17, 3). Financial leases are differentiated from operating leases in that they (1) do not provide for maintenance service, (2) are not cancelable, and (3) are fully amortized (i.e. the lessor receives rental payments equal to the full price of the leased equipment plus a return on investment). In a typical arrangement, the firm that will use the equipment (the lessee) selects the specific items it requires, and then it negotiates the price and delivery terms with the manufacturer. The user firm then arranges to have a leasing company (the lessor) to buy the equipment from the manufacturer or the distributor. When the equipment is purchased, the user firm simultaneously executes an agreement to lease the equipment from the financial institution. The terms of the lease call for full amortization of the lessor's investment, plus a rate of return on the unamortized balance which is close to the percentage rate the lessee would have paid on a secured term loan. For example, if the lessee would have to pay 10 percent for a term loan, then a rate of about 10 percent would be built into the lease contract. The lessee is generally given an option to renew the lease at a reduced rate on expiration of the basic lease. However, the basic lease usually cannot be canceled unless the lessor is completely paid off. Also, the lessee generally pays the property taxes and insurance on the leased property. Since the lessor receives a return after, or net of, these payments. This type of lease is often called a "net, net" lease.

The characteristics of a financial lease

It is an intermediate term to long term non cancelable arrangement. During the initial lease period, referred to as the primary lease period, which is usually 3 years or 5 years or 8 years, the lease can not be cancelled.The lesse is responsible for maintenance, insurance and taxes. The lease is fully amortised during the primary lease period. This means that during this period the lessor recovers, through the lease rentals, his investment in the equipment along with an acceptable rate of return.The lessee usually enjoysthe option of renewing the lease for further periods for very nominal lease rental (Geoffrey K.2004).

The International Accounting Standards (IAS) 17 suggests several factors, which normally indicate that a lease is a finance lease:

1. The lease transfers ownership of the asset from the lessor to the lessee by the end of the lease term (IAS, 17, 8(a));
2. The lessee has the option to purchase the asset at a price which is expected to be significantly lower than the fair value of the asset at the date on which the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised (IAS 17, 8(b));
3. The lease term is for the major part of the economic life of the asset even if title is not transferred (IAS 17, 8(c));
4. At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all the fair value of the leased asset (IAS 17, 8(d));
5. The leased assets are of a specialized nature such that only the lessee can use them (IAS 17, 8(e));
6. Gain and losses from the fluctuation in the fair value of the residual value belong to the lessee (IAS 17, 9(b)); and
7. The lessee has the ability to continue the lease for a secondary period at a rent, which is substantially lower than market rent (IAS 17, 9(c)).

2.8.3 Capital Lease

Capital leases, also called finance leases, are those in which the borrower has full control over the use of the asset(s) during its lease period, is responsible for all maintenance and other associated costs and is directly affected by its associated advantages and disadvantages

Type of lease classified and accounted for by a lessee as a purchase and by the lessor as a sale or financing, if it meets any one of the following criteria: (a) the lessor transfers ownership to the lessee at the end of the lease term; (b) the lease contains an option to purchase the asset at a bargain price; (c) the lease term is equal to 75 percent or more of the estimated economic life of the property (exceptions for used property leased toward the end of its useful life); or (d) the present value of minimum lease rental payments is equal to 90 percent or more of the fair market value of the leased asset less related investment tax credits retained by the lessor. (Geoffrey K.2004).

2.8.4 Direct Financing Lease (Direct Lease)

A non-leveraged lease by a lessor (not a manufacturer or dealer) in which the lease meets any of the definitional criteria of a capital lease, plus certain additional criteria.

2.8.5 First Amendment Lease

The first amendment lease gives the lessee a purchase option at one or more defined points with a requirement that the lessee renew or continue the lease if the purchase option is not exercised. The option price is usually either a fixed price intended to approximate fair market value or is defined as fair market value determined by lessee appraisal and subject to a floor to insure that the lessor's residual position will be covered if the purchase option is exercised.

If the purchase option is not exercised, then the lease is automatically renewed for a fixed term (typically 12 or 24 months) at a fixed rental intended to approximate fair rental value, which will further reduce the lessor's end-of-term residual position. The lessee is not permitted to return the equipment on the option exercise date. If the lease is automatically renewed, then at the expiration of that initial renewal term, the lessee typically has the right either to return the equipment without penalty or to renew or purchase at fair market value.

2.8.6 Full Payout Lease

A lease in which the lessor recovers, through the lease payments, all costs incurred in the lease plus an acceptable rate of return, without any reliance upon the leased equipment's future residual value.

2.8.7 Guideline Lease

A lease written under criteria established by the IRS to determine the availability of tax benefits to the lessor.

2.8.8 Leveraged Lease

In this type of lease, the lessor provides an equity portion (usually 20 to 40 percent) of the equipment cost and lenders provide the balance on a nonrecourse debt basis. The lessor receives the tax benefits of ownership. PANDEY I.M (1999).

2.8.9 Net Lease

A lease wherein payments to the lessor do not include insurance and maintenance, which are paid separately by the lessee.

2.8.10 Open-end Lease

A conditional sale lease in which the lessee guarantees that the lessor will realize a minimum value from the sale of the asset at the end of the lease.

2.8.11 Sales-type Lease

Under a sales-and-leaseback arrangement, a firm that owns land, buildings, or equipment sells the property to a financial institution and simultaneously executes an agreement to lease the property back for a specified period under specific terms. The financial institution could be an insurance company, a commercial bank, a specialized leasing company, or an individual investor. The sale-and-leaseback plan is an alternative to a mortgage. Note that the seller, or lessee, immediately receives the purchase price put up the buyer, or lessor. At the same time, the seller-lessee retains the use of the property. This parallel to borrowing is carried over to the lease payment schedule. Under a mortgage loan arrangement, the financial institution would normally receive a series of equal payments just sufficient to amortize the loan while providing a specified rate of return to the lender on the outstanding loan balance. Under a sale-and-leaseback arrangement, the lease payments are set up in exactly the same manner- the payments are sufficient to return the full purchase price to the investor, plus a proper return on the lessor's investment.

2.8.12 Synthetic Lease

A synthetic lease is a type of operating lease that is recorded in such a way so it does not show as a liability on a company balance sheet. It is instead recorded on the income statement as an expense. This allows the borrower to use the asset without being burdened by tax. Synthetic leases offer numerous advantages in comparison to other types of leases. There are various financing sources available, including bank debt, private placement and commercial paper on a fixed or floating-rate bases. Borrowers use synthetic leases to finance equipment for hospitals, corporate headquarters, movie theaters, retail branches and data centers.

According to Eugene F. Brigham and Philip R. Daves in the book "Intermediate Financial Management," synthetic leases became popular in the 1990s, when well-known companies such as Tyco and Enron first used them.

A synthetic lease is basically a financing structured to be treated as a lease for accounting purposes, but as a loan for tax purposes. The structure is used by corporations that are seeking off-balance sheet reporting of their asset based financing, and that can efficiently use the tax benefits of owning the financed asset.

2.8.13 Tax Lease

A lease wherein the lessor recognizes the tax incentives provided by the tax laws for investment and ownership of equipment. Generally, the lease rate factor on tax leases is reduced to reflect the lessor's recognition of this tax incentive.

2.8.14 Trac Lease

A tax-oriented lease of motor vehicles or trailers that contains a terminal rental adjustment clause and otherwise complies with the requirements of the tax laws.

2.8.15 True Lease

A type of transaction that qualifies as a lease under the Internal Revenue Code. It allows the lessor to claim ownership and the lessee to claim rental payments as tax deductions.

Modified with permission from Equipment Leasing Association's LeaseAssistant.org. (Financial management 1999/2000 R.P RUSTAGI Pg 1075)

2.9 Finance Lease and operating Lease

IFC has focused mainly on the development of financial leasing.This is the primary stage in leasing development in most emerging and transitional economies. Operating leases (or rent) can be equally important in the long term, but for a number of reasons are generally typical of a later stage of development.

A finance lease is a contract that allows the lessor, as owner, to retain ownership of an asset while transferring substantially all the risks and rewards of ownership to the lessee. A finance lease is also known as a full payout lease, because payments made during the term of the lease amortize the lessor's costs of purchasing the asset (there may be a residual value that usually does not exceed 20% of the cost).The payments also cover the lessor's funding costs and provide a profit. Despite the legal form of the transaction, the economic substance of a finance lease transaction is one of purchase financing rather than a mere rental.

In contrast, an operating lease is essentially a rental contract for, usually, the short-term or temporary use of an asset by the lessee. The maintenance and insurance responsibilities (and most risks associated with the ownership of the asset) remain with the lessor, who recovers the costs and profits from multiple rentals and the final sale of the asset.

2.9.1 Differences between Finance and Operating Leases

Table 2.2: Difference between finance and operating leases.

Finance leases(or Full Pay out Leases)	**Operating leases**
• Risks and rewards of ownership are transferred to, and borne by, the lessee. This includes the risks of accidental ruin or damage of the asset. Thus damage that renders an asset unusable does not exempt the lessee from financial liabilities before the lessor.	• Economic ownership with all corresponding rights and responsibilities are borne by the lessor. The lessor buys insurance and undertakes responsibility for maintenance.
• The goal of the lessee is either to acquire the asset or at least use the asset for most of its economic life. As such, the lessee will aim to cover all or most of the full cost of the asset during the lease term and therefore is likely to assume the title for the asset at the end of the lease term. The lease may gain the title for the asset earlier, but not before the full cost of the asset has been paid off.	• The goal of the lessee is usage of the leased asset for a specific temporary need, and hence the operating lease contract covers only the short term use of the asset. Further the duration of an operating lease is usually much shorter than the useful life of the asset.
• The lessor retains legal ownership for the duration of the lease term, though the lessee may or may not buy out the leased asset at the end of the lease, with the lessor charging only a nomina fee for the transfer of asset to the lessee.	• It is not the lessee's intention to acquire the asset,and lease payments are determined accordingly. In addition, an asset under an operating lease may subsequently be rented out.
• The lessee chooses the supplier of the asset and applies to the lessor for funding.This is significant because the	

leasing company that funds the transaction should npt be liable for the asset quality, technical characteristics, and completeness,even though it retains the legal ownership of the asset. The lessee will also generally retain some rights with respect to the supplier, as if it had purchased the asset directly.	• The present value of all lease payments is significantly less than the full asset price.

Source: Leasing in Development guideline for emerging economies 2005.

The lease transfers ownership of the asset to the lessee by the end of the lease term. The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair market value at the date the option becomes exercisable, and at the inception of the lease, it is reasonably certain that the option will be exercised.

The lease term is for a majority of the useful life of the asset and where the title to ownership may or may not eventually be transferred.

The present value of the minimum lease payments at the inception of the lease is greater than or equal to the fair value of the leased asset.

The leased assets are of such a specialized nature that only the lessee can use them without major modifications. Leases that do not have any of these characteristics are considered to be operating leases.

2.10 Lease versus buy

Leasing and buying both offer advantages to companies. The key to making the right decision is to understand exactly what your company's needs are and the purpose of the asset.

In the start-up or growth of a business, it is better to keep cash expenditures as low as possible. It is also wise to avoid owning equipment in the early stages of any enterprise.

Leasing helps your business to accomplish these goals. There are about five questions on should ask himself before he decides whether to lease or buy equipments: Those questions are the following:

How long do you plan to keep the asset?

I new or used equipment the best fit for your needs?

How frequently does technology change with this asset?

What are my financing options for purchasing vs. leasing?

What are the tax benefits of buying vs. leasing?

What is the most efficient use of your cash flow to pay for this equipment?

What will your equipment needs be in the future?

It also important to note that in case of finance lease, the lessee owns the property upon expiration of a lease. The value of the property at that time is called its Residual Value or Scrap Value.

According to Brigham, Superficially, it would appear that if the residual value of the leased equipment is expected to be large, owning would have an advantage over leasing. This is said to be superficial because in most cases lessors take into consideration the scrap value of the leased equipment while calculating lease rentals.

To evaluate an asset that can be taken on lease, the budgeting analysis must be expanded to consider the lease financing option in addition to the conventional debt and equity financing by calculating the New Present Value of the purchase option and comparing it with the Net Present Value of the Leasing option. (Prasma: 1999).

2.11 Leasing Different from Bank Financing

With both leasing and bank financing involving credit decisions and financial risks, the key differences are that two additional factors apply to leasing companies.

First, they have knowledge of the asset (and often the industry), and hence are lending to some degree on an asset basis. This is different from collateral-based lending, however, in that they are lending based on the ability of the asset to contribute to cash flow (either to the lessee or in case of forced sale/liquidation). Banks and other lenders tend to look at the balance sheet value of collateral.

The second is that leasing companies are more sales and service oriented. They are using their specialized knowledge to "bridge the gap" between suppliers and purchasers, and the specialized knowledge of leasing companies may also give them an advantage in disposing of the repossessed leased assets. Suppliers are generally not specialists in finance or credit decisions, while lessees are not specialists in finance or equipment acquisition; leasing companies specialize in finance, credit and equipment acquisition and disposal (equipment dealing). In effect, both the supplier and the lessee are "outsourcing" certain portions of their business to a service provider that also happens to have a certain capacity to borrow and lend money.

2.12 Financial Leasing and Loans

With a loan, the asset belongs to the borrower, whereas with a both the lender and lessor have legal rights to reclaim/repossess assets.

The risks and costs of ownership, including maintenance and obsolescence,
remain with the borrower and lessee. Also, under both loan and financial lease, if the asset appreciates, neither the lender nor the lessor benefits.

The agreements are non-cancelable until either the lessor or the lender has recovered its outlay. The borrower or lessee can either settle the agreement (in the case of the lease) or repay the loan early. (Htt://www.choseleasing.org/basics).

Finucane (1988) supported Ang and Peterson findings by arguing that a positive relationship between debt and lease financing exists, and shows that firms in certain industries, including air transport and retailing, rely more heavily on lease financing than others. In Finucane study, however, tax-related factors were not found to be important in explaining the level of leasing by a firm. Such result could be justified by arguing that Finucane looked only at "capital" leases, as defined by FASB Statement 13, and therefore, tax factors would not be expected to be important because the Internal Revenue Services (IRS) treats most capital leases as installment sales contracts for tax purposes. Opposite Finucane results, Vora and Ezzell (1991) found significant tax rate differences between lessees and lessors, although they found that the lessee's tax rate is not necessarily lower than the respective lessor's.

In Lewis and Schallheim (1992) model, non-debt tax shields are sold, via leasing, thereby reducing the potential redundancy with interest deductions and making the marginal value of debt positive. The lessee responds by issuing additional debt, which accounts for the positive relationship between debt and lease financing. The benefit from leasing in this model is realized even if the marginal tax rate is the same for the lessee and lessor. Moreover, many researchers suggest that secured debt is a financial contracting mechanism aimed at reducing the potential agency costs of debt (Barro 1976; Benjamin 1978; Jackson and Kronman 1979; Smith and Warner 1979).

Stulz and Johnson (1985) formalize the earlier analysis and show that secured debt reduces potential risk-taking behavior of the borrower and thus reduces monitoring costs to the lender. Leeth and Scott (1989) found that secured debt is positively associated with loan default probability, asset marketability, and loan size.

Krishnan and Moyer (1994) examined the lease/borrow decision, giving explicit recognition to the role bankruptcy costs play and to the relative transactions costs of leasing and borrowing. Their empirical analysis shows that lessee firms have lower retained earnings relative to total assets, higher growth rates, lower coverage ratios, higher debt ratios, and higher operating risk than non-lessee firms. Leasing is shown to involve lower bankruptcy costs than borrowing. Overall, their results indicate that as bankruptcy potential increases, lease financing becomes an increasingly attractive financing option. In the event of a default on a lease prior to bankruptcy, a lessor is entitled to recover damages consistent with the damages-on-default provision contained in the lease. This provision normally takes the original cost of the asset, subtracts the expected salvage value at the termination of the lease, and applies some form of accelerated depreciation over the remaining amount to determine the amount of recovery.

2.12.1 The similarities between a loan and a financial lease

The lessee and borrower have the choice over the acquisition of the asset. The borrower and lessee (providing the terms of the lease are met) would be able to retain the asset once payments are complete. Over the period of loan and lease, interest and capital (equipment cost) are repaid. Should there be default on either a loan or a lease, as long as the loan is secured, both the lender and lessor have legal rights to reclaim/repossess assets. The risks and costs of ownership, including maintenance and obsolescence, remain with the borrower and lessee.Also, under both a loan and a financial lease, if the asset appreciates neither the lender nor the lessor benefits.The agreements are non-cancelable until either the lessor or the lender has recovered its outlay.The borrower or lessee can either settle the agreement (in the case of the lease) or repay the loan early.

2.13 Financial Leases and Hire Purchases

In some countries, a distinction is made between lease and hire-purchase transactions. A hire-purchase transaction is usually defined as one where the hirer (user) has, at the end of the fixed term of hire, an option to buy the asset at a token value. In other words, financial leases with a bargain buyout option at the end of the term can be called a hire-purchase transaction.

Hire-purchase is decisively a financial lease transaction, but in some cases it is necessary to provide the cancellation option in hire-purchase transactions by statute.That is, the hirer has to be provided with the option of returning the asset and walking away from the deal. If such an option is embedded, hire-purchase becomes significantly different from a financial lease as the risk of obsolescence gets shifted to the hire-vendor. Under these circumstances, if the asset were to become obsolete during the hire term, the hirer may off-hire the asset and closes the contract, leaving the owner (the lessor) with less than a full payout from the lease.

Hire-purchase is of British origin the device originated long before leases became popular and spread to countries that were then British dominions. The device is still popular in Australia, Britain, India, New Zealand, Pakistan, and in several African countries. Most of these countries have enacted, in line with the United Kingdom, specific laws addressing hire-purchase transactions. (IFC, 1996)

2.14 Advantages of leasing

For businesses, leasing property may have significant financial benefits. Leasing is less capital intensive than purchasing, so if a business has constraints on its capital, it can grow more rapidly by leasing property than it could by purchasing the property outright.

Capital assets may fluctuate in value. Leasing shifts risks to the lessor, but if the property market has shown steady growth over time, a business that depends on leased property is sacrificing capital gains.

Because of investments which are done with leasing, new businesses are formed. Furthermore, unemployment in that country is decreased.

Leasing may provide more flexibility to a business which expects to grow or move in the relatively short term, because a lessee is not usually obliged to renew a lease at the end of its term.

In some cases a lease may be the only practical option; such as for a small business that wishes to locate in a large office building within tight locational parameters.

Depreciation of capital assets has different tax and financial reporting treatment from ordinary business expenses. Lease payments are considered expenses, which can be set off against revenue when calculating taxable profit at the end of the relevant tax accounting period. (http://en.wikipedia.org/wiki/Leasing)

Leasing provides 100% financing: Most leases simply require first and last payments paid in advance and a small documentation fee. No security deposits or up-front money is required. Leasing can provide up to 100% of a company's financing needs. The lessee incurs minimum capitaloutlay required since the lessor finances the majority of the capital expenditure.

Leasing preserves credit lines: Credit lines with banks and other depository institutions are precious and hard to establish. Conserve those lines for inventory, A/R or other uses and emergencies. EFSI will take care of the financing for your capital equipment so that your lines of credit remain free.

Leasing increases purchasing power: Your needs may be for a $50,000 machine but your available cash/credit only allows for $30,000, hence you settle for a smaller piece of machinery that only meets your needs half-way.

Leasing balances usage and cost: Leasing makes sense when the equipment you use creates a return that exceeds its cost. In other words, leasing allows you to set a fixed monthly payment for the use of equipment that creates an anticipated return exceeding that payment. That way you are certain that your operation is profitable and the equipment serves its purpose.

Leasing provides fixed rate financing: Leasing is not subject to market fluctuations and interest rate increases. You can negotiate the monthly payments up front and secure a fixed rate for the life of the lease. This makes it much easier to project cash flow and budgets for planning purposes.

Leasing is convenient: Unlike dealing with bank loans and other alternative types of financing, leasing is an easy and convenient process. Typically, all we require is a one-page application for any request up to $50,000. Any request above that amount will require some financial disclosure.

Leasing is tax-advantaged: When structured properly, a lease agreement may allow you to receive tax benefits. Lease payments are usually considered "Pre tax" rather than "after tax" this means you can write-off payment for tax purposes, whereas when borrowing you can usually write-off only interest paid.

Leasing is a hedge against inflation: Since your payments apply to the use of the equipment you do not pay for ownership on equipment that consistently depreciates. Furthermore, your cash savings can yield a return that fights inflationary pressures.

Leasing provides flexible payments: Lease payments can be structured to meet your needs. This adjustment is possible by correcting the residual value of the equipment due at lease end. By changing your end of lease balloon payment from $10,000 to $25,000 for example, you can lower your monthly payment significantly.

Leasing provides options: Leasing provides flexible end of lease options. Equipment at the end of the lease term can returned, extended or purchased. (www.efsolutionsinc.com/Advantages of leasing.htm).

Security: The lessor already owns the asset and so may require little or no additional collateral.

Affordability: Leasing is often cheaper than bank credit, especially considering collateral requirements, processing timeand fees.

Medium term financing: Leasing is often the only source of medium-term financing for SMEs' as maturity can be up to 5 years.

Flexibility or repayment

Lease rental payments can be tailored to match cashflow patterns and expectation of a business.

Fixed rate finance: Unlike some credit facilities such as a bank loan andoverdrafts, the repayments remain fixed throughout thelease period.

Leasing is a cost effective option for the financing of your core business fixed assets. With a leasing construction, you are able to invest and modernize your core business assets in line with your business needs.

Leasing is a long-term financial solution, usually with a 2-5 years term. You should pay only a few percentage of the purchase price as a down payment, you should not pay the whole sum by cash, while you have the opportunity to modernize and improve your equipment.

By using the leased asset, the cost of leasing could be cleared, so your cash-flow will be more in line with your business revenues. Payment period of the leasing fees can be matched to your company's income stream.

Collateral is the asset, so usually there is no need to provide other collaterals. Usually the value of collateral is less than in case of a loan; there is only a few situations when additional collateral will be required.

Fast and simple financial decision, flexible services. Rent (operative leasing). Off-balance financing, provides a faster cost clearing, could provide solutions for those cases, when there's no way to manage investment by having the ownership (for example due to bank facility limits or other internal restrictions), rental fees can be cleared as a cost item. (Investment Policy Review Rwanda, United Nations Conference on Trade and Development, Geneva, 2006, page 7).

2.15 Advantages of leasing to the lessors

Security since lessors own the assets and can rep[ossess them immediately upon non repayment, the security is easier to claim than when the financierhas to file a legal claim against a client's collateral, often through poorly developed court systems. In Rwanda this is very important because lack of collaterals is the major hindrance to development as it is believed that Rwanda can only develop through effective SMEs.

Effective credit control. Leasing is an effective credit control since the lessor purchases equipment and then leases it. Thus, there no opportunity for the lessee to divert the funds. (IFC, 2005).

2.16 Problems of Leasing

Tax Considerations: Most people believe that lessees prefer leasing because of the tax benefits it offers. In reality, it only transfers; the benefit i.e. the lessee's tax shelter is lessor's burden. The lease becomes economically viable only when the transfer's effective tax rate is low. In addition, taxes like sales tax, wealth tax, additional tax, surcharge etc. add to the cost of leasing. Thus leasing becomes more expensive form of financing than conventional mode of finance such as hire purchase.

Resource constraints: Lack of licensing requirements from the Reserve Bank and the Government.

Risk of obsolescence: The leasing company will get into much trouble since it has to bear the capital loss in case of obsolescence.

Non-availability of sales tax consideration: The implications of sales tax on lease rentals make leasing correspondingly more expensive as the cost of the equipment required under leasing becomes inflated to the extent of sales tax paid by the leasing companies. A combination of higher rate of sales tax on the acquisition of capital equipment and tax on lease rental payments makes the leasing transactions totally uneconomical.

Cut throat competition: Most of the companies doing leasing business come out with maiden dividends. But the companies are paying more interest on loans taken from the financial institutions or commercial banks. In such a situation, the lease rentals have to be increased. But it is not easy to raise the rental payment because the customers are used to lower rates. Thus, lack of finance has become one of the important obstacles to leasing companies on the way of progress.

Lack of qualified personnel: Leasing requires qualified and experienced people at the helm of its affairs. Leasing is a specialized business and persons constituting its top management should have expertise in accounting, finance, legal and decision areas. The nature of the leasing and hire / purchase business is nothing but financing the capital equipment to the capability of borrowed party, legal matters, recovery of rentals following a special system.

Delay in rental payments: The late payment of rent has some cost as per the lessor's point of view. But the lessor, while fixing the lease rentals does not take into consideration the delay in recovery of the rentals at the time of lease agreement. Again, there is another type of cost involved in the leasing activity in terms of bad debts. These two types of risks can disturb the future prospects of leasing business.

Attitude of government: The government has not so far come out with well defined guidelines with regard to sales tax and investment allowances of leasing business. (www.mbaknol.com/business-finance/problems-of-leasing)

2.17 Leases Effects

2.17.1 Financial Statement Effects

Lease payments are shown as operating expenses on a firm's income statement, but under certain conditions, neither the leased assets nor the liabilities under the lease contract appear on the firm's balance sheet. For this reason, leasing is often called off balance sheet financing which permits a firm to obtain more financial leverage if it leases than if it uses straight debt. This was cited as a major reason for leasing. Today, however, taxes are the primary reason for the growth of financial leasing. Leasing permits the tax shelters (depreciation expenses and the investment tax credit) to be transferred from the user of an asset to the supplier of capital, and if these parties are in different tax brackets, both can benefit from the lease arrangement.

2.17.2Tax effects

The full amount of the annual lease payment is a deductible expense for income tax purposes. This makes it important that a lease contract be written in a form acceptable to the income tax authority. In the USA, the IRS considers any agreement to be a sale if (1) the total lease payments are made over a relatively short period and approximate the price of the property, and (2) the lessee may continue to use the property over the remainder of its useful life for relatively nominal renewal payments. The reason for the IRS's concern about these factors is that without restrictions, a company could set up a "lease" transaction calling for very rapid payments, which would be tax deductions. The effect would be to depreciate the equipment over a much shorter period than its Accelerated Cost Recovery System (ACRS) class life. Therefore, if any type of contract could be called a lease and given tax treatment as a lease, then the timing of the tax shelters could be speeded up as compared with ownership depreciation tax shelters. This speedup would benefit the firm, by providing high tax saving in the early years, but it would be costly to the government.

2.17.3 Accounting problems caused by leases

Accounting scholars identify special features of lease arrangement that cause unique accounting problems such as disclosing lease data (Kieso and Weygandt 1998). The IAS 17, regarding lessees suggesting that an entity should disclose for each class of asset the net carrying amount of finance leases (IAS 17; 23 (a)). An entity should present reconciliation between the total of minimum lease payments at the balance sheet date and their present value (IAS 17; 23 (b)). An entity should disclose the contingent rents recognized as expenses for the period; the total of future minimum sublease payments expected to be received under non-cancelable sub-leases at the balance sheet date; and a general description of the lessee's significant leasing arrangements including the basis on which contingent rent payments are determined, the existence and terms of renewal or purchase options and escalation charges, and restrictions imposed by lease agreements.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

This chapter presents the methodology used to carry out the research entitled « Lease financing and performance of Banks in Rwanda », A case of Rwanda Development Bank. It describes the methods and techniques used during data collection to fill the gap in the existing literature on lease financing in Rwanda. It shows sample size, data collection methods and techniques during the research study.

3.1 Research Design

The research design used was quantitative methodology. That quantitative paradigm that was used produced numerical or quantifiable data and statistical tools used for analysis (Mugenda &Mugenda, 2003).

According to Ferd (2009), Selltiz et al said: a research design is the arrangement of conditions for collection and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure. Research design is a framework or blueprint for conducting the research project. It details the procedures necessary for obtaining the information needed to structure and/or solve research problems. Questionnaires and interview were used to analyse descriptive data. The research describes the lease financing and performance of banks using primary and secondary data collected from Rwanda Development Bank (BRD).

3.2Population and sampling

3.2.1 Population under study

Population is the study object, which may be individuals, goups, organizations, human and events, or the conditions to which they are exposed (Welman and Kruger 2000: 47).

The population covered 10 employees from investment department 10 from Finance Department and 10 from lessees of Rwanda Development Bank.

3.2.2 Sample size

According to the time limit and financial constraints, BRD was selected as being representative of other banks. This entity was chosen by researcher because it was easy to get information with minimum time and cost.

The sample size used was 30 staff from investment, and Finance Departments and lessees. They were given questionnaires to respond and were interviewed where the response was not satisfactory. The sample size of 30 respondents was selected from the staff and lessees of that bank by use of judgemental and purposive non random sampling technique.

Table 3.1: Summary of the sampling methods

Population	Sample	Sample size
10 employees of investment department where leasing is located.	10 employees of investment department	10
10 employees of Finance department where accounting section is located.	10 employees of Finance department where accounting section is located.	10
10 lessees of Rwanda Development bank	10 lessees of Rwanda Development bank	10

3.2.3. Sampling Tools/Techniques

Purposive non random sampling thechnique

Baily (1978:83), in purposive or judgemental sampling, the researcher uses his own judgement about which respondents to choose, and picks only those who best meet the purpose of the study. To him, purposive sampling is advantageous as the researcher uses his research skills to choose respondents. It is in this context that the researcher used judgemental sampling technique which he found relevant and applicable to use in selecting respondents of the study population. He belived that selected respondents had the required information than unselected ones.The reseacher used this technique to get information from the selected staff and clients of BRD.

3.3 Sources of data collection

Different collection tools were used as practical means of obtaining information related to the reseach topic.

3.3.1 Primary data

Primary data are those data collected afresh and for the first time, and thus happens to be original in character (Kothari, 2007).

In order to be able to collect primary data, the researcher used questionnaire and interview as methods of data collection.

3.3.2 Secondary data

According to Will KABERUKA (2003:56), Secondary data are data collected from existing information that was compiled by others.

In collecting secondary data, the reseacher used documentation review method. This data collection process was based on reading leasing contracts, leasing documents, books from different financial institutions dealing in leasing business, reports from IFC, internet, recovery documents and audited financial reports from the investment and Finance depatment.

3.4 Research instruments

The researcher in the process of accessing and coming in getting data, and making recommendation based on findings the questionnaire, interview and documentation were utilized.

3.4.1. Questionnaire

A questionnaire is a set of questions to which respondents answer in writing (Tereza, 2002).

Under this study, the researcher prepared the questionnaire in English and printed for RDB staff. The questionnaire covered closed and open ended questions. The closed ended questions required simple answers, while open ended questions required giving fully their opinions regarding questions being asked in the study.

The questionnaires were distributed in RDB to the selected respondents. The researcher took 2 days to reach 30 respondents. All questionnaires distributed were not collected. But the majorities were collected, others were left vacant and some gost lost. Out of 30 respondents who received the questionnaires, only 27 were collected when they are filled, one of the respondents went out of the country in the official mission and the remaining two did not fill these questionnaires. Hence those 3 were counted a non response. Briefly, the response rate, 27/30*100 = 90 and the non response rate, 3/30*100 =10.

3.4.2. Interview

The interview to BRD staff and lessees, seven questions were used where some data were not well explained. The interview technique was chosen as one of best instruments of research due to its flexibility, uniformity, and consistency of responses. Hence the interviewer had control over the entire interview, which was important in the data collection process.

3.4.3. Documentation

The documentation had a particular role for this research, where the research used various books, leasing contracts, leasing documents, books, internet materials from differen web-sites, recovery documents and audited financial reports.

3.5 Data Analysis

The reseacher used editing, coding and tabulation methods to process, analyse and interpret the collected data relating to the reseach topic, all these aimed at reducing detailed data to manageable proportion and summarizing it in a form that would bring the salient features.

3.5.1 Edition

Is defined as inspection and collection, if necessary, of each questionnaire or by observation form. In the process of editing the data collection forms must be scanned to be sure that they are complete, constant, and instructions are followed. In editing process, errors and complete interview, schedule and the questionnaire are identified whenever possible. During this research editing was done to provide clarity, accuracy, consistency and completeness in questionnaire, in order to create, better ground of coding, tabulation and analysis. After collecting the data, the practice of inspection of editing was exercised in order to discover items that may have been understood by respondents, to detect gap and other weakness in the data collection methods.

3.5.2 Coding

It enables to classify the responses into meaningful categories to bring out their essential pattern. Coding was used in the study to summarise data by classifying the different respondents into categories for easy manipulation.

3.5.3 Tabulation

After editing and coding, tabulation is the final step in processing the data where tabulation refers to the part of technical process in statistical analysis of data that involves counting to determine the number of cases that fall into the various categories. According to Churchill (1992), refers to the orderly arrangement of the data in a table or other summary format achieved by counting the frequency of responses to each question. He mentioned that, at this point data may be cross classified by other variables.

3.5.4 Data analysis

Under this study, data collected were analysed by coding and organizing them into themes and concepts. The data were organized in form of text charts and tables.During this research the statistical were used to compare of occurrences of each answer to the question asked. Up to this level, its trough mathematical and statistical tables that the number of accurate of each answer in relation to each question asked was converted into percentages to make it clear that one can get the message in complete and understandable manner.

3.6 Limitations

The reseacher encountered the problem of language barrier and of most of documents were in french and needed to be interpreted first. As the researcher was bilingual, he translated from French to English.

The reseacher also encountered financial constraints and some respondents were suspicious to the study and were reluctant to give the required information. To get information, the research explained the respondents that the information is only for academic purpose and it will be kept confidentially.

He encountered also the problem of lack of extensive literature on leasing in Rwanda since it is a new financing mechanism. To overcome this limitation, the researcher consulted documents; he took time to collect information from reports, to access the intenet day and night and tried to read books containing information relating to leasing theory.

3.7 Ethical Considerations

The researcher kept confidently the data provided by managers of Rwanda development Bank. Data were used for academic purposes only.

The major ethical issues of concern are informed consent privacy and confidentiality, anonymity and researchers' responsibility. The researcher kept confidently the data provided by RDB staff and Lessees.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 INTRODUCTION

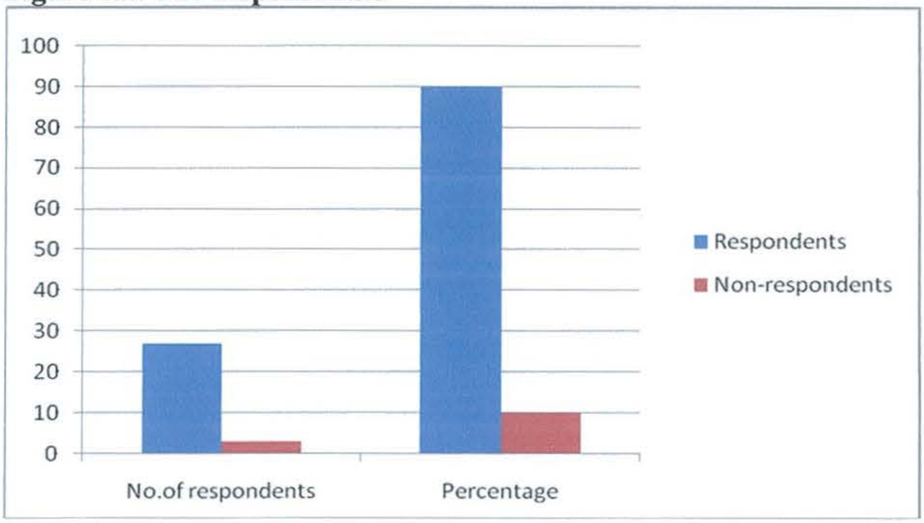
This chapter deals with the presentation analysis and discussion of findings. The findings are related to study entitled « Lease Financing and Performance of Banks in Rwanda.
The analysis of the study was done in accordance with the study objectives, purpose, research questions, problem statement and literature review. For good analysis and interpretation, tables and charts were utilized.
Qualitative and quantitative techniques were used to analyse data. The reseacher used qualitative technique to calculate numerical data, while the quantitative was used to deal with contextual and emotional aspects of the respondents.

Table 4.1: The response rate

Description	No.of respondents	Percentage
Respondents	27	90%
Non-respondents	3	10%
Total	**30**	**100%**

Source : Primary data

Figure 4.1: The response rate



Primary data

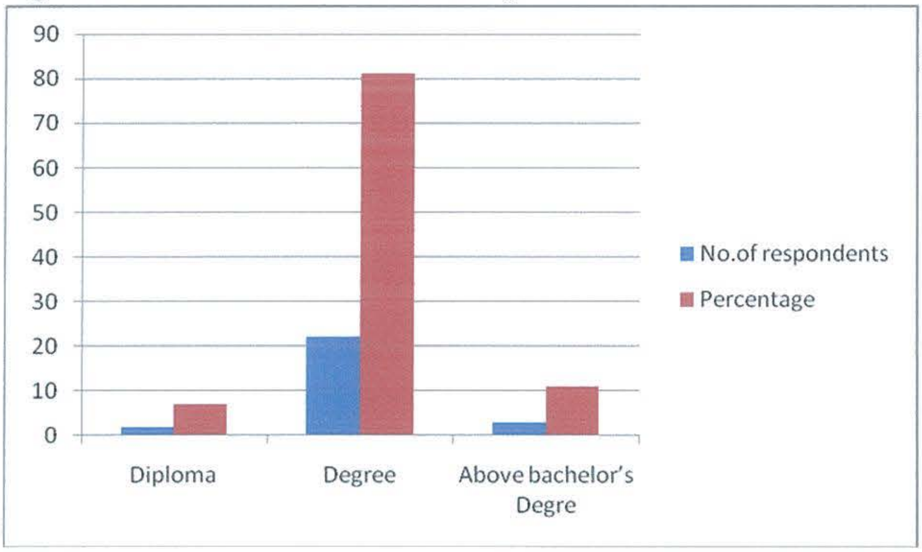
The Table 4.1 and figure 4.1 above show that out of 30 respondents, only 27 giving 90% were counted respondents whereas 3 giving 10% were counted non respondents.

Table 4.2: Educational level of the respondents

Level of education	**No.of respondents**	**Percentage**
Diploma	2	7%
Degree	22	81%
Above bachelor's Degre	3	11%
Total	**27**	**100%**

Source : Primary data

Figure 4.2: Educational level of the respondents



Source : Primary data

According to the above table 4.2 and figure 4.2 above, 81% of the respondents are holders of Bachelor's degree, 11% are above bachelor's Degre and the rest are holders of Diploma. However, there is a problem of lack of experts and professionals in BRD leasing business. This means that most banks in Rwanda use Bachelor'Degree holders in their financial activities.

4.1 Starting period of providing lease services in Rwanda

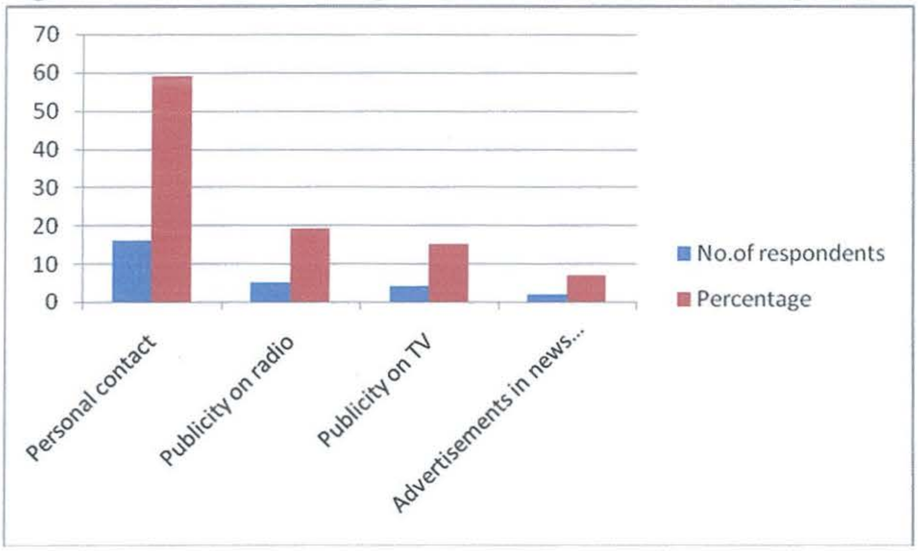
Leasing services in Rwanda are offered by seven financial institutions. They include Rwanda Development Bank, Five commercial banks (FINABANK, BCR, BANCOR, ECOBANK, and COGEBANK) and one Rwanda Microfinance institution. Officially, leasing services were launched in 2006. FinaBank launched leasing as a new product on 15th February 2006. BCR is the second commercial bank provided the leasing services in Rwanda. COGEBANK was the third commercial bank to provide leasing services in Rwanda; it started to provide leasing facilities in the second half of the year 2006. BANCOR started providing leasing facilities in 2007. Since 2007, Rwanda Development Bank (BRD) officially invested in leasing sector. By June 2008 the leasing transactions were over US$ 20 million. Thus, lease financing activities are new and since their introduction they have 6 years operating in Rwanda. (Leasing Market in Rwanda, (May 2009), Produced by IFC Rwanda CEDP Leasing Development Program).

Table 4.3: Means of creating awareness about lease financing services

Means	**No.of respondents**	**Percentage**
Personal contact	16	59%
Publicity on radio	5	19%
Publicity on TV	4	15%
Advertisements in news papers	2	7%
Total	**27**	**100%**

Source : Primary data

Figure 4.3: Means of creating awareness about lease financing services



Source: Primary data

According to the above table 4.3 and figure 4.3 above, Personal contact occupy the first place with 59% of all the way people aware of leasing financing services, publicity on radio occupies 5 respondents giving 19% while publicity on TV occupies 4 respondents giving 15% and the remaining is for advertisement in news paper which occupies 2 respondents giving 7%. According to the results of this research, the customers who interact with the bank are the ones who receive the information and participate in lease financing activities. This shows that the bank does not put more emphasis on advertisements and the lessees are not well aware of lease financing in BRD.

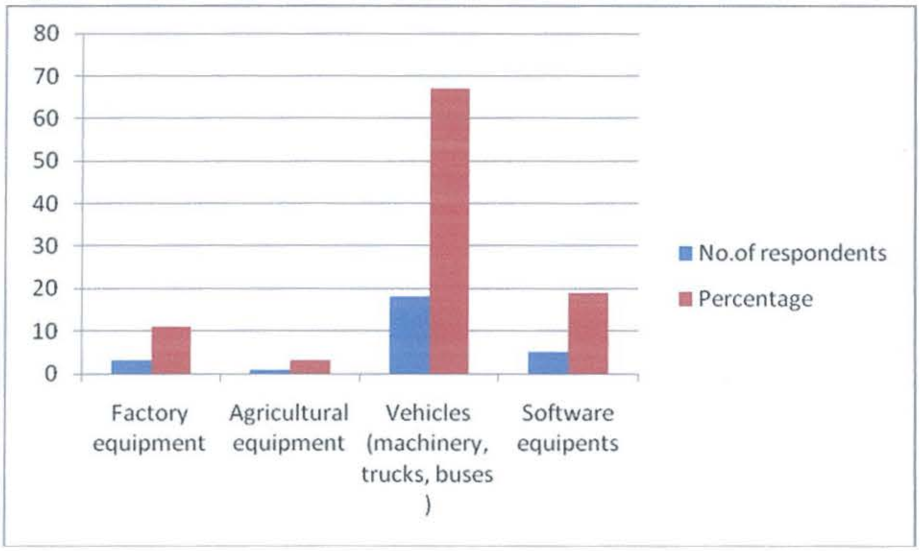
Consequently, it seems that the ways used to make it known are not effective since leasing is a complex service in that the concept is new and also extensive explanations are required to make people in need of finances to use it. In Rwanda people are used to loans as a source of finance.

Table 4.4: Leasing financing equipment facilities provided

Lease equipment	**No.of respondents**	**Percentage**
Factory equipment	3	11%
Agricultural equipment	1	3%
Vehicles (machinery, trucks, buses etc)	18	67%
Software equipents	5	19%
Total	**27**	**100%**

Source : Primary data

Figure 4.4: Leasing financing equipment facilities provided



Source: Primary data

According to the results in the above table 4.4 and figure 4.4 above, out of 27, 18 respondents giving 67% confirmed lease vehicles, 19 % of respondents lease software equipments, 11% lease factory equipments, and 3% lease agricultural equipments. This means that vehicles are preferred more than other equipments. This is due to the fact that in case of default payment, lessees should sell the vehicles to the second hand market.

In an interview that the researcher conducted, lessors were asked the type of leasing facilities provided to their lessees. They responded that there are various facilities they provide. They provide operating lease, financial lease and micro lease. These comprise lease financing equipments such as machinery equipments used in the factory, factory equipments, trucks to off loading and loading goods contained in containers by Public warehouses, trucks to import and export goods, business and personal vehicles, office equipments, agricultural equipments and software equipments. The lessee has to specify the features of equipment and provide all the required documents showing the details and requirements to facilitate the purchase of that equipment. They also explained that because this system is new in Rwanda, a number of lessees do not know the above facilities. And thus, the lease financing mechanism is still at low level compared to normal loans. The following are required documents, one must present while applying for a leasing:

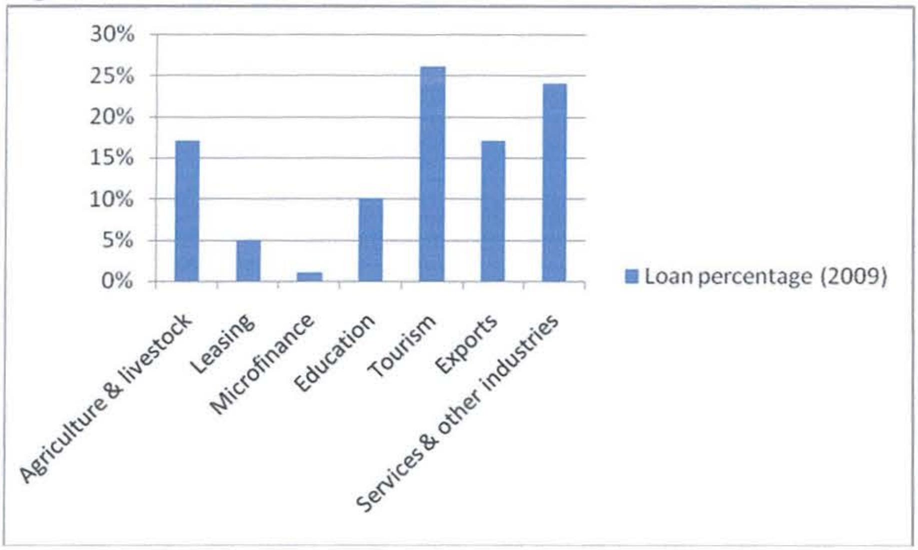
Application letter indicating the purpose amount, repayment period and own contribution;
Pro-forma invoice of the equipment;
Copy of company certified statutes;
Copy of certificate of registration;
List shareholders, what they do and where they are located;
A list of management team, age, qualification, experience and number of other staff;
Financial statements for 3 preceding financial years;
Projected profit and loss account for the period of the lease;
Copy of I.D. card;
Copy of account history;

Table 4.5: Rwanda Development Bank level of annual loans

Sectors	**Loan percentage (2009)**
Agriculture & livestock	17%
Leasing	5%
Microfinance	1%
Education	10%
Tourism	26%
Exports	17%
Services & other industries	24%
Total	**100%**

Sources: annual report (2009)

Figure 4.5: Rwanda Development Bank level of annual loans



Sources: annual report (2009)

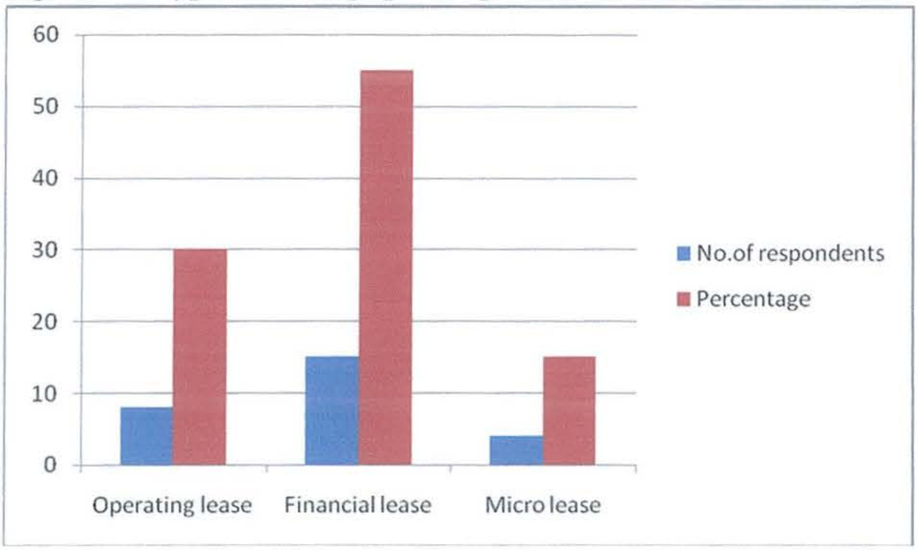
The dominant sector for that year was tourism with a rate of 26% of annual credit, followed by services and other industries with 24% of annual credit, the next were agriculture and livestock, and export to the some rate of 17% of annual credit, now the education with 10% of annual credit rate, then leasing with 5% rate, finally microfinance with 1% rate. This means that from the total of 100%, leasing takes only 5% and the 95 % is for normal loan.

Table 4.6: Types of leasing operating in Rwanda

Type	No.of respondents	Percentage
Operating lease	8	30%
Financial lease	15	55%
Micro lease	4	15%
Total	**27**	**100%**

Source : Primary data

Figure 4.6: Types of leasing operating in Rwanda



Source: Primary data

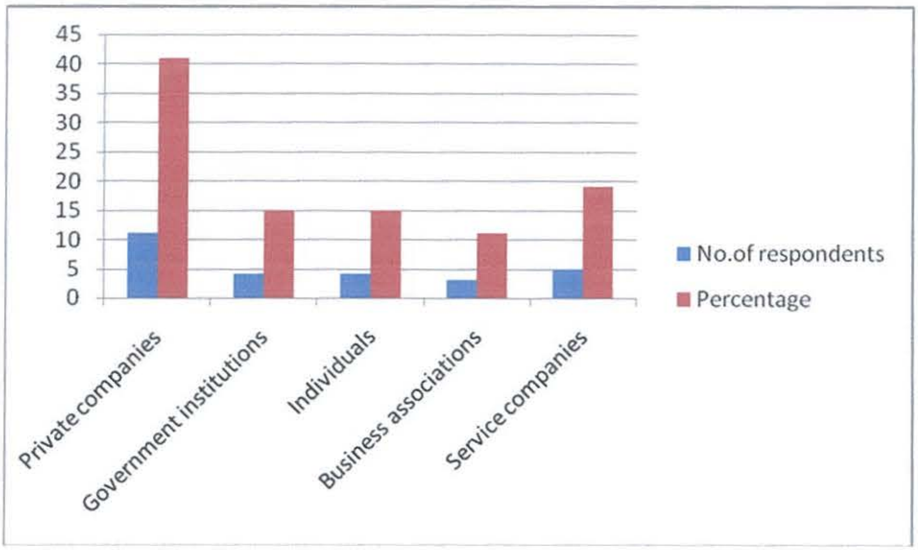
According to the results in the above table 4.6 and figure 4.6 above, out of 27, 15 respondents giving 55% confirmed that financial lease is the first to be used in Rwanda while operating lease with 30% takes the second place and then Micro lease with 15%. This means that lessees have various options to choose the type of lease financing.

Table 4.7: Distribution of respondents according to the kind of customers that lessors deal with

Type of customer	**No.of respondents**	**Percentage**
Private companies	11	41%
Government institutions	4	15%
Individuals	4	15%
Business associations	3	11%
Service companies	5	19%
Total	**27**	**100%**

Source: Primary data

Figure 4.7: Distribution of respondents according to the kind of customers that lessors deal with



Source: Primary data

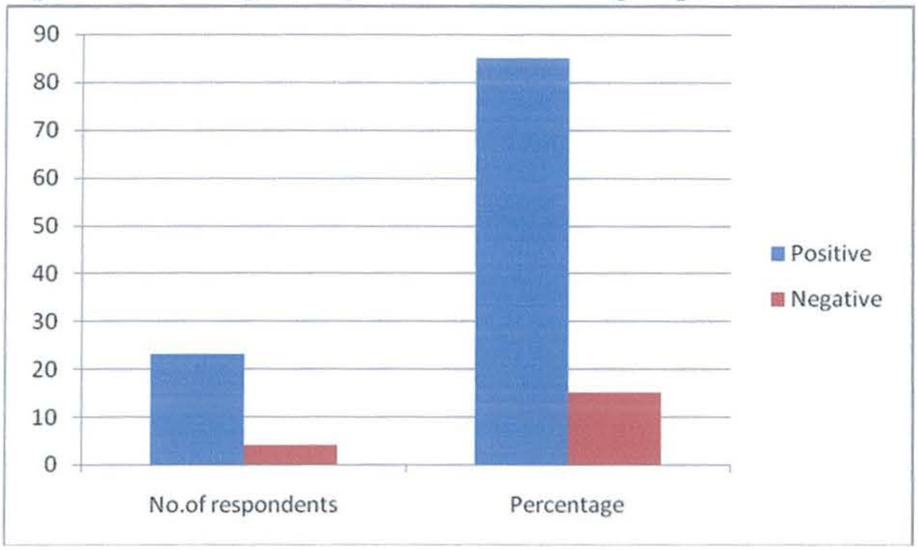
According to the results in the above table 4.7 and figure 4.7 above, 41% of all lessees are private companies, 19% are service companies while 15% of respondents said that Governement institutions and individuals have the same rate and the remaining 11% of lessees come from business associations. This means that private companies are the first one to finance their activities though lease investments.

Table 4.8: Showing the impact of lease financing on performance of RDB

Impact	No.of respondents	Percentage
Positive	23	85%
Negative	4	15%
Total	**27**	**100%**

Source : Primary data

Figure 4.8 Showing the impact of lease financing on performance of RDB



Source: Primary data

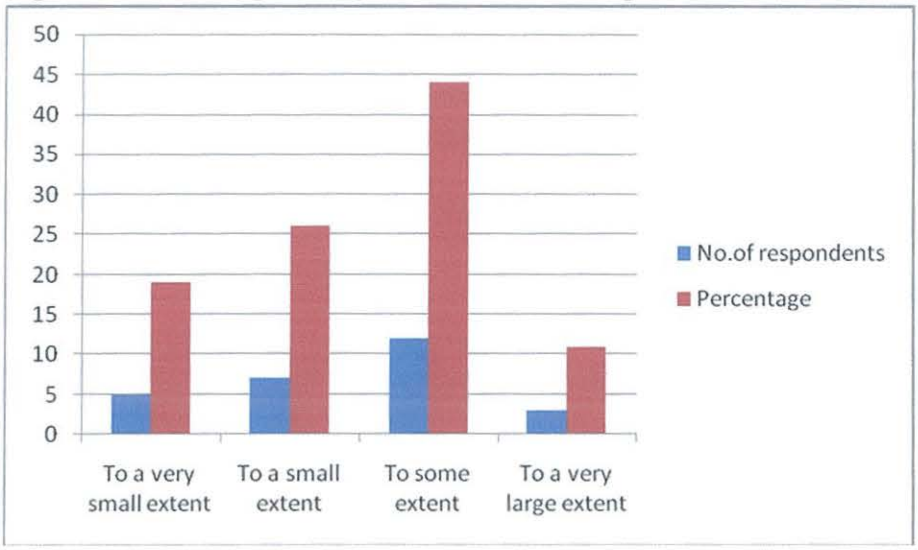
According to the results in the above table 4.8 and figure 4.8 above, 23 out of 27 respondents giving 85% said that lease financing has a positive performance on the bank while the remaing 4 respondents giving 15% said that lease financing has a negative impact. This means that lease financing helps to increase the performance of the bank and the country in general.

Table 4.9: Showing the degree of lease financing success

Degree of success	**No.of respondents**	**Percentage**
To a very small extent	5	19%
To a small extent	7	26%
To some extent	12	44%
To a very large extent	3	11%
Total	**27**	**100%**

Source : Primary data

Figure 4.9: Showing the degree of lease financing success



Source: Primary data

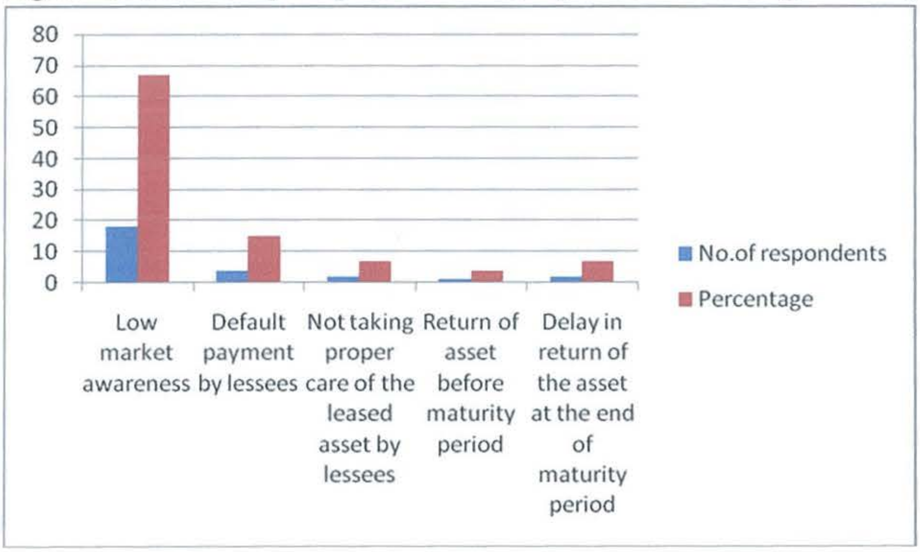
According to the results in the above table 4.9 and figure 4.9 above, out of 27 respondents, 12 respondents giving 44% confirmed that the degree of lease financing success is to some extent, 7 respondents giving 26% confirmed that it is to a small extent, 5 respondents giving 19% confirmed that it is to a very small extent, 3 respondents giving 11% confirmed that it is to a very large extent. This means that respondents' views on leasing success are different. However, the degree of lease financing success is increasing. This shows that as lessees will be aware of lease financing facilities, lessors mode of financing assets acquisition will succeed.

Table 4.10: Showing the problems faced by lessors in leasing financing activities

Problem	No.of respondents	Percentage
Low market awareness	18	67%
Default payment by lessees	4	15%
Not taking proper care of the leased asset by lessees	2	7%
Return of asset before maturity period	1	4%
Delay in return of the asset at the end of maturity period	2	7%
Total	**27**	**100%**

Source : Primary data

Figure 4.10: Showing the problems faced by lessors in leasing financing activities



Source: Primary data

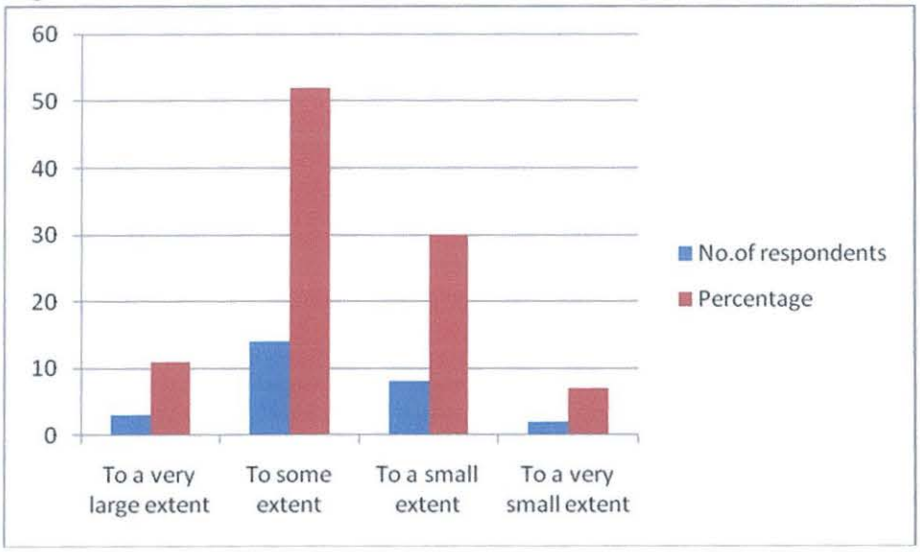
According to the results in the above table 4.10 and figure 4.10 above, 67% of respondents confirmed that the major problem faced by lessors is low market awareness, 15 % of respondents said that lessors experienced the problem of default payment by lessees which leads to non performing loans and bad debts, 7% of respondents experienced the problem of not taking proper care of the leased asset by lessees, and also 7% experienced the problem of delay in return of the asset at the end of maturity period, and the remaining 4% of respondents experienced the problem of returning the asset before maturity period on the part of lessees. This means that market awareness becomes the major problem hindering the RDB to achieve the objectives.

Table 4.11: Extent to which the lessors have enough clients

Extent	No.of respondents	Percentage
To a very large extent	3	11%
To some extent	14	52%
To a small extent	8	30%
To a very small extent	2	7%
Total	**27**	**100%**

Source : Primary data

Figure 4.11: Extent to which the lessors have enough clients



Source : Primary data

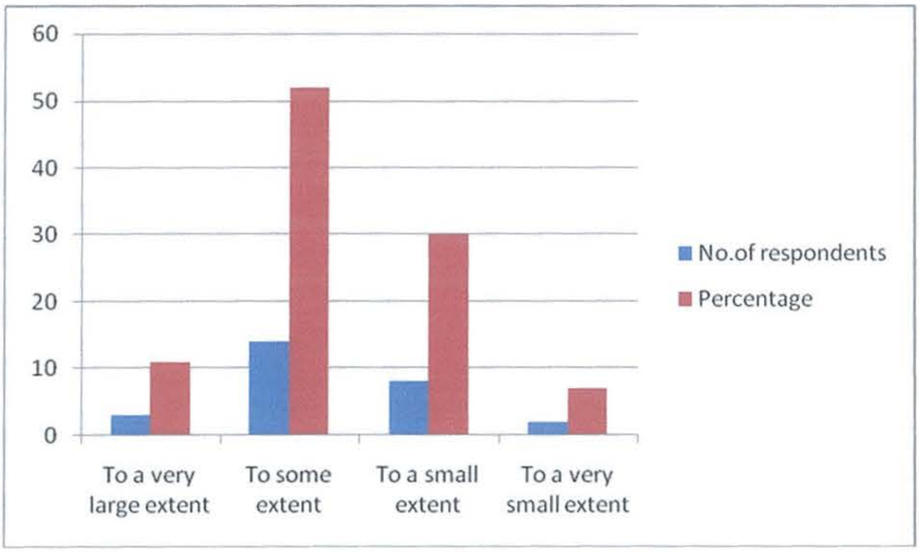
According to the results in the above table 4.11 and figure 4.11 above, out of 27 respondents, 14 respondents giving 52% said that they have clients to a large extent, while 30% of respondents said that they have clients to a small extent, 11% of them said that they have clients to a very large extent and 7% said that they have clients to a vey small extent. This shows that the number of clients is still growing.

Table 4.12: Showing the participation of clients in lease financing in comparison to normal loan

Clients participation in	No.of respondents	Percentage
Normal Loan	25	93%
Leasing	2	7%
Total	**27**	**100%**

Source : Primary data

Figure 4.12: Showing the participation of clients in lease financing in comparison to normal loan



Source : Primary data

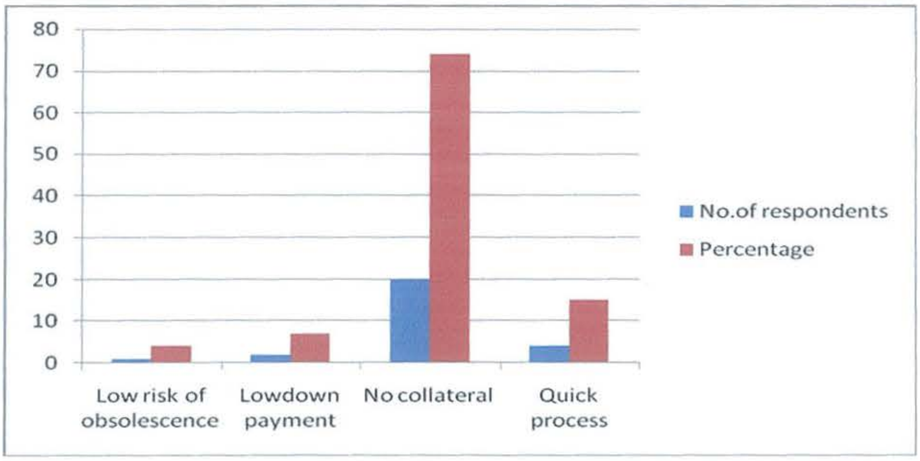
According to the results in the above table 4.12 and figure 4.12 above, out of 27 respondents, 25 respondents giving 93% said that clients participate in normal loan, whereas only 2 respondents giving 7% said that clients participate in leasing financing activities. This shows that the usage of lease facilities is at low level and lessees are still using loans to finance their businesses. Loans are used to finance various activities such as the purchase of equipments, machinery, trucks, softwares. Not only to finance business activities but also to finance other family issues such insurance, school fees etc. Indeed, lesssees are not aware of lease financing because it is the new product to the Rwandan market.

Table 4.13 Advantages of lease financing over the normal loans

Advantages	No.of respondents	Percentage
Low risk of obsolescence	1	4%
Lowdown payment	2	7%
No collateral	20	74%
Quick process	4	15%
Total	**27**	**100%**

Source : Primary data

Figure 4.13: Advantages of lease financing over the normal loans



Source : Primary data

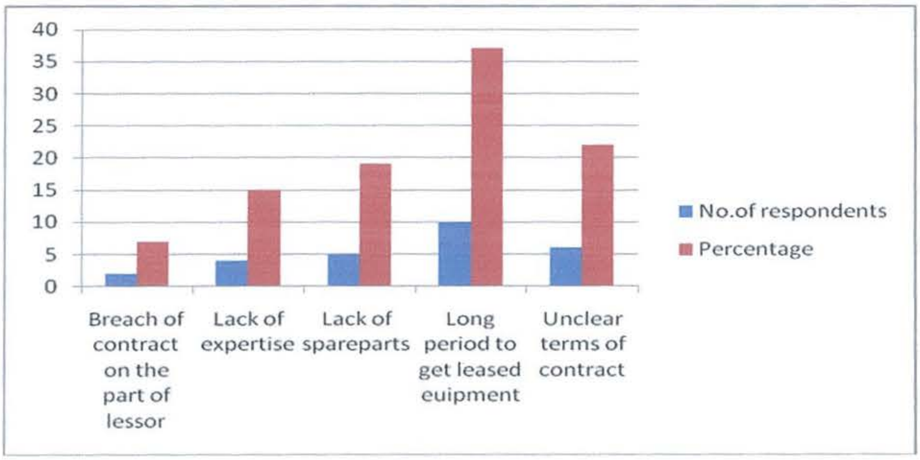
According to the results in the above table 4.13 and figure 4.13 above, out of 27 respondents, 20 respondents giving 74% said that the main advantage of lease financing to lessees is no collateral. 4 Respodents giving 15% said that the advantage is leasing takes a short period less than normal loans in Rwanda. Whereas 2 respondents giving 7% said that it is lowdown payment and the remaing 4% said that it is the advantage of low risk of obsolescence.This means that the lessees's main advantage to participate in leasing is no collateral. And thus, lessees know other advantages of this new product in Rwanda.

Table 14: Showing the problems of lessees in Rwanda

Problems	**No.of respondents**	**Percentage**
Breach of contract on the part of lessor	2	7%
Lack of expertise	4	15%
Lack of spareparts	5	19%
Long period to get leased equipment	10	37%
Unclear terms of contract	6	22%
Total	**27**	**100%**

Source : Primary data

Figure 4.14: Showing the problems of lessees in Rwanda



Source: Primary data

According to the results in the above table 4.14 and figure 4.14 above, lessees encountered different problems. 10 respondents out of 30 giving 37% confirmed that it takes a long period to get leased equipment. 6 respondents giving 22% said that the next problem is unclear terms of contract. 5 respondents giving 19% confirmed the problem of lack of spareparts for the leased equipments. 4 respondents giving 15% confirm the problem of lack of expertise to use the leased asset and the remaining 2 respondents giving 7% encountered the problem of Breach of contract.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0 Summary

This study is designed to assess the leasing financing and performance of banks in Rwanda. Rwanda Development Bank was used as a case study to represent other institutions that are engaged in leasing business in Rwanda. This chapter will give the summary, conclusion on major research findings basing on the objectivers of the study. The researcher will also put forward the recommendations intended to improve leasing business.

The findings for this study are follows

Lease financing activities in Rwanda are new and since their introduction they have 6 years operating in Rwanda. Leasing services are currently offered by seven financial institutions. They include Rwanda Development Bank, Five commercial banks (FINABANK, BCR, BANCOR, ECOBANK, and COGEBANK) and one Rwanda Microfinance institution. Officially, leasing services were launched in 2006. Since 2007, Rwanda Development Bank (BRD) officially invested in leasing sector.

The first objective of this research was to identify lease financing facilities. Findings under this study revealed that operating lease, financial lease and micro are used. They include lease financing equipments such as vehicles, office equipments, agricultural equipments and software equipments.

It was found out that some lessees are not aware of some of equipments and they only acquire equipment they know (Table 4.4 and figure 4.4). The lessees have to specify the features of equipment to facilitate the purchase of that equipment.

Most clients requested loans and the money allocated to loans is relatively higher than the amount allocated to leasing. The amount allocated to loans is shared between tourism, services and other industries, agriculture and livestock, export, education, and microfinance.

It was found out that the community is not well informed about lease financing and the means used to make aware the public about lease financing services are not efficient. It reaveled that the personal contact is the most way in creating awareness about leasing followed by radio.This means that people who are likely to be aware of lease financing services are those who have the chance of interacting with lease credit officers. Publicity on radio about lease financing is still to be low. Indeed, publicity on TV, in the news paper is the least used in creating leasing awareness whereas publicity on the internet is like it is unkown in Rwanda. (Table 4.3 and figure 4.3)

It was found out that most of the lessees of RDR are private companies. These companies occupy the first place in financing activities, followed by service companies, government institutions, individuals, and business association. (Table 4.7 and figure 4.7)

It was found out that lease financing is important to increase the performance of Rwanda Development Bank. Those who are aware of leasing financing recognized the importance of lease financing and most of the lessees are aware of that importance. (Table 4.8 and figure 4.8).

RDB lease financing services is increasing to some extent and the people are aware of lease financing services at different levels. The lessees can acquire the use of asset in long or short term without collaterals. Findings under this research showed that as people will be aware of leasing service the market will continue to grow. (Table 4.9 and figure 4.9)

The findings revealed that the main problems encountered by BRD include non performing loans and bad debts, low market awareness, default payment by lessees leading to non performing loans, breach of contract by lessees, tax burden to lessor, lack of care of the leased asset, return of asset before maturity, delay of return of asset before maturity, lack of experts in costs estimation affecting the real net value of the leased asset. These findings revealed that these problems are leasing problems and should lead to the leasing business failure for Rwandan financial institutions (Table 4.10 and figure 4.10) in the introduction of this new product aiming to help those investors who have no collaterals or credit history.

The findings under this research showed that leasing is not yet solve the problem of lack of finance by private sector. However, the number of clients is still growing, and the BRD has enough clients to some extent. And thus, the number of people who use lease financing facilities is still at low level compared to other means used to get finance. (Table 4.11 and figure 4.11)

The findings under this research revealed that lease financing is of low risk compared to normal loans, it has the advantage of lowdown payment,leasing requires no collateral, and the process is quick compared to normal loans. Other benefits for lessees include the lessee incurs minimum capital outlay required since the lessor finances the majority of the capital expenditure, the lessee claims the full rentals as an expense against taxable profit,Value Added Tax payment is spread over the lease period. If registered, the lessee is able to claim the VAT paid with the rentals from RRA, cash flow budgeting is made easier because of the fixed and equal nature of the lease rentals and a lease facility can be specifically structured to match the lessee's cash flows. (Table 4.13 and figure 4.13)

It was found out that the lessees faced the problems of the procedures, requirements and the period taken to get the leased equipments. The BRD requires lessees to provide some features of the needed equipment to get all information about it. This takes time to receive the leased equipment on the part of lessees. Another problem is lack of expertise. Most of the equipments are imported and to get expert is not easy to lessees, this is specifically the case of machinery in the factory, big vehicles or trucks in public warehouse of Rwanda. And finally another problem concerns the unclear terms of contracts where some points in the contracts are favouring the lessors and the breach of contract due to none respecting of the terms of contract. All these problems affect the leasing business in Rwandan leasing Market (Table 4.14 and figure 4.14)

5.1 Conclusion

For this research, data collection, analysis and interpretation were utilized to carry out this research to meet its objectives. This has met by techniques and tools of charts and table from BRD data to find out lease financing and performance of banks in Rwanda. The objectives of this study were to identify lease financing facilities of financial institution, to analyse the contribution of lease financing and the performance of Rwanda

Development bank and to find out the gaps hindering the bank's leasing business objectives and suggest recommendations based on findings.

Leasing as a process by which a lessee can obtain the use of certain fixed assets for which it must pay a series of contractual, periodic, tax deductible payments, is the new service in Rwanda. Officially, leasing services were launched in 2006. Since 2007, Rwanda Development Bank (BRD) officially invested in leasing sector.

Lease financing has to play a significant role in the development of BRD economy, Rwanda and the region in General. Lease financing expands business sector, helps getting finances without guarantee, which is very important to the population who usually do not have any guarantee, is of low risk compared to normal loans, it has the advantage of lowdown payment, the lessee incurs minimum capital outlay required, the lessee claims the full rentals as an expense against taxable profit,Value Added Tax payment is spread over the lease period and if registered, the lessee is able to claim the VAT paid with the rentals from RRA, Cash flow budgeting is made easier a lease facility can be specifically structured to match the lessee's cash flows. The lease financing equipments include vehicles, office equipments, agricultural equipments and software equipments.

Various obstacles against the leasing business and to RDB leasing performance were identified. They include, default payment by lessees, non performing loans and bad debts due to non payment or irregular payment of rentals, lack of care of the leased asset, the low market awareness, return of asset before maturity, delay of return of asset before maturity, lack of experts and professionals.

Using the lease financing facilities, together with the measures to remove obstacles to achieve leasing objectives and the Government policy to strengthen the banking sector, and enhance the resilience of the financial system. The objectives will be achieved and leasing investment in Rwanda will be successful.

5.2 Recommendations

The following recommendations are given to BRD

BRD should establish the leasing department. This should help to put more efforts on leasing financing activities which should be different to the current situation where leasing is under investment department together with other products.This will also help to monitor the overall activities of leasing business.

BRD should reinforce publicity to make people aware of lease financing activities.This should help to reduce the problem of low leasing market awareness.

BRD should establish clear policy of recovery regarding the funds invested in leasing contracts. This should help to avoid the problem of non performing loans and bad debts.

BRD should increase the funds allocated in lease financing to encourage lessees to take advantage from other equipments.

BRD should train staff experts to help the lessees in cost estimation of leased equipments.

BRD should train professional staff in accounting, finance, tax, lease and decision making. This should help in proper recording, analyzing, computation and reporting.

BRD should establish policy measures to reguraly help in the removal of obstacles to the achievement of leasing business objectives when occured.
BRD should make as short as possible the period it takes to the lessee to be given the assets.
BRD should set the standard policy regarding lease financing to help in the management of overall transactions of lease financing business.

Recommendations to Government

To prepare accounting guidance for leasing to help tax authorities and businesses to calculate taxes for leased assets.

To establish the lease law specifying duties and responsibilities for both the lessor and lessees. This should help to develop the leasing business sector.

5.3 Areas for further research

Leasing is among services that are offered by financial institutions in Rwanda, it is not static but dynamic. Therefore, Researchers need to come up with studies on:

The contribution of lease financing on the performance of financial institutions.

The obstacles encountered in lease financing business and the performance of financial institutions.

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APPENDICES

Questionnaire for lessors

I am Nshimyimana Jean Baptiste, MBA student/Finance and Banking at KAMPALA INTERNATIONAL UNIVERSITY (KIU). I am currently carrying out a study on « The lease financing and performance of banks in Rwanda» as partial fulfillment of degree of MBA/Finance and Banking taking a case study of Rwanda Development Bank.

The information is only for academic purpose just to see your views concerning the lease financing and its impact on performance of banks in Rwanda and it will not affect your status. So, help me to fill this questionnaire and thank you for your cooperation towards the successful of this exercise.

INSTRUCTIONS

Please tick the right box, mention or answer the question for part A, B and C below:

PART A

1. What is your level of education?

☐ Secondary

☐ Diploma

☐ Degree

☐ Professional

☐ Above bachelor's degree

2. When did you start providing leasing services ?...

....

....

3. Have set the means to be used to encourage people to participate in leasing financing?

☐ Yes

☐ No

If yes How?...

....

....

4.What do you think are the leasing financing facilities and their level of usage ? ....

....

....

5. What is the level of participation of lease financing compared to normal loans ?..

....

PART B

6. Which type of leasing do you operate?

☐ Operating lease

☐ Financing lease

☐ Micro lease

☐ Others, Specify...

7. What kind of customers do you deal with?

☐ Private companies

☐ Government institutions

☐ Individuals

☐ Business associations

☐ Service companies

Others, Specify…………………………………………………………………………………

8. What are the advantages of leasing do you think are over the normal bank loans ?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

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………………

9. What are the necessary conditions do you follow to finance in leasing?

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….

10. What are the main roles of leasing financing to your Bank?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

11. Which type of equipments for leasing do you provide?

☐ Office equipment

☐ Construction equipment

☐ Industrial equipment

☐ Agriculture equipment

☐ Vehicles

☐ Others please specify

PART C

12. What is the impact of lease financing on performance of your bank?

☐ Positive impact

☐ Negative impact

☐ If positive or negative, Please specify?..

....

13. What are the main problems do you face in your leasing services?

....

....

....

14. What is your suggestion do you think should be done to facilitate investment in leasing be successful ?..

....

....

....

Please return this questionnaire to

NSHIMYIMANA Jean Baptiste

Thank you for your collaboration.

Questionnaire for lessees

I am NSHIMYIMANA Jean Baptiste, MBA student/Finance and Banking at KAMPALA INTERNATIONAL UNIVERSITY (KIU). I am currently carrying out a study on « Lease Financing and performance of banks in Rwanda » as partial fulfillment of degree of MBA/Finance and Banking taking a case study of Rwanda Development Bank.

The information is only for academic purpose just to see your views concerning the role of leasing in financing investment for banking system in Rwanda and it will not affect your status. So, help me to fill this questionnaire and thank you for your cooperation towards the successful of this exercise.

INSTRUCTIONS

Please tick the right box, mention or answer the question for part A, B and C below:

PART A

1. What is your level of education?

☐ Secondary

☐ Diploma

☐ Degree

☐ Professional

☐ Above bachelor's degree

2. In which industry are you?

☐ Banking

☐ Transport

☐ Manufacturing

☐ Insurance

☐ Hotel

☐ Others,

Specify……………………………………………………………………………

…………………………………………………………………………………………

……

3. When did you start leasing financing activities ?..

....

...

4. How do you finance the acquisition of your equipment?

☐ Own funds

☐ Bank loans

☐ Leasing

☐ Others, please Specify…………………………………………………………

5. Which equipment do you lease?

☐ Office equipment

☐ Construction equipment

☐ Industrial equipment

☐ Agriculture equipment

☐ Vehicles

☐ Others please specify……………………………………………………………………………

…………………………………………………………………………………………

……..

PART B:

6. What are the advantages of leasing do you think are over the normal bank loans?

....

....

....

....

PART C:

7. What are the main problems do you face in your leasing services?

☐ Lack of expertise to use the leased assets

☐ Mechanical fault in leased equipment

☐ Long period to get in hand the leased equipment

☐ Breach of contract by the lessor

☐ The terms of the contract do not fit to the requirements

☐ If others, please specify

8. What is your suggestion do you think should be done to make investment in leasing be successful ?..

....

....

....

Thank you for your collaboration.

Please return this questionnaire to

NSHIMYIMANA Jean Baptiste

INTERVIEW GUIDE

1. When did you start investing in leasing activities?

2. What do you think are the major facilities of lease financing?

3. Have you set a means to make aware the public about leasing financing by your bank?

4. What are the equipments that are available for leasing in your financial institution?

5. What is the performance level of lease financing compared to normal loans provided by your Bank?

6. What is the role of leasing on your bank on one hand and on lessees on the other hand?

7. What are the major problems encountered in achieving lease financing objectives?

REGULATOR

National Bank of Rwanda

Paul VI Avenue, Kiyovu,

P.O. Box 531Kigali, Rwanda

Website: www.bnr.rw

LEASING PROVIDERS

BCR Bank

11 Boulevard de la Révolution Kiyovu

P.O. Box 354

Kigali, Rwanda

Website: www.bcr.co.rw

FINA Bank

20 Boulevard de la Révolution, Kiyovu

P.O. Box 331Kigali, Rwanda

Website: www.finabank.com

Development Bank of Rwanda

Boulevard de la Révolution, Kiyovu

P.O. Box 1341

Kigali, Rwanda

www.brd.com.rw

ECOBANK

Avenue de la Paix, Kiyovu

P.O. Box 3268Kigali Rwanda

Telephone: (250) 503580

Vision Finance Company

P.O. Box 6893 Kigali Rwanda

Telephone: (+250) 501364

Bancor Bank (Now known as Access Bank as of January 2009)

UTC Building

P.O. Box 2059, Kigali, Rwanda

Telephone (+250) 500091 / 575780

Compagnie Generale De Banque S.A.(Cogebank)

Centenary House Avenue de la paix

P.O. Box 5230Telephone: (+250) 597545/46 Fax: (+250) 503336 www.cogebank.com

Competitiveness and Enterprise Development Project

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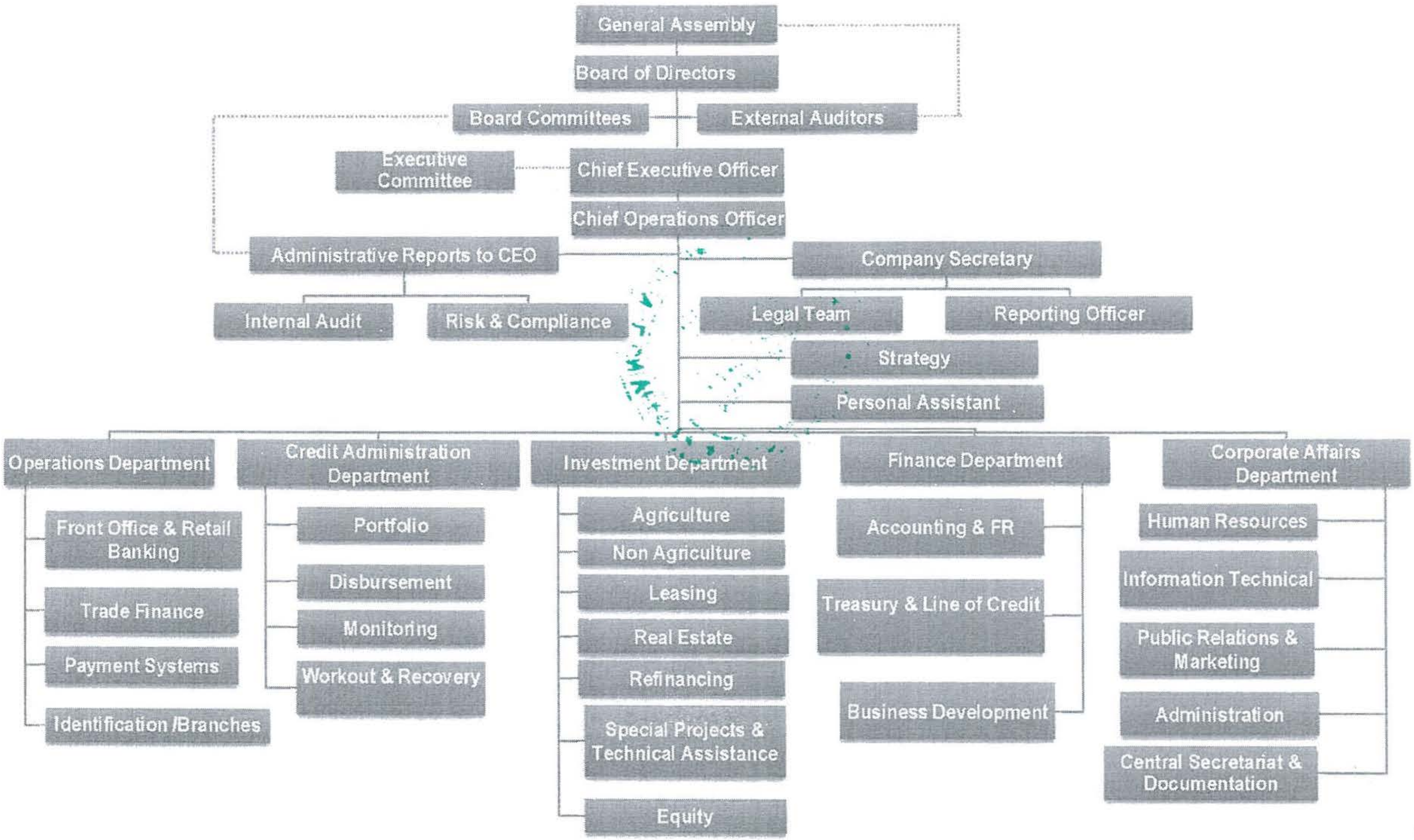
BRD Organization Structure



MAP OF RWANDA