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The relationship between Lease financing by *Banque Commerciale du Rwanda* (BCR) and the growth of Small and Medium Enterprises (SMEs) in Rwanda.

By: Eric RUTABANA
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Supervisor: Dr. SATYA K. Murty

September 2011.

DECLARATION

I, Eric RUTABANA, hereby declare that this work titled: *The relationship between Lease financing by BCR and the growth of Small and Medium Enterprises (SMEs) in Rwanda* is a result of my own effort and has never been submitted for any award in any other University or Institution of Higher Learning. Any errors and omissions in this work are entirely mine.

Signature: …………………………….. 15th September, 2011

CERTIFICATE

It is certified that the work titled: *The relationship between Lease financing by BCR and the growth of Small and Medium Enterprises (SMEs) in Rwanda* is a bonafide work of Mr. RUTABANA Eric, MBA student of the Maastricht School of Management (MSM) under my supervision.

…………………………………………

Dr. SATYA K. MURTY
MBA Coordinator,
School of Finance and Banking,
Kigali, Rwanda.

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TABLE OF CONTENTS

DECLARATION ii
CERTIFICATE iii
ACKNOWLEDGEMENTS iv
TABLE OF CONTENTS v
LIST OF TABLES viii
LIST OF FIGURES ix
LIST OF ABBREVIATIONS AND ACRONYMS x
ABSTRACT xii
CHAPTER ONE: GENERAL INTRODUCTION 1
1.1 Background of the study 1
1.2 Statement of the Problem 5
1.3 Objectives of the study 6
1.4 Research Questions 6
1.5 Research Methodology 7
1.6 Contribution of the study 7
1.7 Scope of the study 8
1.9 Structure of the Study 9
CHAPTER TWO: LITERATURE REVIEW 10
2.1 Definition of key terms 10
2.1.1 Leasing 10
2.1.2.1 Operating lease 11
2.1.2.2 Finance lease 11
2.1.2 Small and Medium Enterprises 13
2.2 Importance of Leasing 18
2.4 Leasing and other forms of financing 22
2.4.1 Lease versus Buy 22
2.4.2 Lease versus hire purchase 24
2.5 Leasing in Rwanda 24
Source: Published financial statements 25

2.6 The leasing environment 25
2.6.1 Legislation 25
2.6.2 Regulation and supervision 26
2.6.3 Taxation 27
2.6.4 Accounting 28
2.7 Why do SMEs matter? 30
2.8 Constraints faced by SMEs 32
2.9 Financing SMEs 33
2.10 Conclusion 35
CHAPTER THREE: RESEARCH METHODOLOGY 36
3.1 Introduction 36
3.2 Research design 36
3.3 Justification 36
3.4 Sources of data 37
3.4.1 Primary source 37
3.5 Population 37
3.6 Sampling size and techniques 37
3.6 Data collection techniques 38
3.6.1 Questionnaire 39
3.6.2 Documentary Technique 39
3.7 Data processing and analysis 40
3.8 Limitations of the study 40
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS 41
4.1 Overview 41
4.2 BCR leasing portfolio 41
4.3 The relationship between leasing and the growth of SMEs 43
4.3.1 Enterprise migration levels after leasing 43
4.3.2 Respondents' perception on impact of leasing 45
4.3.3 The relationship between increases in leased assets and sales profitability, employment return on equity and return on assets 47
4.3.4 The relationship between leasing and sales growth 50

4.3.5 The relationship between leasing and profitability of SMEs 52
4.3.6 The relationship between leasing and employment creation 53
4.3.7 The relationship between leasing and return on equity 55
4.3.8 The relationship between leasing and return on assets 56
4.4 Leasing as a solution for access to finance for SMEs 57
4.5 Challenges facing leasing and possible areas of improvement 62
4.5.1 Problems/challenges faced by lessees in accessing the product 62
4.5.2 Area for improvement of leasing 63
4.5.2.1 The government 63
4.5.2.2 The IFC 64
4.5.2.3 The lessors and other investors 64
4.5.2.4 The lessees 65
4.6 Conclusion 66
CHAPTER FIVE: CONCLUSION AND RECOMMENDATION 67
5.1 Introduction 67
5.2 Summary of findings and conclusions 67
5.3 Recommendations 69
5.3.1 The government 69
5.3.2 The IFC 70
5.3.3 The lessors and other investors 70
5.3.4 The lessees 71
5.4 Areas for further researcher 71
APPENDICES 76
APPENDIX A: QUESTIONNAIRE TO THE LESSEES. 76
APPENDIX B: QUESTIONNAIRE TO LESSOR 79
APPENDIX C: SAMPLING SIZE TABLE 82

LIST OF TABLES

Table 1.1: BCR leasing portfolio evolution 4
Table 1.2: BCR Leasing Portfolio evolution by sector 4
Table 2.1: Definition of SMEs by different institutions 14
Table 2.2: Stakeholders objectives and how leasing can help achieve these objectives .. 20
Table 2.3: Banks Lease volumes as at 31/12/2010 24
Table 3.0-1: Sample size 38
Table 4.1 BCR Leasing portfolio and default level as at 31/12/2010 41
Table 4.2 Enterprise migration levels between 2005 and 2009 44
Table 4.3 Growth relationship areas of leasing on the of SMEs 45
Table 4.4 Type of asset leased 46
Table 4.5 Areas of relationship with increase in leases assets 46
Table 4.6 Key financial information for the sample of SMEs and their changes between 2005 and 2009 in Rwf thousands 48
Table 4.7 Correlation between study variables during the period 2005 and 2009 49
Table 4.8 Correlation between change in leased assets and change in sales 51
Table 4.9 Correlation between changes in leased assets and change in profitability 52
Table 4.10 Correlation between change in leased assets and change in number of employees 54
Table 4.11: Correlation between change in leased assets and Return on equity (ROE) ... 55
Table 4.12: Correlation between change in leased assets and Return on Assets (ROA) .. 56
Table 4.13: Respondents reason for leasing 58
Table 4.14: Leasing as the ultimate solution for access to finance problem for SMEs 59
Table 4.15: Respondents' ability to pay periodic installments on their leases 60
Table 4.16: Reasons for repayment problems on leases (Lessor's perspective) 61
Table 4.17: Problems/challenges encountered by lessees in accessing lease financing ... 62

LIST OF FIGURES

Figure 2.1: Classifying a lease under US GAAP 29
Figure 4.1 Sector distribution of leases (amounts in Rwf) 42
Figure 4.2 leasing portfolio at risk by sector (amounts in Rwf) 42
Figure 4.3: Correlation between study variables during the period 2005 and 2009 50

LIST OF ABBREVIATIONS AND ACRONYMS

BCR	: Banque Commerciale du Rwanda
BRD	: Banque Rwandaise de Developpement
BNR	: Banque National du Rwanda
CAPMER	: Centre d'Appui aux Petites et Moyennes Entreprises au Rwanda
CEDP	: Competitiveness and Enterprise Development Project
EDPRS	: Economic Development and Poverty Reduction Strategy
EU	: European Union
GAAP	: Generally Acceptable Accounting Principles
GDP	: Gross Domestic Product
IAS	: International Accounting Standards
IFAD	: International Fund for Agricultural Development
IFC	: International Finance Corporation
IRR	: Internal Rate of Return
MBA	: Master of Business Administration
MFI	: Micro Finance Institution
MINAGRI	: Ministry of Agriculture
MINICOM	: Ministry of Commerce
MSME	: Micro Small and Medium Enterprises
NPL	: Non Performing Loan
NPV	: Net Present Value
PAR	: Portfolio at Risk
PPPMER	: Projet de Promotion des Petites et Moyennes Entreprises Rurales
ROA	: Return on Assets
ROE	: Return of Equity
RRA	: Rwanda Revenue Authority
RSME	: Rural Small and Medium Enterprise
RSSP	: Rural Sector Support Project
RWF	: Rwanda Franc

SA	: Societe Anonyme
SME	: Small and Medium Enterprise
UNIDO	: United Nations Industrial Development Organisation
VAT	: Value Added Tax

ABSTRACT

The development of competitive and resilient SMEs forms an integral component of the initiatives for Rwanda to achieve sustainable economic growth and middle income country status by 2020. Indeed, the strength of the Rwandan economy will largely depend on a strong SME sector due to the rapid impact that can be made by these SMEs in terms of value addition and employment creation. Despite this fact, SMEs of developing and economies in transition, including Rwanda, representing the overwhelming part of their productive capacity face a severe lack of access to finance mainly due to lack of credit history and collateral. Lease financing, which was introduced in Rwanda in 2006, is based on the premise that the asset financed is both the security and source of cash flow for repayment. The product targeted SMEs which had been alienated by existing bank products.

The main purpose of the study was to find out the relationship between lease financing and the growth of SMEs.

The study adopted a case study approach. Both primary and secondary data were collected and analyzed. Primary data was collected from a sample of SMEs that were financed through leasing and from staff in the leasing department of BCR. Simple random sampling was used to select a sample of SMEs, whereas universal sampling was applied on the staff of BCR's leasing department. Self-administered questionnaires were used to collect data. Secondary data was collected from financial statements of BCR and of the sample of SMEs.

The study found out that leasing has a strong relationship with the growth of SMEs, including increase in sales, profitability, employment creation, enhancement of return on equity as well as return on assets. Leasing enabled some enterprises to migrate from the SME category to the large enterprise category. The study also found out that leasing is the ultimate solution for access to equipment financing for SMEs.

Despite the commendable contribution of leasing on SMEs, challenges still remain. Among other research recommendations, the establishment by the government of a guarantee fund to enable SMEs access working capital finance and to cover risky sectors like agriculture is highly required. However, it is to be noted that lessors are also facing challenges and will want to complicate their choice of who qualifies for the product because of increase in the levels of default seen lately. The increase in the levels of default has led to a continuous reduction in the leasing portfolio. The problem of defaults is complicated further by lack of a developed secondary market for most of these assets.

The research concluded that leasing has had tremendous impact on SMEs by opening opportunities for financing.

CHAPTER ONE: GENERAL INTRODUCTION

1.1 Background of the study

The SMEs of developing and economies in transition (including Rwanda) representing the overwhelming part of their productive capacity face a severe lack of access to finance[1]. It is still a scarce and dear resource to them in spite of attempts on various levels to address these issues through adaptation of recipes, regardless their origin, to the realities of developing countries, or helping to innovate drawing on their existing experiences. One of the major challenges is that of insufficient collateral and poor or no credit history. This results in a shortage of credit available to entrepreneurs. Leasing provides an avenue for delivering finance to such financially constrained businesses (especially the SMEs) that would otherwise not qualify for traditional bank loans, thus creating multiple benefits to them and the economies in general.

In developed economies, as well as in developing economies, leasing provides medium to long-term financing especially to small and medium enterprises including start-ups, which play a key role in bringing about innovation and competition into the economy, which also lead to job creation.

The development of competitive and resilient SMEs forms an integral component of the initiatives for Rwanda to achieve sustainable economic growth and middle income country status by 2020. Indeed, the strength of the Rwandan economy will largely depend on a strong SME sector due to the rapid impact that can be made by these SMEs in terms of value addition and employment creation.

The introduction of leasing as a complementary and an alternative tool to bank loans can significantly expand access to capital for SMEs. Among its many benefits:

[1]Rouben Indjikian (2004)"new technologies for small and medium-size enterprise finance" The world bank conference, 4-6 December 2004, Washington, D.C

- Leasing can function in places where capital markets are less developed. Rwanda's nascent capital market is not yet a good avenue for raising capital. Even if the capital market was to be developed, hardly any SME would qualify to raise funds through the market due to poor organization and lack of information about their operations.
- Security arrangements are simpler – security is provided by the leased asset itself. Many SMEs usually complain about the security requirements on conventional bank loans. The fact that the leased asset is the security under the leasing arrangement provides opportunities to many SMEs to access medium to long term funds for investment.
- Little cash is required, allowing the lessee to conserve cash or use it as working capital. This is because, under leasing, the lessor can finance up to the full cost of the equipment, allowing the SMEs to use available cash resources to boost their daily revenue expenses.
- Tax incentives often make it possible for SMEs to reduce income before taxes. The Rwandan investment code allows investors in equipment to apply higher depreciation charges during the early years of investment to ensure that they recover the cost of the investment quickly.

Leasing promotes investment in capital equipment, increases competition in the financial sector, and facilitates the transfer of new technologies. Leasing is therefore a key source of investment financing. It started out as a tool used by manufacturers for increasing their sales but now has become a significant tool of enhancing investment. The potential for growth in developing economies is estimated to be huge although currently in its infancy in most of these economies.

Leasing in Rwanda started in 2006 following a market assessment report by the International Finance Corporation (IFC) released in October 2005. The development of the leasing industry in developing countries leads to a sequence through which businesses in these countries benefit from more broader and improved access to financial services and a more competitive, diversified financial sector, which in its turn greatly contributes to the efficient functioning of the economy in general. “There is strong evidence that in developing markets, like Rwanda, where there is an acute shortage of medium- and long-term moderately priced financing and where at the same time unsecured lending is unfeasible, financial leasing increases capital investments, improves and expands SME sector, creates competition on financial services market, contributing to decrease of the interest rates and lowering the barriers for obtaining financing for businesses” (IFC: Leasing in Rwanda: Market Assessment Report, October 2005).

In addition to this market assessment report by IFC, other activities had been done by other stakeholders. Investors interested in leasing such as banks had started doing individual market assessments to evaluate the opportunities available for the new product. The government had also played its role by enacting a leasing law in June 2005. Despite these steps, there remained a lot of work related to market sensitization to ensure the target market became aware of this new product.

The popularity of the product has increased essentially because of its ability to augment financial accessibility to enterprises that would not otherwise qualify for conventional bank loans and overdrafts due to lack of collateral acceptable to lenders. Lessees can lease both new and used equipment. Availability of equipment dealers in the country still remains a challenge as both new and used equipment have to be imported.

To support the development of this product, IFC in collaboration with the Government of Rwanda set up a technical assistance program - the IFC Rwanda Competitiveness and Enterprise Development Project (CEDP) Leasing Program to foster market penetration and awareness in Rwanda. According to the IFC experts, the leasing industry in Rwanda has the potential to explode. If the relevant authorities refined current Rwanda leasing law; considered the possibility of deferment of Value Added Tax (VAT) in the initial periods of commencement of leasing operations and clarified treatment of tax incentives entitlements for registered investors.

Leasing has grown considerably at BCR in the initial 3 years in terms of portfolio size and sector wise as shown in the following tables. However, this growth has reduced since the time of the liquidity crisis of 2009. Indeed, high rates of default have reduced lending appetite for BCR in 2009 and 2010. This did not spare leasing.

Table 1.1: BCR leasing portfolio evolution

Year	Portfolio size (Rwf)	Number of Clients	NPL rates
2006	1,768,326,505	15	0.0%
2007	4,373,826,224	68	0.0%
2008	5,990,645,407	93	4.1%
2009	4,824,359,476	81	34.3%
2010	3,583,908,760	80	42.8%

Source: Leasing unit, BCR

Table 1.2: BCR Leasing Portfolio evolution by sector

Sector	**Year**				
	2006	**2007**	**2008**	**2009**	**2010**
Manufacturing	110,810,262	380,669,431	914,848,582	878,393,312	589,270,558
Pharmacies	7,131,199	35,368,331	22,142,408	8,160,440	11,732,861
Private individuals	10,561,280	4,221,989	-	-	-
Tourism, Hotels & Restaurants	10,857,831	43,403,025	36,104,088	16,097,599	22,821,214
Trade and Commerce	436,023,308	874,967,406	1,235,100,097	1,064,102,463	705,609,842
Transport	1,192,942,624	2,332,015,798	2,252,601,466	1,778,689,616	1,394,499,732
Agriculture		140,060,075	157,514,042	145,359,945	151,023,504
Construction		73,586,218	79,296,087	56,632,776	80,755,492

Energy and Water			494,093,356	393,833,330	263,525,303
Parastatals			95,489,820	81,457,941	65,605,662
Professional firms		445,659,737	327,211,058	211,205,601	90,630,354
Real estate		33,098,536	26,385,175	-	-
Schools		10,775,678	261,529,063	190,426,453	208,434,238
Total	**1,768,326505**	**4,373,826,224**	**5,902,315,252**	**4,824,359,476**	**3,583,908,760**

Source: Leasing unit, BCR

1.2 Statement of the Problem

It has been highlighted that one of the key challenges to SME growth is that of access to finance. Following the introduction of leasing by the two initial players - BCR and Fina Bank in 2006, there was great excitement among SMEs since the product was considered attractive compared to other bank products. In developing countries with poorly functioning asset registries, and weak laws for securing transactions, leasing can provide an attractive alternative to both lessees without collateral and lessors wanting to improve the possibility of repossession, if necessary. Many SMEs had been alienated by existing bank products because many of them lacked collateral security for normal bank products. Leasing has been viewed as a special window for SMEs to access medium and long term capital. This excitement has attracted more players who saw the product as a competitive tool. In subsequent years, other banks (BRD, Cogebanque, Access bank and Ecobank) and some Micro Finance Institutions (MFI) introduced this product. Most of the latter started the product in 2008 and it is too early to evaluate the impact that their activities have had on the market. The product continues to grow.

Leasing is based on the premise that profitability is gained through possession and use of assets rather than their ownership. It is therefore a cash flow based arrangement as compared to normal bank lending which focuses on past financial information and credit history, which many SMEs lack. It is also important to note that not many SMEs have the capability to get loan from banks due to lack of collateral.

With the excitement seen among the beneficiaries of this product and the rapid increase in the number of both applicants and providers of the product, the research intended to find whether or not the introduction of leasing has countered the challenge of access to finance by SMEs and created opportunities for growth.

1.3 Objectives of the study

a) General Objective:

The overall objective of this study was to find out the relationship between introduction of lease financing by BCR and the growth of SMEs.

b) Specific Objectives:

1) To find out the relationship between increase in assets through lease financing and increase in sales, profitability, return on equity, return on assets and employment,
2) To find out if leasing is the ultimate solution for access to finance problem of SMEs,
3) To identify possible areas of improvement to ensure the product benefits more SMEs which have previously been marginalized by traditional banking products.

1.4 Research Questions

This study has been conducted to answer the following questions.

1) What is the relationship between increase in leased assets and various growth indicators such sales, profitability, return on equity, return on assets and employment?
2) Does leasing provide the ultimate solution for access to finance problem for SMEs?

3) What are the possible areas of improvement to make the product more accessible and beneficial to both lessors and lessees (SMEs)?

1.5 Research Methodology

The study is descriptive since it seeks to establish the relationship between variables. Both primary and secondary data were used to make sure that patterns observed in the secondary data can be explained from the primary data. The primary data was collected from a sample of selected SMEs that benefited from the leasing product and the leasing staff of BCR. A sample of 66 respondents was taken from a population of 80 units using simple random sampling technique. Self administered questionnaires were used to collect primary data. Universal sampling was also applied to select respondents from BCR's leasing department and self administered questionnaires used to collect data from them.

The secondary data was collected from BCR records showing the evolution of the leasing portfolio and from customer records. Financial statements from SMEs forming the sample were analysed to establish the relationship between increase in assets and various growth measures. After collection of data, it was edited, coded and tabulated to permit analysis and interpretation. Details on the research methodology and other research instruments such as sampling techniques, population and sample size are provided in chapter three.

1.6 Contribution of the study

This study is a contribution to the efforts of the nascent Rwandan leasing industry in general, to BCR in particular as the case study, to the SMEs forming the sample, to IFC, and to government. This research shows the impact that the introduction of leasing has had on SMEs. This is of interest to both the government and other stakeholders like IFC that have invested resources in the development of this product. BCR is able to appreciate the impact of its leasing activities on SMEs, since the main target of the product was the

SMEs. The study is a great contribution to the public awareness campaign by IFC and lessors since it is evidence based and focuses on the achievements of leasing on SMEs.

1.7 Scope of the study

This study is case based and focuses on the leasing activities of BCR covering a period from 2006 up to 2009. However, secondary data for earlier years have been collected to understand the kind of change created by the introduction of leasing. The reason for this period is the availability of data. The choice of BCR is due to ease of getting data, since most of the secondary data needed is readily available in customer records at the bank.

1.8 The role of IFC

The International Finance Corporation (IFC) in collaboration with the government of Rwanda in 2006 set up the IFC Rwanda CEDP Leasing Development Program to carry out the following activities:

- Legal and regulatory framework: to review the existing legal and regulatory environment and to provide input in order to development a favorable leasing environment,
- Capacity building: through public awareness to make sure all leasing stakeholders have the right information about leasing. In this context, IFC has organized workshops targeting all stakeholders (financial institutions, tax authority, the Central Bank, suppliers of equipment and lessees). Their staff have also been moving around the country to talk to prospective lessees.
- Increasing investment in leasing: This was the reason for the development of the Rwanda Leasing Investment Guide, which shows the priority sectors of investment. This intervention in leasing is also intended to allay fears among lessors and lessees.

1.9 Structure of the Study

This study is organized into five chapters: Chapter one deals with the general introduction, which includes the background of the study, the statement of the problem, research questions, objectives of the study, significance of the study, scope of the study, and the organization of the study.

Chapter two is literature review. It presents the views of other researchers and writers on the topic- of leasing and small and medium enterprises

Chapter three presents the research methods that have been used in the study. It shows the area of study, the study population, sampling design, data collection instruments, and how findings from the study have been presented and interpreted.

Chapter four deals with the presentation, interpretation, and analysis of research findings. It is at this point that the researcher cross-examines the hypothesis by analyzing the research results.

The fifth chapter, which is the last, presents the conclusions and recommendations that have been drawn from the study.

CHAPTER TWO: LITERATURE REVIEW

This chapter provides an understanding of key concepts related to leasing and small and medium enterprises through review of works done by other researchers. It defines the key terms involved in the study, explores forms of leasing, reasons for leasing, explores the meaning of small and medium enterprises, specific issues related to financing SMEs, financing alternatives for SMEs and leasing for SMEs.

2.1 Definition of key terms

2.1.1 Leasing

Fletcher et al.[2] define leasing 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 specified payments." Therefore, the definition clearly makes distinction between ownership and use. Which means that through leasing, ability to derive economic benefit from an asset does not necessarily mean that you have to own it.

On the other hand, the obligation to make regular fixed payments is a pre-condition in a lease transaction as Quiry et al.[3] affirm that in a lease contract, the firm (lessee) commits itself to making fixed payments (usually monthly or semiannually) to the owner of the asset (lessor) for the right to use the asset. Therefore, a lease contract holds only when regular payments are made to the asset owner to compensate the owner for use of this asset by another party. Nonpayment of by the user of the asset may result into termination of the lease arrangement.

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[2] Fletcher, M., Freeman, R., Saltonov, M., and Umarov, U., (2005), Leasing in Deveolpment: Lessons from Emerging Markets, International Finance Corporation, Washington, D.C.

[3] Quiry, P., Dallocchio M., le Fur Y., Salvi A., (2007), **Corporate Finance: Theory and Practice**, John Wiley & Sons, Ltd

Term is another feature that prequalifies a leasing arrangement as Nair and Todd[4] assert that all leases are long-term rental contracts; a provider (lessor) allows a user (lessee) to use an asset for a predefined time in exchange for agreed-upon payments. This preceding definition means that the difference between a rental contract and a lease contract is the term. Rentals are short term contracts of up to a year, whereas lease contracts are longer term ‘rental’ contracts extending over a year.

According to Quiry et al.[5], the lease contract may take a number of different forms, but normally is categorized as either an operating or a financial lease.

2.1.2.1 Operating lease

Under operating lease, the lease term is shorter than the economic life of the asset. This means that the asset is returned to the lessor at the expiry of the lease period. However, the lease contract can also be renewed.

According to Quiry et al.[6], the present value of lease payments is normally lower than the market value of the asset. In an operating lease arrangement, the lessee generally has the right to cancel the lease and return the asset to the lessor. This basically means that the lessor carries all risks of ownership of the asset.

2.1.2.2 Finance lease

A finance lease, also known as a full payout lease, is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

The following examples are listed in IAS 17 as indicative of a Finance Lease.

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[4] Nair, Ajai, Kloeppinger-Todd Renate & Mulder Annabel (2004), **Leasing: An underutilized tool in Rural Finance**, Agriculture and Rural Development Discussion Paper 7, World Bank, Washington, D.C

[5]Opcit, p. 527

[6] Opcit. P. 959

(a) the lease transfers ownership of the asset to the lessee by the end of the lease term;

(b) the lessee has the option to purchase the asset on advantageous terms;

(c) the lease term is for the major part of the economic life of the asset even if title is not transferred;

(d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;

(e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

(f) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(g) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee.

(h) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Implications of the above definition:

A finance lease agreement is non-cancelable. This is why if there is cancellation, associated losses are borne by the lessee. In effect, it is assumed that the lessor acts on the instructions of the lessee to buy the asset.

The lessee losses if the asset is not transferred at the end of the lease term. This is because purchase is on advantageous terms and a major part (if not all) of the cost of the asset has been recovered during the lease period.

Risk and rewards incidental to ownership lie with the lessee. Any repairs during the lease period are a responsibility of the lessee. Maintenance, insurance and any other expenses arising out of ownership lie with the lessee. Similarly, if the asset becomes very productive and yields a lot in profits, these profits are enjoyed by the lessee. This should also be the case in the event of appreciation in the value of the asset since the intention at the inception of the lease is transfer of ownership.

Quiry et al.[7] very much echo the characteristics of a finance lease as laid out in IAS 17 by saying that a financial (or capital) lease normally lasts for the entire economic life of the asset. The present value of fixed payments tends to cover the market value of the asset. At the end of the contract, the lease can be renewed at a reduced rate or the lessee can buy the asset at a favorable price. This contract cannot be cancelled by the lessee. They identify other two typologies of financial leases:

Sale-leaseback: The Rwanda Leasing Law defines it as "an arrangement which is applied whereby the lessor purchases a property and subsequently leases it back to the vendor in terms of the contract of lease"[8]

Leveraged leases: An arrangement involving three parties where the lessor arranges to borrow part of the required funds, hence giving the lender the first mortgage on the asset. Indeed, leasing is sometimes used by manufacturers and equipment dealers as a mechanism to promote their sales with or without a financial intermediary. In some cases, manufacturers have formed in-house leasing companies to finance these arrangements.

2.1.2 Small and Medium Enterprises

There are different definitions developed to meet operating interest of various parties. For instance, the Centre for Support to Small and Medium Enterprises in Rwanda

[7] Opcit. P. 959
[8] Official Gazette of the Republic of Rwanda: Law N° 06/2005 of 03/06/2005 establishing regulations and conditions governing lease operations, 1st July 2005.

(CAPMER) 2003-2007 strategy defined SMEs as an enterprise that employs 10 to 100 people and have an annual turnover between Rwf 5 to 500 million.[9]

From Review and Assessment of Micro and Small Scale Enterprises (MSSEs) in Rwanda, World Bank, May 2004, CAPMER also gives the following other definitions for SMEs:

Table 2.1: Definition of SMEs by different institutions

Source/Institution	**Definition Related to MSSE Micro/Small enterprises**
MINICOM (SMEs Development Policy) 2010	SMEs (including micro enterprises): enterprises employing not more than 100 people, with annual sales turnover not exceeding Rwf 50 million and Net Investment not exceeding Rwf 75 Million
MINICOM / World Bank study March 1998	Micro – Investments less than Rwf 0.5M, employment less than 3 • Small Enterprises – Investments Rwf 5 to 15 M and employment 3 to 30
MINICOM /UNIDO Enterprise Surveys (1999 – 2000)	• Micro – Employment less than 3 • Small – Employment 3 to 30
MINICOM–UNIDO survey 1990	• Micro – Employment less than 3 • Small – Employment 3 to 30
Project PPPMER–IFAD/MINICOM	• Subsistence micro units, investments less than Rwf 15,000, • Emerging RMSEs, investments of less than Rwf 15,000 -150,000, • Developing RMSEs Rwf > 150,000
Rwanda Development Bank (BRD)	• Micro – Less than 3 workers and & net assets less than Rwf < 0.5 M • Small – 3 to 30 workers & net assets of Rwf 0.5 to 15 M

[9] CAPMER Strategic Plan 2007-2010 as adopted by CAPMER General Meeting held in Kigali on April 20th, 2007, p.21

Rwanda Revenue Authority (RRA)	• 820 enterprises or 36 percent of the tax paying enterprises had an annual turnover of less than Rwf 1 M in 2003 • 646 or 28 percent enterprises of tax paying enterprises had an annual turnover of 1 to Rwf 15 M
Rural Sector Support Project (MINAGRI)	• Off -farm activities • Non- farm activities • Innovative activities

Source: CAPMER Strategic plan 2007-2010: 48

All the above operating definitions have been developed by the different institutions to meet their specific objectives. CAPMER has retained the use the following working definition of SMEs: Enterprises that employ between 3-100 people and have an annual turnover between Rwf 5 to 500 million. It is worth noting that most of the above definitions refer to number of employees. If this is the case, what do other researchers and institutions qualify as SMEs?

SMEs in Rwanda are defined as enterprises with full-time employees not exceeding 100 or annual sales turnover not exceeding Rwf 50 million or Net Investment not exceeding Rwf 75 Million. These SMEs are further categorized into medium-sized companies, small enterprises and micro-enterprises.[10]

BCR defines SMEs as those businesses which exhibit the following characteristics;[11]

- Rudimentary or no business records
- Absence of audited accounts
- Absence of internal financial control systems
- Minimal or no segregation between ownership and management

[10] Ministry of Trade and Industry (2010): Small and Medium Enterprises (SMEs) Development Policy, Kigali, June 2010.
[11] BCR Business Banking and Leasing department: Business Plan 2009, p.1

- Limited management skills to grow the business
- Concern over business succession
- High proportion of cash transactions escaping the banking system
- High chances of funds diversion
- Are mainly private family owned companies and sole proprietors

BCR also sets turnover for SMEs at Rwf 2 billon.

According to SME Facts, “there is no universal definition. Some analysts use objective standards, classifying firms with fewer than 10 employees as micro enterprises, those with10 to 100 employees as small and those with 100 to 500 as medium – or even listing any company with annual turnover below US$ 10 million as an SME. Others prefer to rank companies by their relative size within the local economy, since a larger company in Macedonia would likely be considered small in Brazil.” [12] This is a clear reason as to why there is no universally approved definition of SME.

According to IFC[13], generally SMEs are defined as below:

- **Micro Enterprises:** Those employing up to five employees with fixed assets not exceeding $10,000.
- **Small Enterprises:** Employ between 6 and 29 people with fixed assets of between $11,000 and $100,000
- **Medium Enterprises:** Employ between 30 and 99 people with fixed assets of up to $1m

The department of trade and industry of South Africa classifies enterprises in the following categories:

- **Survivalist enterprises** – a category where the income generated is less than the minimum income standard or poverty line, there are no paid employees, and asset value is minimal. Typical examples include vendors, hawkers and subsistence farmers.

[12] SME Facts: News about the World Bank Group Small and Medium Enterprise Initiatives, Vol. 1, No. 1 July 2000, p.1
[13] IFC: Leasing in Ghana (2007) A survey of the leasing market, August 2007, p.27

- **Micro-enterprises** have a turnover less than the VAT registration limit and are not usually formally registered for tax or accounting purposes. Micro-enterprises are further subdivided into those enterprises in which the entrepreneur is the only employee, referred to as **micro**, and those enterprises that employ between one and four people, excluding the entrepreneur, referred to as **micro.**
- **Very small enterprises** operate in the formal market and have access to modern technology.
- In **small enterprises** a secondary coordinating managerial structure is in place and there is some form of managerial level coordination.
- In **medium enterprises,** there is further decentralization of decision making, a more complex management structure and increased division of labor.

According to the EU approach, small firms have 10 to 49 employees and medium sized firms 50 to 249 employees. The important characteristics of SMEs[14] include the following:

a. Management of the firm is independent.
b. Capital is supplied by and ownership held by a small group.
c. The area of operation is mainly local; however, the markets need not be local.
d. The relative size of the firm within its industry is small.

The absence of an universally agreed definition of SME is why Castel-Branco[15] argues that there is little hope for a common set of policies and analytical tools to be successfully developed to address the SME issues. This would mean that every researcher would prescribe a different approach only suited to the specific context.

From the preceding discussion, it is clear that different definitions have been adopted by different researchers and institutions to meet their different objectives and needs. It is also

[14] Sedme (2004): A world wide interface for SME studies, Small enterprise development, management, and extension journal, 31st year of publication, vol. 31, No. 3, Sept. 2004 p. 31

[15] Carlos Nuno Castel-Branco (2003) **A Critique of SME-led Approaches to Economic Development:** a paper prepared for the SMEs Task Force seminar of the Islamic Chamber of Trade and Industry, Maputo, Mozambique, May 2003, p.15

clear that what is considered medium in one country may be considered small in another. This therefore calls for a perspective. For purposes of this research, we shall use a hybrid definition combining the characteristics of the IFC, BCR and MINICOM definitions to suit the requirements of our research and the operating environment. In this context, we shall use the following characteristics:

Small enterprises:

- Number of full time employees: less than 30
- Fixed assets: Up to US$ 100,000

Medium enterprises

- Number of full time employees: 30 – 99 employees
- Fixed assets: US$ 100,000 – US$ 1 million
- Turnover: up to Rwf 2 billion per annum

2.2 Importance of Leasing

Several organizations involved in the development of leasing have emphasized the importance of leasing especially for the development of SMEs. Although there are reasons for leasing for SMEs, there are also numerous other benefits of leasing for other parties involved: lessors, suppliers and the economy as a whole.

According to IFC[16], leasing has been proven to be an effective financial tool used to achieve rapid economic development in both developed and developing countries. It is reported for example that every 8-9 percentage growth in leasing activities leads to a corresponding 1 percent average growth in the GDP of a country. Empirical evidence also supports that argument that when leasing transactions increase above 1.8 percent of GDP, unemployment rate reduces below 10 percent. In developed countries, leasing is used to finance about one third of private investments. Leasing is now an important source of medium-term finance in many countries and has contributed considerably in

[16] IFC: Leasing in Ghana (2007): A Survey of the Leasing Market, August 2007, pp. 16-17

facilitating the growth of new capital investment. Leasing has benefits for all parties of a lease transaction; lessee, lessor and supplier

To the lessees, leasing allows the lessee to allocate scarce financial resources to new capital investments. Lessors usually do not demand collateral or security before financing a lease. The leased asset serves as security for the financing. Also, the lessor is more concerned with the cash flow to be generated by the lessee during the period of the lease and the ability of the lessee to pay lease rentals. The leasing mechanism channels investment into the capital assets which allows the enterprise to start production and generate sufficient income to cover lease payments.

To the lessors, normally the leased asset serves as collateral and therefore reduces the lessor's requirement for additional collateral. By channeling funds directly into new equipment, lessors avoid the problem faced by banks and other financial institutions, of funds being diverted by borrowers for non-priority uses. The lessor, by maintaining legal ownership of the leased asset tends to minimize the lessor's risk. In the event of default in rental payment by the lessee, the lessor can normally repossess the asset.

From the supplier's point of view, leasing functions as a sales aid. Leasing increases lessees' liquidity, facilitates equipment acquisition leading to an increase in business for equipment suppliers. On the whole, the development of the leasing sector can contribute to economic development in a number of ways:

- Leasing creates additional competition amongst sources of finance. This can lead to efficiency and diversity of the local financial market leading to the lowering of the cost of finance. Leasing can also fill a gap in the finance market place enabling firms to rely less on loans and overdraft facilities.
- Leasing assists in the increase of liquidity in an economy. Leasing companies by accessing external financing can lead to an increase and improvement in liquidity within the local financial market.

- Leasing helps to increase local production and productivity within an economy. Equipment leased assists local enterprises that otherwise would not have the resources to purchase equipment to engage in the productive sector. This therefore, can promote local production and reduce a country's dependence on imported goods and promote job creation and economic growth.
- Leasing supports industrial modernization and small business. Leasing companies play an important role in providing financing to small and medium sized enterprises. Additionally, in a developing country like Ghana where there is a high level of credit constraint, leasing may be the only available option for financing asset acquisition for firms such as start-ups, small firms and firms without any credit history.
- Leasing helps in the development of infrastructure. Leasing can assist contractors undertaking infrastructure development through the provision of equipment in the execution of contracts.

In attempting to justify the reason for leasing for different stakeholders, Fletcher et al.[17] give the following stakeholders and their possible objectives and show how leasing helps to attain these various objectives.

Table 2.2: Stakeholders objectives and how leasing can help achieve these objectives

Stakeholder	Possible Objectives	How Leasing Can Help Achieve Stakeholder Objectives
Government	· Domestic production · Industrial diversification	· Leasing aids the development of local processing and production. While manufacturing equipment may come from overseas, this equipment enables domestic processing of locally produced raw materials, thus replacing imported items.
	· Capital investment · Government budget	· Leasing lowers the overall costs of economic development. · Leasing provides a diversified source of capital (equity, debt, tax revenue) · Leasing further contributes to the development of domestic financial markets. · As leasing develops, there will be increased domestic liquidity through access to global markets.
	· SME development	· For reasons listed below (see Lessees/SMEs), the development of leasing aids the growth of the domestic SME sector.
	· Infrastructure improvements	· Leasing can help increase the levels of public transport and the depth

[17] Opcit. Pp. 8-10

		of communications networks, and allow municipal authorities the means to acquire quality construction and maintenance equipment.
Lessors (including banks)	· Risk management/reduction	· The lessor maintains legal ownership of the asset. · The lessor is able to exert greater control over the investment. · The lessor can monitor assets more easily. · Lessors can actively apply specialized knowledge, such as equipment specialization.
	Leasing market development · Product portfolio diversification · Customer base expansion	· Leasing provides not just an opportunity to extend product, but also to deepen the organizational structure. · In some cases, leasing may allow businesses to access both lease financing and additional bank financing without increasing their collateralized debt. · Leasing can provide additional marketing channels for financial services.
Lessees/SMEs	· Access to finance	· No/low collateral required. · The cost of lease finance is competitive with traditional credit, given the increased security held by lessors and the low transaction costs of processing a lease. · Leasing also offers matched maturity of assets/liabilities, since debt in emerging countries is often limited to short-term maturities. · Islamic compliance: in Muslim countries, leasing is seen as an interest-free product and considered the same as a rental. In Islamic finance, "Ijara" is a kind of leasing, and especially relevant within the Middle East and North Africa.
	· Access to equipment and production assets	· Leasing increases flexibility and diversification of financing sources. · Leasing enables investment in equipment that can modernize production and improve productivity and profitability. · Leasing reduces maintenance cost, since equipment is newer. · Due to reduced upfront costs, leasing frees up capital for other usiness needs.
	· Ability to plan · Timeliness and flexibility · Negotiability	· Leasing enables companies to match income and expenditure. · Leasing also has advantages of a quick decision-making process, flexibility, and negotiability. This is in large part because the lessors operate in a less-regulated, more proprietary environment than bankers or traditional lenders. It may also owe something to the fact that, since leasing is a comparatively new development, lessors have to be fast and flexible to claim this as their unique selling proposition. · Leasing deals may make less use of the restrictive covenants that appear in more traditional forms of lending. · Where lessors have asset knowledge or relations with suppliers, lessees may "outsource" certain tasks (such as negotiating with suppliers), reducing costs and risks. · Independence from bank borrowing: through leasing, SMEs have alternative funding opportunities and are able to use a mix of funding options to finance their businesses.
Equipment Manufacturers	· Expanded market base for products · Increased purchase options for clients	· Leasing allows access to new equipment, by providing businesses with a mechanism to purchase equipment without incurring significant upfront costs. · Development of the leasing sector opens up significant after-market products and services for equipment manufacturers. · Leasing often provides an effective marketing channel for equipment, as leasing companies are also interested in increasing sales. · Effective leasing companies may bear some of the burden of dealing with inexperienced equipment purchasers, thus reducing costs and improving efficiency.
Legal/ Accounting	· Lessors/banks may be clients of professional	· In terms of compliance, professional advisors should be contracted by lessors to ensure that all agreements comply with local

	services companies · Tax planning and accounting opportunities · Systems development Opportunities	legislation and permit the lessor to utilize tax or other benefits. · Lessors, in order to reduce transaction costs and because of the nature of leasing, will aim to utilize credit management systems for the monitoring and control of their lease portfolios. Professional advisors have an excellent opportunity to assist in the development of business processes and systems.
Investors	· Increased ability to invest within a country · Development of financial sector · Growth in investee company opportunities	· Improved credit scoring and processing systems can be applied across all elements of the finance sector, from leasing through to banking, thereby allowing the whole sector to take a more prudent and controlled approach to finance. · Leasing improves the local investment climate for all companies, increasing opportunities for investment and reducing/allocating risks more efficiently. · The development of non-bank lessors increases competition within the financial sector, introducing the need for finance companies to reduce transaction costs, improve business and credit management, and source funding at cheaper levels. This has the effect of reducing the cost of finance throughout the sector at the same time as increasing its level of sophistication and ability to optimize risk. · As lessors develop, they may expand to issuing commercial paper and to securitizing lease receivables, which can assist in deepening the securities market and creating new investment products.

Source: Fletcher M., Freeman R., Sultanov M., and Umarov U., Leasing in Development: Guidelines for Emerging Economies, IFC, Washington, D.C., 2005

From the foregoing discussion, the role of leasing cannot be overemphasized. Developing economies had better focused on leasing to provide an alternative channel for delivering finance and also to increase the range of financial products on the market. This is very important because it is a financing vehicle for businesses which otherwise would not have access to financing, thus promoting domestic production and economic growth.

2.4 Leasing and other forms of financing

Firms may not prefer to lease because there are other alternatives to it. They may either buy using cash or a bank loan in which case they become owners of assets. Alternatively, they may go for hire purchase where this is available.

2.4.1 Lease versus Buy

Comparing leasing to buying requires comparison from both the buyer’s and the lessor’s perspectives. Buying can be done using cash or by use of a loan. For purposes of this research, we shall look at these alternatives from the borrower/lessee’s perspective.

Nair, Kloeppinger-Todd and Mulder[18] assert that leasing and purchasing are alternative means of acquiring equipment. They argue that purchasing is a feasible option for most enterprises only if they have access to credit. This is often not the case for many SMEs as they lack credit history, do not have assets that can be used as collateral, or have insufficient funds for equity contribution required for loans. In contrast, leasing usually does not require additional collateral and requires a lesser down payment. This is because of the stronger security position of the lessor compared to that of the lender.

When borrowing is a feasible option, the recommended method for decision making is to use the Net Present Value (NPV) analysis. Present value should be considered using after tax cash flows since these are two borrowing options. A lease payment is very much similar in nature to the debt service on a secured bond issued by the lessee, with the discount rate being roughly the same as the interest rate on the debt.

Another decision making alternative is the use of the Internal Rate of Return (IRR) of both options and choose the one with the lower rate.
Finally, we could also compute the difference between the two cash flows (buying and leasing) and compute the IRR on these differential cash flows. This rate should then be compared with the after-tax cost of debt to determine which alternative is more attractive.

Ekow D. [19] gives a rule of thumb to guide lessees in making decisions on whether to buy or lease. He says "buy what appreciates and lease what depreciates." He prefers leasing to buying using own cash because keeping cash on hand makes it easier for a business to seize an opportunity before a competitor can arrange financing. He also prefers leasing due to the tax advantage and the residual value benefits that leasing provides.

[18] Nair, Ajai, Kloeppinger-Todd Renate & Mulder Annabel (2004), **Leasing: An underutilized tool in Rural Finance**, Agriculture and Rural Development Discussion Paper 7, World Bank, Washington, D.C., p.3

[19] Ekow D. (2007) Lease Versus Buy, AFROLEASE NEWS: A publication of the African Leasing Association, 4th Issue, Vol.1, p.14

2.4.2 Lease versus hire purchase

Hire purchase transactions normally give the hirer (the one who possesses and uses the asset) an option to buy the asset at a token value at the end of a fixed term of hire. This makes financial leases with a bargain buyout option at the end of the lease term very much like hire purchase arrangements.

According to Fletcher et al.[20], hire-purchase is decisively a finance 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 option is embedded, hire-purchase becomes significantly different from a finance lease as the risk of obsolescence gets shifted to the hire-vendor. It is noted that finance lease agreements are non cancelable.

Hire purchase started long before the introduction of leasing in Britain. It spread in countries that were colonies of Britain. Hire purchase continues to be popular in some of those countries and most of them have enacted, in line with the United Kingdom, specific laws addressing hire-purchase transactions.

2.5 Leasing in Rwanda

As earlier mentioned, leasing was introduced in 2006 by two banks: Fina Bank S.A and BCR. Since then, other banks have introduced this product. The following table shows volumes of leases as at end of 2010.

Table 2.3: Banks Lease volumes as at 31/12/2010

Bank	Volume (Rwf '000)	%
BCR	3,583,909	37
Fina Bank	2,317,265	24

[20] Opcit, p.5

BRD	429,133	4
Access Bank	1,151,896	12
Ecobank	1,988,403	20
Cogebanque	251,336	3
Total	**9 721 942**	100

Source: Published financial statements

2.6 The leasing environment

The development of leasing is made favorable by the environment in which the product is provided. There are basically four elements that have impact on leasing. These include: legislation, regulation/supervision, taxation and accounting.

2.6.1 Legislation

Leasing in Rwanda is governed by Law N° 06/2005 of 03/06/2005, which has been criticized for lack of basic principles such as rights and responsibilities of parties to a lease and repossessions among other things. Fletcher et al.[21], argues that leasing is essentially a financial instrument that works based on its legal framework. Furthermore, its success rests on how well leasing legislation relates to legislation on finance. Leasing legislation is particularly required to do the following:

- Clarify rights and responsibilities of the parties to a lease
- Remove contradictions within the existing legislation
- Create non-judicial repossession mechanisms
- Ensure only the necessary level of leasing industry supervision and licensing

Although there is a leasing law in Rwanda, it has been criticized by the IFC report[22] because it appears to be shallow and leaves a lot of room for misinterpretation. The law does not clearly define leasing; it does not explicitly state the rights and obligations of a

[21] Opcit. P.14
[22] IFC: Leasing in Rwanda (2005): Market Assessment Report, October, 2005, pp. 43-48

lessor and a lessee, neither does it state repossession mechanisms. Although the law talks about registration of lease operations involving movable property by the provincial or Kigali city courts, it has not been done since there is no ministerial decree to this effect as stated in article 16 of law No. 06/2005[23].

2.6.2 Regulation and supervision

Many advocates of leasing development appear to be against regulation of leasing companies. However, the general view is that institutions that take public deposits should be subject to regulation.

Non-bank, non-deposit taking institutions need not stringent regulation as deposit taking institutions. The justification for regulation depends on factors like the overall legal and regulatory framework, and should be assessed on a case-by-case basis. It is however important to note the other side of lack of regulation since this would affect the ability to raise and cost of funding to support leasing activities.

The key issues when it comes to regulation relate to whether leasing warrants prudential regulation, and whether institutions subject to prudential regulations (particularly banks) should be permitted to provide leasing services. According to Nair, Kloeppinger-Todd and Mulder[24], in several countries, developed leasing markets such as the U.S., U.K, Germany, and emerging markets such as South Korea and Thailand, leasing companies are not subject to any prudential regulation. In countries where regulation is practiced, prudential guidelines normally include: entry requirements, minimum capital requirements, balance sheet restrictions (maximum leverage ratios, single client exposure, insider transaction limitations, and provisioning requirements), associations among institutions, liquidity requirements, accountability requirements, and insurance/support schemes.

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[23] Official Gazette of the republic of Rwanda: Law No. 06/2005 of 3rd June 2005
[24] Opcit. P. 14

The Rwanda leasing law considers lease operations as a form of credit referred to in paragraph 3 of article 3 of law n° 08/99 of 18 June 1999 on Banks and other Financial Institutions[25]. The law also establises the National Bank of Rwanda as the licensing and regulatory authority.

As stated above, leasing activities in Rwanda are regulated by the National Bank of Rwanda (BNR) and lessors are subject to the same regulation as other deposit taking institutions. This is not because the current providers of leasing services are banks but because of the requirements of the leasing law.

2.6.3 Taxation

There are two kinds of taxes that have direct impact on leasing: value added tax (VAT) and income tax. Nair, Kloeppinger-Todd and Mulder[26] suggest that the common arrangement is for lessors to pay VAT during equipment purchase, and for lessees to pay VAT on lease payments and on value of the asset if ownership is transferred at the end of the lease period.

There are two issues pertinent to income tax in leasing: a) whether lessors are allowed to claim depreciation (and lessees deduct lease payments) from their taxable income; and b) whether accelerated depreciation is permitted. The first factor depends on whether a country follows form or substance approach to lease taxation. For countries that follow form, lessors are allowed to claim depreciation for all lease contracts. Under substance countries, lessors are allowed to claim depreciation on leases only when certain criteria in their tax regulations are met. Some countries permit lessors to depreciate leased assets over their lease period. This increases tax gains because taxes are deferred.

[25]Opcit, Art. 15
[26] Opcit. P. 16

The current practice in Rwanda is that under VAT law[27], lessors pay VAT on equipment purchase. Lessees are required by lessors to add VAT on their deposits to finance equipment acquisition. Lessors are allowed to claim back from the tax authority all VAT paid on purchase excluding the portion that relates to lessee contribution. Lessees pay VAT on lease payments. The major issue currently relates to the fact that Rwanda Revenue Authority does not accept VAT refunds on light vehicles (those that carry not more than 8 persons) because they are not considered to be an investment. Agriculture and medical equipment are exempted from VAT.

On income tax, lessors are allowed to claim depreciation against taxable profits on all leases (financial and operating). Lessees on the other hand are allowed to deduct lease payments from taxable profits. Accelerated depreciation for leases is not practiced and Article 24 of the income tax law[28] gives guidelines on depreciation rates to be used. The investment code however allows a higher depreciation rate of 40 percent in the year of investment in Kigali city and 50 percent for investments outside Kigali for all the investors with valid investment certificates, which even SMEs qualify to have if the value of their investment is US$ 100,000 or above.

2.6.4 Accounting

In order to arrive at appropriate accounting for leases, it is important to classify leases. US accounting standards use the decision tree shown in figure 2.1 to determine whether a lease is a finance lease or an operating lease.

Using this approach, under a finance lease, the leased assets will appear on the assets side of the lessee's balance sheet while the corresponding future lease payments will appear as debt. The amount of debt equals the lesser of the present value of future lease payments and the fair value of the leased asset. Lease payments should be apportioned between

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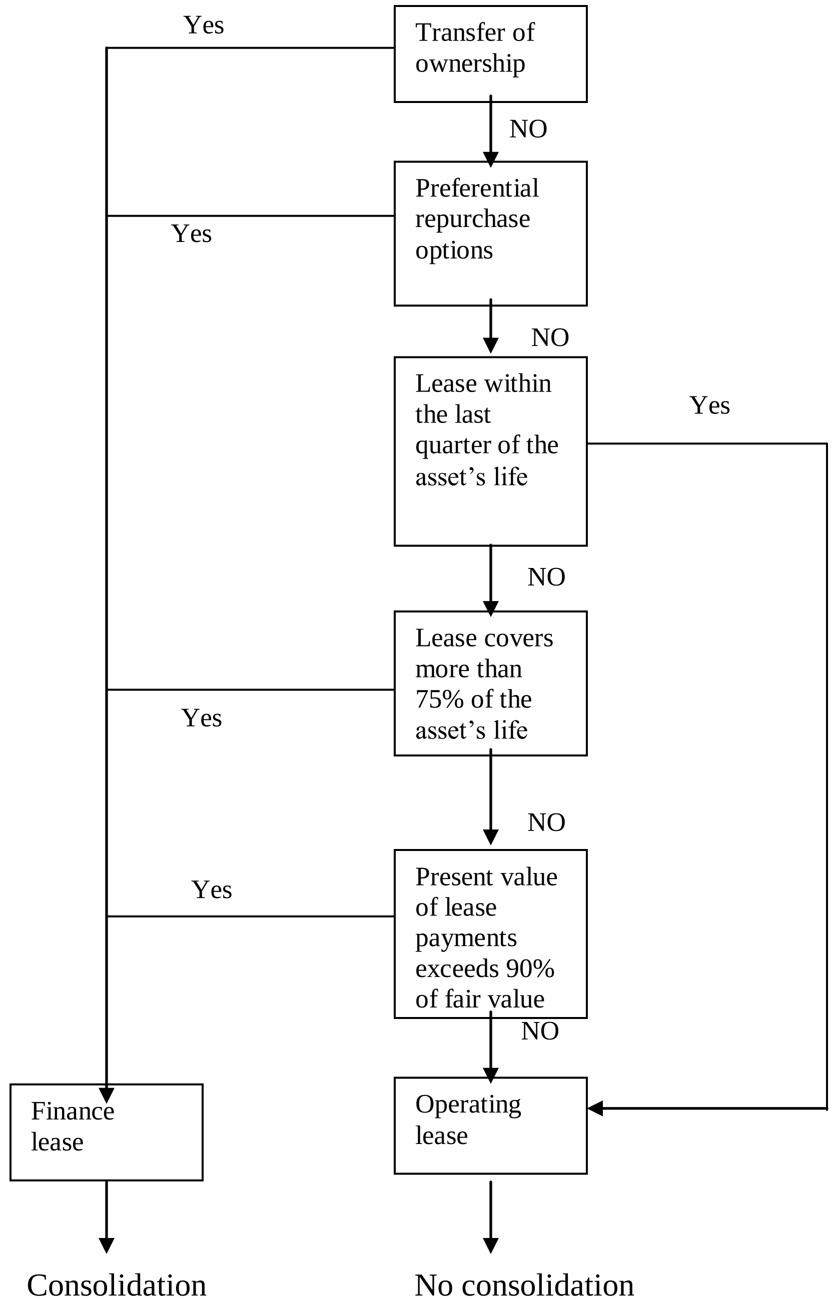
[27] Law n° 06/2001 of 20/01/2001 on the code of value added tax

[28] Law no 16/2005 of 18/08/2005 on direct taxes on income

interest expense and amortization of debt. Under an operating lease, there is no balance sheet entry and lease payments are spread evenly over the life of the lease. There is no difference between an operating lease and rent in terms of accounting in the books of the lessee.

Figure 2.1: Classifying a lease under US GAAP



Source: Quiry et al. (2007:967), Corporate Finance: Theory and Practice, John Wiley and Sons

2.7 Why do SMEs matter?

The importance of SMEs for the economy is often underestimated. The data, however, demonstrate that more than 99 percent of all enterprises are SMEs. In addition, two thirds of employment in the private sector in the EU can be found in SMEs.[29] The World Bank[30] believes that small business is a powerful force for poverty reduction as it creates jobs through which people can acquire skills and raise their incomes. These jobs build a foundation for a middle class, something that increases opportunities and promotes more open and pluralistic societies. If SMEs contribute the above, they certainly have to matter.

The World Bank[31] drawing from empirical studies on the role of small firms in economic growth noted that, while SMEs together create more jobs than large firms, they also tend to experience higher layoff rates. Large firms on the other hand account for a greater share of net employment. The share of net job creation by large firms in the early 1990s was 76 percent in Zimbabwe, 74 percent in Kenya and 56 percent in Ghana. In terms of opportunities for low-skilled workers, the World Bank observed that a larger role was played by SMEs. The importance of SMEs in the creation of jobs is quite easy to explain since they are quite easy to create and as they expand, more jobs are created. SMEs in Africa account for most of the private sector jobs available. Other advantages attributable to SMEs include: a fight against income inequalities and thereby contributing toward a more equitable distribution of income; serving as triggers for local and regional development as they tend to agglomerate to make an effective and rational use of resources.

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[29] Borger, J., and Kwaak T. (1999) Dutch SMEs in the European Perspective, a publication of EIM – Small Business Research and Consultancy: commissioned by the Ministry of Economic Affairs. P.23

[30] SME Facts (2001), **News about World Bank Group Small and Medium Enterprise Initiatives**, World Bank Group SME Department, Vol. 2, No. 1 January 2001, p.6

[31] As cited in Sackey, H., (2007), Private Investment for Structural Transformation and Growth in Africa: Where do Small and Medium-Sized Enterprises Stand? AFDB – ECA Conference Paper p.3

The importance of SMEs in Africa's growth and transformation process emerges from various angles, Sackey[32]. In terms of frequency, SMEs form about 82 percent of private sector firms in low-income Africa, and 79 percent of firms in middle-income African countries. Though the average employment levels are relatively low compared to what prevails in large-sized firms the SME sector's share of total manufacturing sector employment is not negligible. Depending on specific country considerations, the SME sector's share of total employment could be anything from about 20 percent to 36 percent. These shares of employment imply that growth in the SME sector could help enlarge the share of industry in national output, employment and income. Given the fact that about one-third of employees in the SME sector are unskilled production workers, growth of SMEs could have favourable impacts on the distribution of income in the respective countries.

In general SMEs have attracted attention of policy makers and development partners because of the following reasons as suggested by Roux[33]

- Their labour absorptive capacity is higher than that of other size classes,
- The average capital cost of a job created in the SME sector is lower than in the big business sector,
- They allow for more competitive markets,
- They can adapt more rapidly than larger organisations in the changing tastes and trends,
- They often use local recycled resources,
- They provide opportunities for aspiring entrepreneurs, especially those who are unemployed, under-employed or retrenched,
- Workers at the smaller end of the scale often require limited or no skills or training: they learn skills on the job,
- Subcontracting by large enterprises to SMEs lend flexibility to production processes, and

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[32] Opcit, p. 19
[33] Ntsika (2002): Enterprise Promotion Agency, state of small business development in South Africa, the dti, annual review, 2002.

- They play a vital role in technical and other innovation.

From the preceding discussions, it is clear that the role of SMEs cannot be ignored in any economy.

2.8 Constraints faced by SMEs

"Yet if SMEs constitute a critical dimension of growth and development and are often well positioned to achieve high revenues and profit growth, why have private and public financing institutions alike tended to avoid investing in them?", asks Bert ver de Vaart[34]. Providing response to the above while advocating for microfinance, Holtman, Rühle and Winkler[35] assert that since the end of 1980s, there has been a significant decline in the extent to which multilateral and bilateral development institutions, including the World Bank, have been willing to provide credit lines to improve the financing situation of this sector. They add that involvement in SME credit programs have been scaled not because SMEs access to financial services has improved in any fundamental way, but rather because development institutions are dissatisfied with the results and the impact of traditional credit lines that were channeled to SMEs via commercial and development banks.

This means therefore that the SMEs have a multitude of constraints impeding their growth. Roux[36] provides the following constraints:

- the legal and regulatory environment,
- market access,
- access to finance and suitable business premises,

[34] Bert van der Vaart (2001), Investing in SMEs: The SEAF Model, SME Issues – New ideas from the world of small and medium enterprises, The World Bank Group, Washington D.C., vol. 2, No. 1, March 2001

[35] Holtmann, Martin, Ruhle Ilonka & Winkler Adalbert (2000), **SME Financing: Lessons from Microfinance,** SME Issues, New Ideas from the World of Small and Medium Enterprises, World Bank SME Department, Vol. 1, No. 1, November 2000

[36] Opcit, p. 24

- the acquisition of skills and managerial expertise,
- access to appropriate resources and technology,
- the quality of infrastructure, especially in poverty and rural areas,
- bureaucratic hurdles, and
- tax regimes

2.9 Financing SMEs

As noted from the constraints of SMEs, access to finance is one of the key elements that need to be addressed in order to ensure they play the role expected of them. All SMEs start business from internal funds. These funds are generally not sufficient to sustain and grow them. The World Bank[37] believes that small businesses' unmet needs for capital, information, and knowledge is also greater than that of larger ones. There is no better way to help them access needed resources on a sustainable basis than by building up effective local service providers: financial intermediaries, consulting companies, e-business outlets and others.

According to the World Bank[38], efficient financial markets reduce the reliance on internal funds and money from informal sources such as family and friends by connecting firms to a broad range of lenders and investors. However, not many SMEs have access to these financial markets either. The financial constraint still remains. Enterprise Surveys[39] provide indicators of how firms perceive their financial environment and finance their operations. The first set of indicators measures the extent to which firms perceive access to finance as a constraint to investment and provides a measure of access. Inadequate financing possibilities create difficulties in meeting short-term payments for labor and supplies as well as longer-term investment. The use of banks to finance investments or

[37] SME Facts (2001), **News about World Bank Group Small and Medium Enterprise Initiatives**, World Bank Group SME Department, Vol. 2, No. 8 May 2001

[38] World Bank (2006), Financial and Private Sector Development: **Enterprise Surveys – Country profile Rwanda 2006**, The World Bank, Washington, D.C.

[39] Financial and Private Sector Development (2006): Enterprise Surveys – Country profile Rwanda 2006, The World Bank, Washington D.C.

working capital is an initial indicator of access to credit. The second set of indicators compares the relative use of various sources for financing investment. Excessive reliance on internal funds is a likely sign of inefficient financial intermediation. The third set of indicators focuses on the use of bank loans and overdraft facilities, and quantifies the burden imposed by loan requirements, measured by collateral levels relative to the value of the loans. Excessive loan collateral requirements are likely to constrain investment opportunities.

In the face of the above constraints, leasing comes in as the best alternative means of financing SMEs because of less stringent requirements compared to traditional bank lending. If Sackey[40], is right by saying that a relatively large share of investments by SMEs is towards the acquisition of machinery and equipment as opposed to buildings, land, and improvements in leasehold, then, leasing becomes the most appropriate means of financing for them. He further argues that among low-income countries in Africa investments in machinery and equipment appears to be correlated with the size of establishments. The ratio of such investment to total sales of firms rises from 6.7 percent to 7.5 percent and then to 7.6 percent as firm size increases from small, to medium and then to large-size respectively. It is therefore appropriate for this research to look at the relationship between lease financing and the growth of SMEs in Rwanda.

Further, researchers agree that one of the reasons why SMEs have access to and cost of funding problems is because of information asymmetry. Therefore, transaction lending disqualifies them, as Berger and Udell[41] assert that transaction lending is based on 'hard' information such as audited accounts which many SMEs do not have. Relationship lending and asset based finance would be better approaches since they base on 'soft' information that lenders can correct themselves through relationships with SMEs and by focusing on the cashflow potentials by doing asset based finance under which leasing falls.

[40] Opcit, p.11

[41] Berger, N. Allen and Udell, F. Gregory (2004), A More Complete Conceptual Framework for SME Finance, Prepared for presentation at the World Bank Conference on Small and Medium Enterprises: Overcoming Growth Constraints, World Bank, MC 13-121 October 14-15, 2004

2.10 Conclusion

From the literature reviewed, it is clear that the problems of SMEs are by and large known. However, no single researcher has provided ultimate solutions to these problems including access to finance. It is important to note that no single solution can suffice to the problems of SMEs. Literature shows how leasing as an asset based finance can make SMEs bankable without need for good credit history and collateral. It is necessary however to find out how sustainable some of these suggested solutions can be.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with how the research has been conducted to achieve the stated objectives. It indicates the research design, justification, sources of data, sampling design and procedure, population and sample selection, data collection instruments, data processing and analysis, and the anticipated limitations of the study as well as the remedies.

3.2 Research design

This study adopts a descriptive design. It sets out to relate data collected to give it meaningful patterns to answer research questions. In this study, the researcher adopted a case study approach, and BCR S.A; a commercial bank situated in Kigali city, has been chosen.

In order to find out the impact of the introduction of leasing on the growth of SMEs, the researcher has used secondary data obtained from financial statements of the sampled nits. However, to complete this data, questionnaires to respondents from a sample of selected SMEs and to BCR leasing department staff were also administered. This was done to ensure that the information gathered is comprehensive and consistent.

3.3 Justification

BCR was chosen as a case study for two reasons: (1) it is the leading provider of leasing services in the country with 39 percent of equipment leasing market in the country as shown in table 2.3 and all leases being to SMEs. (2) BCR was the first bank (along with Fina Bank) to introduce lease financing in 2006.

3.4 Sources of data

Both primary and secondary sources of data have been used to ensure that objectives of the study are achieved.

3.4.1 Primary source

In obtaining primary data for the research, questionnaires were administered to a sample of 66 SMEs chosen from a population of 80 leasing beneficiaries of BCR. Questionnaires were also administered to the staff of the leasing department of BCR.

3.4.2 Secondary data

Secondary data was collected from the financial statements of SMEs that formed part of the sample. Some of these financial statements were readily available at BCR in the customer files whereas others were got directly from the customers themselves. By analyzing the financial statements information, the contribution of leasing to the growth of SMEs by looking at different growth indicators was found to fulfill the objectives of the study.

3.5 Population

The target population was the SMEs financed by BCR through leasing during the period 2006 to 2009. The total population was 80 units. On the side of BCR, the population was 5 people who are the employees of the leasing department.

3.6 Sampling size and techniques

In carrying out this research, a sample of 66 respondents was taken from a population of 80[42] SMEs using simple random sampling to ensure that each of the elements in the wider population had the same chances of being included in the sample. Each lease beneficiary had a lease reference number assigned automatically. These reference numbers were written on small pieces of paper and put in a basket. One piece of paper was picked at each time and the reference number recorded. Each piece picked was replaced to ensure the same the probability of picking a piece of paper remained the same in the process. This continued until the 66 respondents were obtained.

On the staff of the leasing department at BCR, population study technique was employed. Thus, all the 5 employees were included in the study because they were all involved in leasing in different capacities such as recruitment of SMEs, appraisal, monitoring, asset management and decision making on leasing. The response rate measured by returned questionnaires was 100 percent as shown in table 3.0-1

Table 3.0-1: Sample size

Respondents Category	Population size	Sampled respondents	Returned questionnaires
SMEs	80	66	66
BCR Leasing department staff	5	5	5
TOTAL	**85**	**71**	**71**

3.6 Data collection techniques

The researcher used the following research instruments to collect data required for the study.

[42] Krejcie and Morgan (1970) as quoted by Amin, M.E *Social Science Research*. Kampala, Makerere University Printer, 2005.p.454

3.6.1 Questionnaire

Questionnaires are any written instruments that present respondents with a series of questions or statements to which they are to react either by writing out their answers or selecting from among existing answers (Brown, 2001:6)[43]. A set of self administered questionnaires were sent to respondents. The questions were closed ended and respondents were allowed to choose from alternative answers. Closed questionnaires were preferred because of the fact that they take respondents less time to complete and also because tabulation becomes less time consuming. However, mindful of the fact that with closed questionnaire, not all possible answers can be foreseen in advance, the researcher allowed the respondents to include their answer incase none of the alternatives was correct.

3.6.2 Documentary Technique

With this technique, the researcher reviewed secondary data contained mainly in the financial statements of the SMEs forming part of the sample. It is also by the use of this technique that the researcher reviewed works of other researchers on the subject to establish the missing link and the justification for the study.

Bailey (1987:291) asserts that documentary analysis has the following advantages:

i) Inaccessible subjects: It facilitates the study in which the researcher has no access to the subjects.

ii) Non-reactivity: Unlike participatory observation, documentary analysis is always non-reactive and therefore can give a wide range of ideas without disturbance.

iii) Longitudinal analysis: Documentary analysis can suit the study of time. With this technique, the researcher can go back to get the background issues for factual evaluation of the study.

iv) Sample size: Documentary study has a variety of ideas and it is not limited in any way.

[43] Dornyei, Zoltan (2003), Questionnaires in Second Language Research: Construction, Administration, and Processing, Lawrence Erlbaum Associates, Publishers, Mahwah, New Jersey.

v) Spontaneity: The researcher can ask the documents any time and can answer the researcher directly when a certain phenomenon occurred.

vi) Relatively low costs: Although documents are sometimes bought, they are considerably cheaper than the survey research and experiment, which require great control and care.

3.7 Data processing and analysis

After collection of data, in order for the researcher to make it meaningful for analysis, and interpretation, it was processed through editing, coding and tabulation.

3.8 Limitations of the study

In the process of data collection, the researcher encountered problems. The main problem relates to availability of financial information from SMEs. Since SMEs are known to be poor record keepers, the researcher encountered the problem of availability and reliability of data from SMEs. Most of these SMEs only prepared financial statements as a bank requirement to get financing and sometimes, this information may not necessarily be true. Another problem encountered relates to language. Many businesses in the country produce their financial information in French, which means that the researcher spent more time in interpreting and translating data to English. Another problem was availability of people to talk to during data collection. Most SMEs involved are owned by a single individual whereby failure to meet the owner meant that no data could be availed. Many of them failed to honor appointments given to the researcher on several occasions, requiring the researcher to postpone time allocated to data collection. In such cases, the proprietors had to assign their finance managers to provide the required information in the questionnaires.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Overview

This chapter presents data obtained during the study. It also analyses and presents findings in relation to the study objectives and the research questions. At the end of the chapter, we find the relationship between study variables using correlation coefficient.

4.2 BCR leasing portfolio

Table 4.1 BCR Leasing portfolio and default level as at 31/12/2010

Source: BCR Leasing Unit

SECTOR	EXPOSURE	%	PORTFOLIO AT RISK (PAR)	SECTOR PAR RATIO
AGRICULTURE	151,023,504	4	151 023 504	100%
CONSTRUCTION	80,755,492	2		
ENERGY AND WATER	263,525,303	7		
GOVERNMENT AND PARASTATALS	65,605,662	2		
MANUFACTURING	589,270,588	16	203 308 354	35%
PHARMACIES AND HOSPITALS	11,732,861	0		
PROFESSIONAL FIRMS	90,630,354	3		
SCHOOLS AND RELIGIOUS INSTITUTIONS	208,434,238	6		
TOURISM, HOTELS AND RESTAURANTS	22,821,214	1		
TRADE AND COMMERCE	705,609,842	20	196 883 936	28%
TRANSPORT	1,394,499,732	39	986 030 166	71%
Total	**3,583,908,760**	100	**1 537 245 960**	
PAR RATIO			**43%**	

Figure 4.1 Sector distribution of leases (amounts in Rwf)

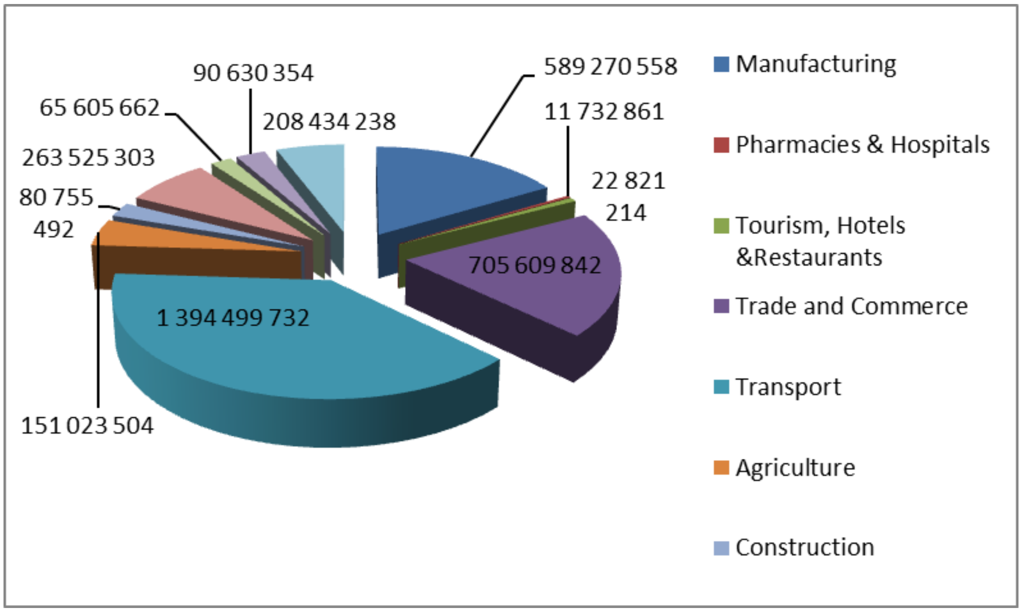
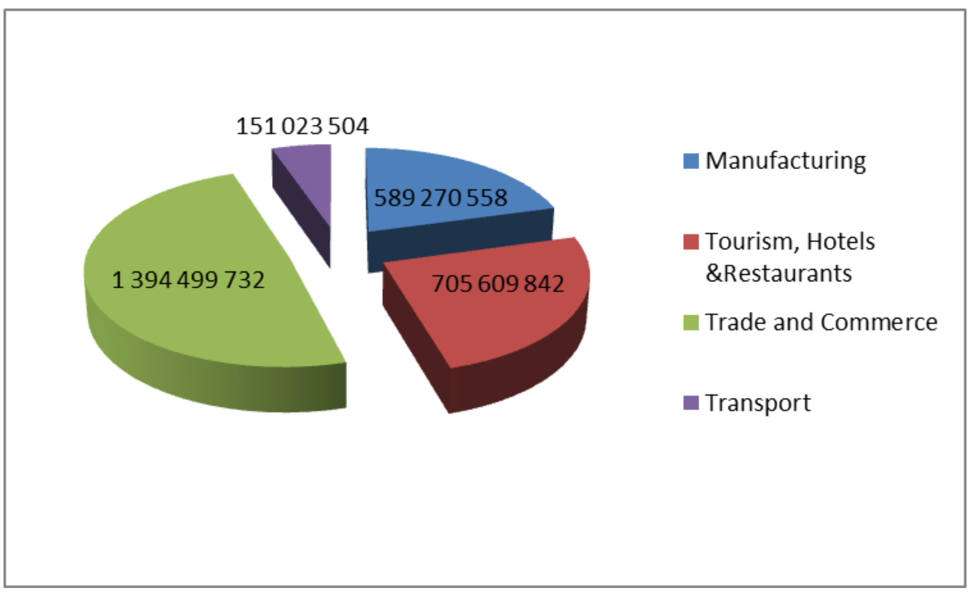


Figure 4.2 leasing portfolio at risk by sector (amounts in Rwf)



Analysis of data in table 4.1 and figures 4.1 and 4.2 shows that a large volume of leases is in transport with 39 percent followed by trade and commerce with 20 percent and manufacturing with 16 percent. Having 75 percent of the portfolio in only 3 sectors reveals the concentration of SMEs. Indeed, quite a sizeable number of SMEs find themselves in trade and commerce and transport because of ease with starting business in those sectors. Similarly managerial skills required to run businesses in trade and commerce and transport are generally low to make entry easy.

Another important element to note is that agriculture appears to be the riskiest of all sectors since all leases in this sector are non-performing. This requires caution when handling new lease requests to this sector. Transport, which has the largest exposure in total, has a larger portion of it as non-performing. Cargo transporters in this sector have been complaining of competition from players from the other east African countries. Another phenomenon responsible for their operational problems is the fact that some of the traders to whom they have been providing services have acquired own trucks and no longer need their services. Passenger transporters on the other hand have had problems due to entry of other investors in the sector. However, the main reason behind default in passenger transport is much to do with diversion of revenues generated to other ventures instead of servicing lease installments.

4.3 The relationship between leasing and the growth of SMEs

The relationship between leasing and the growth of SMEs will be seen through the role played by increase in assets and firm size and returns generated.

4.3.1 Enterprise migration levels after leasing

Table 4.2 shows enterprise migration levels between 2005 and 2009 using the hybrid characteristics on Rwanda’s enterprise size as highlighted in chapter 2.

Table 4.2 Enterprise migration levels between 2005 and 2009

Migration levels between 2005 and 2009			
	Small	**Medium**	**Large**
2005	50	16	
2006	53	13	
2007	57	9	
2008	60	6	
2009	49	14	3

Source: Primary data

Table 4.2 shows that 3[44] out of 66 enterprises have migrated from SME category to large enterprise category after satisfying the level of investment in fixed assets, annual sales and number of employee requirements. On the other hand, the number of medium enterprises between 2005 and 2008 have been reducing and small enterprises consistently increasing suggesting a negative growth trend. This may be explained by the fact that such category of enterprises has only met one or two conditions for them to be qualified as medium. It has actually been noted that due to depreciation of assets, some enterprises have fallen back to small because they fail to meet the net assets investment threshold. It has also been noted that many enterprises categorized as small enterprises have high turnover of over Rwf 1 billion but have limited investment in fixed assets and less than 10 permanent employees. This continuously qualifies them as small. This is the case of traders that deal in importation and distribution of goods which do not require heavy investments in capital goods and employment of a large number of staff.

It is also worth noting that enterprises that follow a constant migration trend are those that have continued to lease new assets year after year. This continuous repeat leases have allowed their assets levels, sales and number of employees to increase consistently.

[44] The story of one of the most successful of these enterprises is available on http://www.youtube.com/watch?v=N5Wkrx-N4FI&feature=search

4.3.2 Respondents’ perception on impact of leasing

Leasing has played a significant role in the businesses of SMEs at different levels as shown in the table 4.3.

Table 4.3 Growth relationship areas of leasing on the of SMEs

Relationship areas	Frequency	Percent
Increase in production	9	13.6
Increase in sales	14	21.2
Increase in profits	14	21.2
Increase in return on equity	7	10.6
Increase in number of employees	10	15.2
Attractiveness to banks for more financing	1	1.5
Improvement in the quality of the products	8	12.1
Failure to get enough working capital	1	1.5
Other	2	3.0
Total	66	100.0

Source: Primary data

As seen from table 4.3, opinions of respondents were divided on the role that leasing has had in their businesses. The main impact that leasing has had is on increase in sales, increase in profits (each with frequencies of 21.2 percent of responses). Leasing has helped to create employment and has enabled beneficiaries to increase production and the quality of their products. 10 percent of the respondents also said leasing has enabled to enhance their return on equity.

Having seen the fact that leasing has had great impact on beneficiaries, it is important to note the kinds of assets that have been leased at BCR.

Table 4.4 Type of asset leased

Type of asset	Frequency	Percent
Plant and machinery	22	33.3
Business vehicles	40	60.6
Personal car	4	6.1
Total	66	100.0

Source: Primary data

From table 4.4, it is clear that close to 61 percent of assets leased are business vehicles. These have been leased mainly to those in the transport sector (both passenger and cargo) but also to traders who need to transport their goods from their sources of supply to their premises and to deliver to premises of those who buy from them. To such traders, leasing has played a big role in helping them to cut on the transport costs they have had to incur on transport and has ensured that they get supplies at the time of need since they now control the transport logistics. This therefore has enhanced their sales and profits. 33.3 percent have leased plant and machinery. To these, leasing has indeed helped them increase production and the quality of their products as highlighted in table 4.5.

Table 4.5 Areas of relationship with increase in leases assets

Area of relationship	Frequency	Percent
Increase in production	14	21.2
Increasing sales	29	43.9

Cutting costs	21	31.8
Other	2	3.0
Total	66	100.0

Source: Primary data

From table 4.5 above, the assertion that leasing has helped in enhancing sales is confirmed by close to 44 percent of the respondents, while close to 32 percent of the respondents said leasing has enabled them to cut costs. This is true mainly for traders who initially relied on hired trucks to transport their cargo but latter acquired trucks through leasing.

4.3.3 The relationship between increases in leased assets and sales profitability, employment return on equity and return on assets

While analyzing the impact of lease financing on SMEs, it is important to look at the trends of consolidated financial information.

Table 4.6 Key financial information for the sample of SMEs and their changes between 2005 and 2009 in Rwf thousands

ITEM	2006 ('000)	2007 ('000)		2008 ('000)		2009 ('000)	
Leased Plant and Machinery	619,261	1,531,696	1.47	2,066,967	0.35	1,689,471	-0.18
Leased Business vehicles	1,120,516	2,791,682	1.49	3,805,670	0.36	3,110,630	-0.18
Leased personal cars	28,550	50,448	0.77	29,678	-0.41	24,258	-0.18
Total leased assets	**1,768,327**	**4,373,826**	1.47	**5,902,315**	0.35	**4,824,359**	-0.18
Current assets	4,246,593	7,117,264	0.68	10,240,816	0.44	9,199,215	-0.10
Current liabilities	2,278,028	4,680,921	1.05	6,167,024	0.32	6,813,395	0.10
Term debt	1,956,914	3,850,248	0.97	5,242,061	0.36	3,137,875	-0.40
Equity	4,409,505	6,048,225	0.37	8,565,397	0.42	7,634,383	-0.11
Number of Employees	1,521	1,942	0.28	2,423	0.25	2,070	-0.15
Sales	20,082,825	34,550,633	0.72	39,508,437	0.14	37,591,117	-0.05
Cost of sales	13,967,443	24,625,709	0.76	29,069,405	0.18	28,577,860	-0.02
Operating profit	873,704	1,879,495	1.15	3,374,237	0.80	3,551,310	0.05
Net profit	779,668	1,529,330	0.96	2,534,176	0.66	2,792,448	0.10

Source: Unpublished financial statements of SMEs sampled units

Information in table shows that for most of the period under review, except 2009, all balance sheet and income statement items had a positive growth trend. This points to some relationship between these items. From the above table, we isolate the key growth indicators to find out the relationship they have with increase in leased assets.

Table 4.7 Correlation between study variables during the period 2005 and 2009

Variables	**2006**	**2007**	**2008**	**2009**
Change in Leased assets		1.47	0.35	-0.18
Change in Equity		0.37	0.42	-0.11
Change in Number of Employees		0.28	0.25	-0.15
Change in Sales		0.72	0.14	-0.05
Change in Net profit		0.96	0.66	0.10
Change in ROE		2.6	1.58	-0.9
Change in ROA		0.7	1.88	-0.6

Source: Researcher's own calculations

Anderson et al.[45] assert that, for sample data, the Pearson product moment correlation coefficient is defined as follows.

$$r_{xy} = \frac{s_{xy}}{s_x s_y}$$

Where,

r_{xy} = sample correlation coefficient

s_{xy} = sample covariance

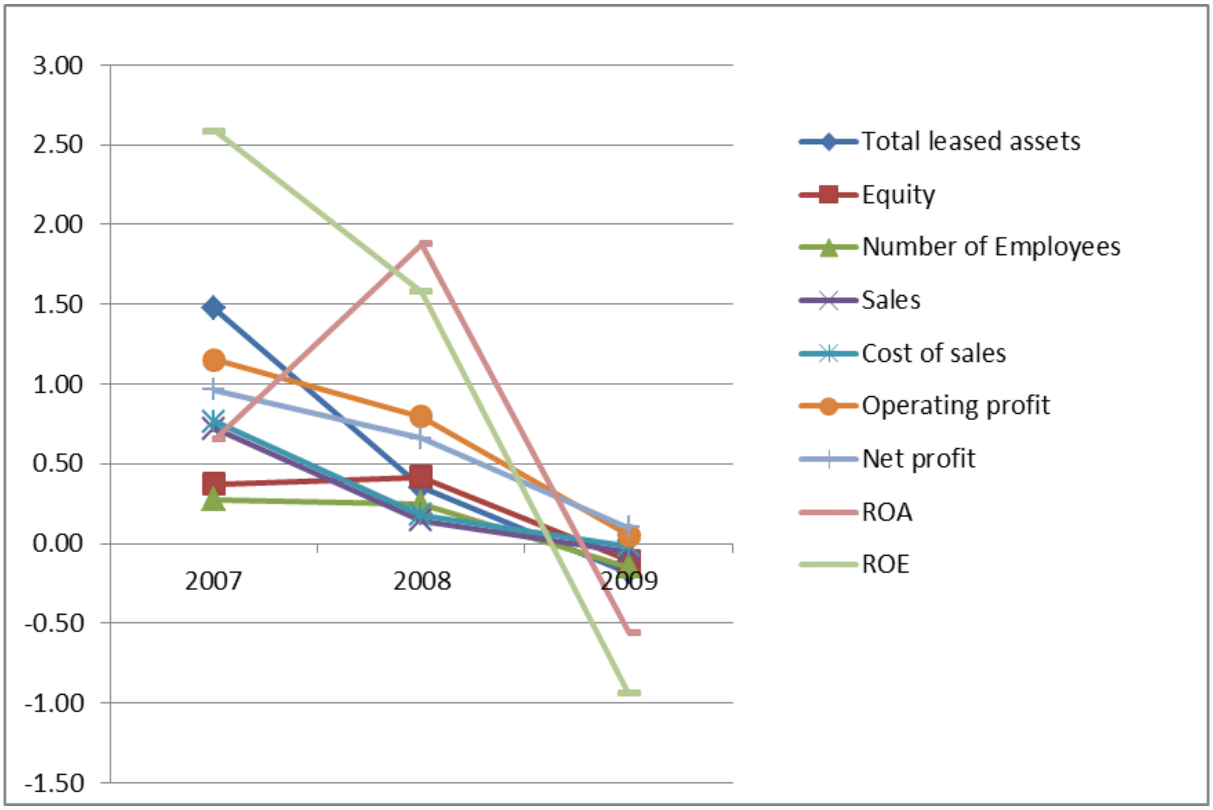
s_x = sample standard deviation of x

s_y = sample standard deviation of y

The equation shows that the sample correlation coefficient is computed by dividing the sample covariance by the product of the standard deviation of x and the standard deviation of y.

[45] Anderson, R. David, Sweeny, J. Dennis, and Williams, A. Thomas (2002), Statistics for Business and Economics, 8th ed. South-Western, Thomson Learning.

Figure 4.3: Correlation between study variables during the period 2005 and 2009



4.3.4 The relationship between leasing and sales growth

Using correlation coefficient, the data in table 4.8 are obtained showing the relationship between increase in leased assets and sales.

Table 4.8 Correlation between change in leased assets and change in sales

Year	Change in leased assets (x_i)	Change in sales (Y_i)	$x_i - \ddot{x}$	$(x_i - x)^2$	$y_i - \bar{y}$	$(y_i - \bar{y})^2$	$(x_i - \ddot{x})^2 (y_i - \bar{y})^2$
2006							
2007	1.47	0.72	0.93	0.86	0.45	0.20	0.17
2008	0.35	0.14	-0.20	0.04	-0.13	0.02	0.00
2009	-0.18	-0.05	-0.73	0.53	-0.32	0.10	0.05
$\sum$	**1.64**	**0.82**	**0.00**	**1.43**	**0.00**	**0.32**	**0.46**
Sample Mean	**0.55**	**0.27**					

Source: Researcher's own calculations

$$r_{xy} = \frac{s_{xy}}{s_x s_y}$$

Where,

r_{xy} = sample correlation coefficient

s_{xy} = sample covariance

s_x = sample standard deviation of x

s_y = sample standard deviation of y

$\ddot{x}$ = sample mean for x

$\bar{y}$ = sample mean for y

$$\text{Covariance } (s_{xy}) = \frac{\sum (x_i - \ddot{x})(y_i - \bar{y})}{n-1} = \frac{0.67}{2} = 0.34$$

$$\text{Sample standard deviation of } x\ (s_x) = \sqrt{\frac{\sum((x_i - \ddot{x})^2}{n-1}} = \sqrt{\frac{1.43}{2}} = 0.85$$

$$\text{Sample standard deviation of } x\ (s_y) = \sqrt{\frac{\sum((y_i - \bar{y})^2}{n-1}} = \sqrt{\frac{0.32}{2}} = 0.40$$

$s_x s_y = 0.34$

$$\text{Therefore, } r_{xy} = \frac{s_{xy}}{s_x s_y} = \frac{0.34}{0.34} = \mathbf{1}$$

We therefore conclude that there is a positive perfect linear relationship between increase in leased assets and sales. Correlation coefficient values range between +1 and -1. The closer to +1, the stronger is the positive linear relationship and the closer to -1, the stronger the negative linear relationship. This means therefore that leasing has played a significant role in increasing sales for participating SMEs. This is understandable from the fact that demand for productive assets is a derived demand which comes as a result of the demand for goods and services produced by those assets. This is why increase in those assets is positively correlated with increase in sales.

4.3.5 The relationship between leasing and profitability of SMEs

Using the trends of changes in leased assets and changes in net profit for the sample of SMEs, the relationship as expressed by correlation coefficient is presented in table 4.9.

Table 4.9 Correlation between changes in leased assets and change in profitability

Year	Change in leased assets Xi	Change in profitability yi	xi- ẍ	(xi- ẍ)²	yi- ȳ	(yi- ȳ)²	(xi- ẍ)² (yi- ȳ)²
2006							
2007	1.47	1.15	0.92	0.34	0.48	0.30	0.10
2008	0.35	0.80	-0.20	0.06	0.14	0.06	0.00
2009	-0.18	0.05	-0.72	2.90	-0.62	0.10	0.28
∑	1.64	2.00	0.00	5.15	0.00	0.70	0.82
Sample mean	**0.55**	**0.67**					

Source: Researcher's own calculations

$$\text{Covariance } (s_{xy}) = \frac{\sum (x_i - \ddot{x})(y_i - \bar{y})}{n-1} = \frac{0.86}{2} = 0.43$$

Sample standard deviation of x (s_x) = $\sqrt{\frac{\sum((x_i - \ddot{x})^2}{n-1}}$ = $\sqrt{\frac{1.405}{2}}$ = 0.702

Sample standard deviation of y (s_y) = $\sqrt{\frac{\sum((y_i - \bar{y})^2}{n-1}}$ = $\sqrt{\frac{0.634}{2}}$ = 0.317

$s_x s_y$ = 0.472

Therefore, $r_{xy} = \frac{s_{xy}}{s_x s_y} = \frac{0.43}{0.472}$ = **0.91**

The correlation coefficient of 0.91 means that there is a strong positive linear relationship between changes in leased assets and changes in operating profit. Thus, we conclude that there is a strong relationship between increases in leased assets on profitability. This may however not always be correct as operating profit may also depend on how well a particular business manages its overhead.

4.3.6 The relationship between leasing and employment creation

Using primary data on changes in employment, a relationship between changes in leased assets and changes in the number of employees was established.

Table 4.10 Correlation between change in leased assets and change in number of employees

Year	Change in leased assets X_i	Change in number of employees Y_i	$x_i - \ddot{x}$	$(x_i - \ddot{x})^2$	$y_i - \bar{y}$	$(y_i - y)^2$	$(x_i - \ddot{x})^2 (y_i - \bar{y})^2$
2006							
2007	1.47	0.28	0.92	0.85	0.15	0.02	0.02
2008	0.35	0.25	-0.20	0.04	0.13	0.02	0.00
2009	-0.18	-0.15	-0.72	0.53	-0.28	0.08	0.04
$\sum$	1.64	**0.38**	**0.00**	**1.42**	**0.00**	**0.12**	**0.06**
Sample Mean	**0.55**	**0.13**					

Source: Researcher's own calculations

$$\text{Covariance } (s_{xy}) = \frac{\sum (x_i - \ddot{x})(y_i - \bar{y})}{n-1} = \frac{0.32}{2} = 0.16$$

$$\text{Sample standard deviation of } x \ (s_x) = \sqrt{\frac{\sum((x_i - \ddot{x})^2}{n-1}} = \sqrt{\frac{1.42}{2}} = 0.84$$

$$\text{Sample standard deviation of } x \ (s_y) = \sqrt{\frac{\sum((y_i - \bar{y})^2}{n-1}} = \sqrt{\frac{0.058}{2}} = 0.24$$

$S_x S_y = 0.202$

$$r_{xy} = \frac{s_{xy}}{s_x s_y} = \frac{0.16}{0.202} = \mathbf{0.79}$$

We conclude that there is a strong positive linear relationship between changes in leased assets and changes in employment. Therefore, leasing plays a major role in employment creation. As increase in assets leads to increase in production, employment opportunities are created to increase the ability to handle increased volumes. These opportunities come from procurement, sales and technical and support services.

4.3.7 The relationship between leasing and return on equity

To find out the relationship that leasing has with return on equity, ratios for return on equity were calculated first by dividing the annual net profit for the sample of SMEs by their equity. Changes between the year 2006 and 2009 were obtained as presented column 3 of table 4.11 below.

Table 4.11: Correlation between change in leased assets and Return on equity (ROE)

Year	Change in leased assets	Change in ROE					
	Xi	Yi	xi- ẍ	(xi- ẍ)²	yi- ȳ	(yi- ȳ)²	(xi- ẍ)² (yi- ȳ)²
2006							
2007	1.47	2.59	0.92	0.85	1.51	2.28	1.93
2008	0.35	1.58	-0.20	0.04	0.51	0.25	0.01
2009	-0.18	-0.94	-0.72	0.53	-2.02	4.08	2.17
∑	**1.64**	**3.23**	**0**	**1.42**	**-0.00**	**6.61**	**4.11**
Sample mean	**0.55**	1.08					

Source: Researcher's own calculations

$$\text{Covariance } (s_{xy}) = \frac{\sum (x_i - \ddot{x})(y_i - \bar{y})}{n-1} = \frac{2.76}{2} = 1.38$$

$$\text{Sample standard deviation of } x \ (s_x) = \sqrt{\frac{\sum((x_i - \ddot{x})^2}{n-1}} = \sqrt{\frac{1.42}{2}} = 0.84$$

$$\text{Sample standard deviation of } x \ (s_y) = \sqrt{\frac{\sum((y_i - \bar{y})^2}{n-1}} = \sqrt{\frac{6.61}{2}} = 1.82$$

$sxSy = 1.53$

$$r_{xy} = \frac{s_{xy}}{s_x s_y} = \frac{1.38}{1.53} = \mathbf{0.90}$$

From the above results, we conclude that there is a strong positive linear relationship between increase in leased assets and increase in return on equity. Increases in leased assets lead to increase in profitability as previously stated. This enhances return to owners of the business since more profits are generated from use of debt funds that finance the leased assets.

4.3.8 The relationship between leasing and return on assets

Secondary data also enabled the researcher to find out the relationship that leasing has with return on assets. The figures for return on assets were obtained by dividing annual operating profit by total fixed assets. Changes in return on assets between the years 2005 to 2009 were calculated as shown in column 3 of table 4.12 below.

Table 4.12: Correlation between change in leased assets and Return on Assets (ROA)

Year	Change in leased assets x_i	Change in ROA y_i	$x_i - \ddot{x}$	$(x_i - \ddot{x})^2$	$y_i - \bar{y}$	$(y_i - \bar{y})^2$	$(x_i - \ddot{x})^2 (y_i - \bar{y})^2$
2006							
2007	1.47	0.65	0.92	0.85	0.00	0.00	0.00
2008	0.35	1.88	-0.2	0.04	1.22	1.49	0.06
2009	-0.18	-0.56	-0.72	0.52	-1.22	1.49	0.77
$\sum$	**1.64**	**1.97**	**0**	**1.40**	**0.00**	**2.98**	**0.83**
Sample mean	**0.55**	**0.66**					

Source: Researcher's own calculations

$$\text{Covariance } (s_{xy}) = \frac{\sum (x_i - \ddot{x})(y_i - \bar{y})}{n-1} = \frac{0.63}{2} = 0.32$$

Sample standard deviation of x (s_x) = $\sqrt{\frac{\sum((x_i-\ddot{x})^2}{n-1}}$ = $\sqrt{\frac{1.40}{2}}$ = 0.84

Sample standard deviation of x (s_y) = $\sqrt{\frac{\sum((y_i-\bar{y})^2}{n-1}}$ = $\sqrt{\frac{2.98}{2}}$ = 1.22

$\underline{s_x S_y}$ = 1.02

$r_{xy} = \frac{s_{xy}}{s_x s_y} = \frac{0.32}{1.02} = \mathbf{0.31}$

From these results, we therefore conclude that there is a weak positive linear relationship between changes in leases assets and changes in return on assets. This is because returns profitability may not necessarily increase as leased assets increase. As previously stated, there are other factors that influence returns, including how well overheads are managed. From the preceding discussions; we conclude that there is a relationship between increase in leased assets and the growth of small and medium enterprises.

4.4 Leasing as a solution for access to finance for SMEs

To understand if leasing is the ultimate solution for access to finance problem, respondents were first asked why they decided to lease. This was important to understand if leasing was taken as the last resort by SMEs. Table 4.13 shows responses.

Table 4.13: Respondents reason for leasing

Reasons for leasing	Frequency	Percent
Leasing was the only option available to get bank financing	5	7.6
Lack of security to get any other form of financing	52	78.8
Leasing was cheaper than other available alternatives	9	13.6
Total	66	100.0

Source: Primary data

From table 4.13, a large number of respondents (78.8 percent) affirmed that they went for leasing because they did not have security to get other form of bank financing, whereas 7.6 percent decided to lease as this was the only option available to them. To both of these categories, it can be affirmed that leasing provides an avenue through which businesses not qualifying for other bank loans can access funds for investment in equipment. Indeed, one of the reasons why SMEs fail to qualify for bank loans is due to lack of collateral. Thus, leasing provides them a big opportunity to access bank financing, where no additional security is required. 13.6 percent believe leasing was cheaper than any other form of financing available to them. To these, leasing may not the only solution for access to finance since they have other alternatives.

On a more direct question as to whether respondents believed leasing is the ultimate solution for access to finance problems for SMEs, responses are presented in table 4.14 below.

Table 4.14: Leasing as the ultimate solution for access to finance problem for SMEs

Response	Frequency	Percent
Yes	51	77.3
No	15	22.7
Total	66	100.0

Source: Primary data

From table 4.14, we note that 77.3 percent of the respondents affirmed that leasing is the ultimate solution for access to finance problems for SMEs. This is much related to the fact that it allows those who do not have collateral and those that have no other finance alternatives to access bank financing. 22.7 percent of the respondents were of the view that leasing is not the ultimate solution for access to finance problem for SMEs because it needed to be improved to make it more appropriate as a solution. The reason behind this belief is that leasing has not entirely solved their finance problems since even after leasing they still had other operational problems. Indeed, some of these have had problems in servicing their leases.

Failure to service leases is one of the reasons as to why some respondents were of the view that leasing is not the ultimate solution for access to finance problems. Table 4.14 shows respondents' ability to service their leases.

Table 4.15: Respondents' ability to pay periodic installments on their leases

Ability to pay	Frequency	Percent
Very easily	25	37.9
Easily	20	30.3
Difficult	18	27.3
Very difficult	3	4.5
Total	66	100.0

Source: Primary data

Table 4.15 shows that 68.2 of the respondents have no payment problems on their leases. This is largely the category that believes that leasing is the ultimate solution for access to finance problems of SMEs. 31.8 percent of the respondents make their payments with difficulty, accounting for the rapid increase in the levels of default seen in 2009. To these, leasing may not be seen as the ultimate solution since they still face problems, including failure to service their leases. The reasons given for payment problems are: poor economic conditions (19.7 percent), short repayment period (7.6), high taxes 4.5, and other various reasons (3 percent) – this is a category whose projects have not yet taken off due to various reasons. Therefore, only those responding with short repayment period have a reason whose solution is found in the structure of this product.

It is also important to note that there are certain areas of difference on reasons for payment difficulties between lessees and the lessors. Lessor respondents' views on payment difficulties are presented in table 4.16 below.

Table 4.16: Reasons for repayment problems on leases (Lessor's perspective)

Reason of default	Frequency (%)				
	agree	agree	Neutral	Disagree	disagree
Wrong lending decision		100%			
Ambiguous leasing law		60%		40%	
Lower lessee stake in default		60%	40%		
Adverse business conditions		40%		40%	20%
Improper credit appraisal system		40%	20%	40%	
Weak monitoring process		20%	40%	20%	20%

Source: Primary data

Lessor's believe that wrong lending decision, ambiguity in the leasing law and lower lessee stakes in default are largely responsible for the high rates of default. They believe that positive leasing (lending) decisions were made on where they should not have been made. This is a belief held by all (100 percent) of the respondents. They also believe that ambiguities in the leasing law relating to the rights and responsibilities of parties to the lease and clear repossession mechanisms play a role in default. Nonpayment is also attributed to the fact that lessees have less to lose in terms of default. This is because lessees believe that if they default, the worst the Lessor could do is to repossess the leased asset. They miss out on the fact that a lease agreement is 'hell or high water' where the lessee bears all the risks and rewards related to ownership of this asset and the fact that they remain responsible for payment up to full recovery of the amount due from them by the Lessor.

Despite the above challenges, lessees still believe that leasing has been beneficial to them with 87.9 percent of the respondents willing to go for more leases given the opportunity whereas 90.9 percent of the respondents are willing to recommend the product to other SMEs so that benefits can trickle down to more of them.

4.5 Challenges facing leasing and possible areas of improvement

Before suggesting possible areas of improvement so as to make leasing more appropriate for SMEs as a solution for access to finance, it is important to identify first the major problems faced by them in accessing the product.

4.5.1 Problems/challenges faced by lessees in accessing the product

Although some of the respondent SMEs (43.9 percent) affirmed that they did not face any problems in accessing lease financing from BCR, a majority of them had varied challenges as presented in table 4.17.

Table 4.17: Problems/challenges encountered by lessees in accessing lease financing

Challenge	Frequency	Percent
Long delivery period	3	4.5
Additional security	3	4.5
Customer contribution	17	25.8
Long bank procedures	11	16.7
Short payment period	3	4.5
None	29	43.9
Total	66	100.0

Source: Primary data

As presented in table 4.17, a larger percent of respondents (56.1 percent) have faced challenges as follows:

- Long delivery period for equipment to the lessees,
- Additional security requirement by lessors,
- High lessee contributions in the assets financed,

- Long bank procedures as it takes a long period to get approvals coupled with the lots of documentation required, and
- Short payment period given to lessees.

Some of these challenges complicate access to leasing and make it no different from other bank financing options.

4.5.2 Area for improvement of leasing

There are so many players in leasing. As such all these players need to work together to improve the leasing environment.

4.5.2.1 The government

The role of the government is mainly to improve the operating environment to make sure there are laws in place to protect economic players. To this extent, the government should make sure that the leasing law is amended to ensure interests of investors in leasing are protected. The existing law has been criticized for failure to highlight key issues like rights and responsibilities of parties to a lease and repossession mechanisms among other things.

The government has also put in place guarantee funds and lines of credit to promote agriculture to make sure lending to this sector is improved and risk inherent in the sector is acceptable to lenders. Having noted that agriculture is the riskiest sector with 100 percent nonperformance, it is imperative that these guarantee funds and line of credit are extended to leasing to make sure lessors are protected from heavy losses and are not discouraged from providing leasing to the sector.

Considering the importance of SMEs in economic growth and employment creation, it would be worthwhile for government to put in place a guarantee fund to help them access credit just like this has been done for agriculture sector and women in business. This would help start-ups to appear bankable before lenders and to reduce the levels of perceived risk associated with SMEs. This guarantee fund would be used both in acquisition of equipment and other funding requirements like working capital.

4.5.2.2 The IFC

The International Finance Corporation (IFC) has been instrumental in promoting leasing development in Rwanda. Its awareness campaign which has targeted lessees and lessors should also target other stakeholders like the Rwanda Revenue Authority (RRA), the Central Bank, professional firms (Law and Accounting) to ensure that all aspects of the leasing environment are taken care of. This should include technical aspects such as accounting and taxation to make sure relevant institutions apply best practices that are favorable to leasing development.

The role of IFC should also extend to technical support to ensure that issues like management of SMEs are improved.

4.5.2.3 The lessors and other investors

From the analysis of primary data, lessees clearly stated challenges that they meet in accessing lease finance. Lessors therefore need to work on these challenges to ensure the product develops. Some of the improvements needed are the following:

- Reducing lessee contributions. Although lessee contributions help mitigate risk associated with an applicant, excessive contributions scare away applicants and make it impossible for some SMEs to access leasing. Contributions should not only involve cash deposits/contributions but should also include items like good will, stocks, debtors, and existing assets for cash strained SMEs. Where cash deposits are required, these should be kept at a minimum level and should not be used as prequalifying criterion to eliminate some applicants.
- Dropping additional security requirement. Since some lessors have complained about the need by the lessors for additional security, it is imperative that lessors take note of the fact that leasing should not be considered as other forms of credit. Lessees may only be required to provide additional securities when the assets involved are very specialized to the extent that no secondary market for this equipment can be obtained.

- Matching asset lives with repayment period. Since lessees have shown short payment periods for leases as one of the challenges they meet, lessors should ensure that payment periods are matched, at least, with useful lives of assets. This will balance their risk with the cash flow weaknesses of the lessees.
- Long delivery period for equipment to the lessees provides an investment opportunity for suppliers of equipment to set up local agencies. Some deliveries have unnecessarily taken up to a year when actually they should have been delivered in a shorter period. Lessors should always allow lessees to choose their suppliers for them to be in control of delivery times.
- Lessors should try to reduce the lengthy bank procedures which only serve to discourage lessees. Lessors take too long to give approvals coupled with lots of documentation required, similar to typical bank loans. Lessors should base their analysis on the ability of assets to be financed to generate cash flows to permit repayment instead of trying to search for operating history which is not always easy to trace with SMEs.

However, it is to be noted that lessors are also facing challenges and will want to complicate their choice of who qualifies for the product because of increase in the levels of default seen lately. It is indeed the increase in the levels of default that have led to a continuous reduction in the leasing portfolio. Although lessors feel protected from the fact that leased assets are registered in their names, and thus repossession is easy, the problem of lack of a developed secondary market for most of these assets still remains a challenge.

4.5.2.4 The lessees

- Lessees should understand that a lease agreement is non-cancellable. The arrangement contains a ‘hell’ or ‘high’ water clause, which makes the lessee bear all benefits and risks incidental to assets ownership. Thus, refusing to pay because of lower stake held in the asset may not save them from their liability in case of default and failure by the Lessor to recover investment in the asset. Refusal to pay and diversion of incomes into other ventures only serves to make it hard for other SMEs to access the product.

- Lessees should seek for financing for assets only required to generate incomes. Speculative motives should be avoided because they lead to failure and distortion of business for other players. This is what has happened in the transport sector.

4.6 Conclusion

This chapter analyzed and interpreted data obtained during the field study. Interpretation has been done in relation to research objectives. The study found out leasing has led to the growth of SMEs by enhancing their sales, profitability and playing a great role in employment creation. Leasing has been found to be a solution to access to finance problem for SMEs despite the challenges faced by lessors relating to high levels of default, which is responsible for continuous reduction in portfolio size. Suggestions for improvement to make the product better suited for SMEs have also been highlighted.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents major conclusions drawn from the findings of the study, recommendations and areas suggested further research.

5.2 Summary of findings and conclusions

This research was entitled "The relationship between Lease financing by *Banque Commerciale du Rwanda* (BCR) and the growth of Small and Medium Enterprises (SMEs) in Rwanda". The objectives of the study were to find out if increase in assets through lease financing has led to increase in sales, profitability, return on equity, return on assets and employment, to find out if leasing is the ultimate solution for access to finance problem of SMEs, and to identify possible areas of improvement to ensure the product benefits more SMEs which have previously been marginalized by traditional banking products.

The researcher used both primary and secondary sources of data collected through questionnaires and documentary review. Data collected were presented in tables and graphs to exhibit patterns.

The study found out that leasing has led to the growth of SMEs by enhancing their sales, profitability and playing a great role in employment creation. Leasing has been found to be a solution to access to finance problem for SMEs.

The research found out that there is a positive relationship between increase in leased assets and growth since this leads to increase in sales, profitability and employment. The research found that some 3 small and medium enterprises managed to migrate to the large enterprise category after 4 years thanks to leasing. The research however, also noted negative growth of enterprises that moved from the level of medium back to small, concluding that for growth and forward migration to happen, there needs to be consistency in leasing to ensure that increase in turnover continuously leads to additional (and continuous) investment in assets which also results in increased employment creation. The research also concluded that increase in leased assets does not lead to increase in return on equity and return on assets. This is because of the fact that increase in asset leasing does not always lead to increase in profitability.

It was found that leasing has played a great role in solving the access to finance problem for SMEs. Leasing has allowed enterprises that do not have collateral to access credit. Despite this fact, SMEs still face challenges related to the fact that leasing does not solve all their financial problems. It only deals with those related to investment in assets. Indeed, some SMEs have had operational problems due to lack of working capital and management deficiencies.

Although leasing has been largely beneficial to SMEs as an unique product designed to address their specific needs, it has been noted that lease finance providers are slowly reframing the product as any other bank credit product because of increase complications of access such as higher lessee contributions in the cost of asset, additional security requirements, lengthy procedures, lengthy delivery period and short repayment period. These complications have come up however as a result of losses incurred in the provision of the product.

The study also provides solutions to the various problems and challenges faced by both lessees and lessors from the perspective of all stakeholders in leasing development.

5.3 Recommendations

Since there are many players in leasing, concerted efforts need to be developed to ensure the leasing environment is improved. Thus, from this study, the following recommendations are made to address the various leasing challenges.

5.3.1 The government

The role of the government is mainly to improve the operating environment to make sure there are laws in place to protect economic players. The existing law has been criticized for failure to highlight key issues like rights and responsibilities of parties to a lease and repossession mechanisms among other things. To this extent, the government should make sure that the leasing law is amended to ensure interests of investors in leasing are protected.

The government has also put in place guarantee funds lines of credit to promote agriculture to make sure lending to this sector is improved and risk inherent in the sector is acceptable to lenders. Having noted that agriculture is the riskiest sector with 100 percent nonperformance, it is imperative that these guarantee funds and line of credit are extended to leasing to make sure lessors are protected from heavy losses and are not discouraged from providing leasing to the sector.

Considering the importance of SMEs in economic growth and employment creation, it would be worthwhile for government to put in place a guarantee fund to help them access credit just like this has been done for agriculture sector and women in business. This would help start-ups to appear bankable to lenders and to reduce the levels of perceived risk associated with SMEs. This guarantee fund would be used both in acquisition of equipment and other funding requirements like working capital. The guarantee fund would help eliminate additional security and lessee contribution requirements by lessors.

To make the leasing market vibrant, it is recommended that the government, through the Central Bank eases regulatory requirements for non bank lessors to ensure that the playing field is level to encourage and attract other players in leasing. Non bank lessors would be more attractive to SMEs since they would not be interested in operating history as banks and their approval procedures would not be as long.

5.3.2 The IFC

The International Finance Corporation (IFC) has been instrumental in promoting leasing development in Rwanda. Its awareness campaign which has targeted lessees and lessors should also target other stakeholders like the Rwanda Revenue Authority (RRA), the Central Bank, professional firms (Law and Accounting) to ensure that all aspects of the leasing environment are taken care of. This should include technical aspects such as accounting and taxation to make sure relevant institutions apply best practices that are favorable to leasing development.

The role of IFC should also extend to technical support to ensure that areas like management of SMEs are improved.

5.3.3 The lessors and other investors

From challenges highlighted at Lessor level, the following are recommended:

- Reducing lessee contributions. High contributions scare away applicants who already have insufficient cash resources. Contributions should also include items like existing assets where a charge can be made. Where cash deposits are required, these should be kept at a minimum level and should not be used as prequalifying criterion to eliminate applicants with viable projects.
- Dropping additional security requirement. Additional security requirements make leasing no different from any other form of credit. Lessees may only be required to provide additional securities when the assets involved are very specialized to the extent that no secondary market for such asset can be obtained.

- Matching asset lives with repayment period to ensure balance between lessor risk and cash flow patterns of the lessees. This will avoid suffocation of small businesses due to cash squeeze.
- Long delivery period for equipment to the lessees provides an investment opportunity for suppliers of equipment to set up local agencies. Since most equipment is bought outside the country, especially used equipment, investors should find this area interesting.
- Lessors should try to reduce the lengthy bank procedures which only serve to discourage lessees. Lessors should base their analysis on the ability of assets financed to generate cash flows to permit repayment instead of trying to search for operating history which is not always easy to trace with SMEs.

5.3.4 The lessees

- Lessees should seek for financing for assets only required to generate incomes. Speculative motives should be avoided because they lead to business failure and distortion of business for other players. Need for leasing should be justified by real rather than perceived opportunity

5.4 Areas for further researcher

The following are the areas suggested for further research:

- The contribution of leasing on total investment in capital equipment in Rwanda.
- The contribution of leasing to the development of entrepreneurship in Rwanda.

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APPENDICES

APPENDIX A: QUESTIONNAIRE TO THE LESSEES.

Dear respondent,

I am called Eric RUTABANA, a student of Masters of Business Administration (MBA) program of the Maastricht School of Management (MSM) in partnership with the School of Finance and Banking (SFB) Kigali, Rwanda. As part of the program requirements, I am conducting research study titled: **The relationship between Lease financing by BCR and the growth of Small and Medium Enterprises (SMEs) in Rwanda**.

I kindly request you to sacrifice your valued time to answer the following questions. Your contribution in form of views, ideas and opinions will be of great significance to the success of this research. I assure you that the responses given will be treated with utmost confidentiality and will be purely be for academic purposes only.

Thank you.

Respondent's details

Position held: ……………….

Organization………………….

Number of years in the organization: ………………..

Questions:

1. Why did you decide to lease?
   a) This was the only option available to get bank financing, ☐
   b) I had no security to get any other form of financing, ☐
   c) Leasing was cheaper than other available alternatives, ☐
   d) Need for off balance sheet form of financing, ☐
   e) Other (please specify) ☐
   Simple to get leasing ☐

2. What type (s) of assets have you leased? (please, tick as many alternatives as are applicable)
   a) Plant and machinery ☐

b) Business vehicle (s)
c) Personal car (s)
d) Other (please, specify)

3. Which of the following is (are) attributable to the lease financing you got from BCR? (please, tick as many alternatives as are applicable)
   a) Increase in production,
   b) Increase in sales,
   c) Increase in profits,
   d) Increase in return on assets,
   e) Increase in return on equity,
   f) Increase in number of employees,
   g) Attractiveness to banks for more financing,
   h) Improvement in the quality of products,
   i) Complicated technology,
   j) Failure to get enough working capital,
   k) Failure to get sufficient market for products,
   l) Other (please, specify).

4. If the number of employees has increased, please indicate employee numbers for the following years:

Year	2005	2006	2007	2008	2009
employee number					

5. In what ways has leasing helped to enhance your performance? (please, tick as many alternatives as are applicable)
   a) Increasing production,
   b) Increasing sales,
   c) Cutting costs,
   d) Other (please, specify)

6. How do you qualify your ability to pay periodic installments on your lease?
   a) Very easily
   b) Easily
   c) Difficult
   d) Very difficult

7. If your response is difficult or very difficult, what do you think is the cause for payment problems? (please, tick as many alternatives as are applicable)
   a) Short payment period ☐
   b) Unfavorable economic conditions ☐
   c) High taxes ☐
   d) Other (please, specify) ☐

8. What problems/challenges do you encounter in accessing lease financing from BCR?

   ----

9. Do you think lease financing is the ultimate solution for access to finance problem for SMEs?
   a) Yes ☐
   b) No ☐

10. If no, suggest ways that the product can better serve the interests of SMEs to accelerate their growth. (please, tick as many alternatives as are applicable)
    a) Lease financing should be long term (over 5 years) ☐
    b) Lease financing should go hand in hand with working capital financing ☐
    c) Lease financing should go hand in hand with technical support ☐
    d) Other (please, specify) ☐

The end

APPENDIX B: QUESTIONNAIRE TO LESSOR

Dear respondent,

I am called Eric RUTABANA, a student of Masters of Business Administration (MBA) program of the Maastricht School of Management (MSM) in partnership with the School of Finance and Banking (SFB) Kigali, Rwanda. As part of the program requirements, I am conducting research study titled: **The relationship between Lease financing by BCR and the growth of Small and Medium Enterprises (SMEs) in Rwanda**.

I kindly request you to sacrifice your valued time to answer the following questions. Your contribution in form of views, ideas and opinions will be of great significance to the success of this research. I assure you that the responses given will be treated with utmost confidentiality and will be purely be for academic purposes only.

Thank you.

Respondent's details

Position held:

a) Head of department ☐
b) Relationship Manager ☐
c) Asset manager ☐
d) Analyst ☐
e) Support officer ☐
f) Other (please, specify) ☐

Name of organization………………….

Number of years in the organization: ……………………………..

Questions

1. What do you think has been the contribution of lease financing to SMEs? (please, tick as many alternatives as are applicable)

a) Increase in production and sales
b) Increase in profitability
c) Availing better technology
d) Acceptability of SMEs to banks and more financing options,
e) Business failures
f) Improved management and record keeping among SMEs
g) Other (please, specify)

2. Does leasing reduce the level of perceived risk on SMEs? (please, tick one)

a) Yes
b) No

3. If yes, how (please, tick as many alternatives as are applicable)

a) Realization of security is easier
b) The asset financed is the source of income to repay
c) Lessor interests are protected by the leasing law
d) Contributions of the lessee in the cost of the asset reduces the perceived risk of loss
e) Other (please, specify)

4. What problems do you encounter in the provision of lease financing to SMEs?

----

5. Why has the level of your leasing portfolio reduced in 2009? (please, tick as many alternatives as are applicable)

a) General economic slowdown and liquidity crisis in Rwanda
b) Change of the bank's focus
c) Deterioration of leasing asset quality
d) Reduction in the number of applicants
e) Other (please, specify)

6. What is the reason for the rapid deterioration of the leasing portfolio in 2009? (please, tick as many alternatives as are applicable)

Key: Strongly agree (SA), Agree (A), Neutral (N), Disagree (D), Strongly disagree (SD)

Ambiguous leasing law	SA	A	N	D	SD
Wrong lending decisions	SA	A	N	D	SD
Improper credit appraisal systems	SA	A	N	D	SD
Lower lessee stakes in default	SA	A	N	D	SD
Adverse Business conditions	SA	A	N	D	SD
Weak monitoring process	SA	A	N	D	SD

Any other: (Please specify)…………………………………………………………….

The end

APPENDIX C: SAMPLING SIZE TABLE

Appendix A

Sample size (s) required for the given population sizes (N)

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	256	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	100000	384

Note : From R. V. Krejcie and D. W. Morgan(1970), Determining sample size for research activities, Educational and psychological measurement, 30, 608, Sage Publications.

APPENDIX B Practice

Read	write	maths	ses	sex	ltype
10.00	8.00	4.00	1.00	2.00	1.00
8.00	7.00	9.00	1.00	1.00	1.00
12.00	5.00	5.00	1.00	2.00	1.00
5.00	4.00	7.00	1.00	1.00	1.00
11.00	9.00	6.00	1.00	2.00	1.00
10.00	10.00	8.00	1.00	2.00	1.00
7.00	8.00	10.00	1.00	1.00	1.00
6.00	5.00	8.00	1.00	1.00	1.00
8.00	6.00	8.00	1.00	1.00	2.00
9.00	8.00	6.00	1.00	2.00	2.00
8.00	9.00	5.00	2.00	2.00	2.00
14.00	15.00	10.00	2.00	2.00	2.00
15.00	12.00	14.00	2.00	1.00	1.00
12.00	10.00	10.00	2.00	1.00	1.00
13.00	10.00	8.00	2.00	2.00	2.00
14.00	12.00	9.00	2.00	2.00	2.00
15.00	11.00	8.00	2.00	2.00	2.00
13.00	12.00	10.00	2.00	1.00	1.00
12.00	10.00	13.00	2.00	1.00	1.00
17.00	16.00	12.00	3.00	2.00	2.00
15.00	13.00	10.00	3.00	2.00	2.00
12.00	11.00	12.00	3.00	1.00	2.00
14.00	13.00	12.00	3.00	1.00	2.00
16.00	14.00	10.00	3.00	2.00	2.00
11.00	10.00	12.00	3.00	1.00	2.00
17.00	15.00	14.00	3.00	2.00	2.00
19.00	17.00	10.00	3.00	2.00	2.00
15.00	18.00	17.00	3.00	1.00	1.00
18.00	17.00	15.00	3.00	2.00	2.00
11.00	12.00	13.00	1.00	2.00	2.00
15.00	13.00	9.00	3.00	2.00	2.00
12.00	14.00	13.00	3.00	1.00	1.00
13.00	12.00	8.00	2.00	2.00	1.00