



DIAGNOSTIC CHECKLIST FOR EVALUATION OF LEASE FINANCING ENABLING ENVIRONMENT

This checklist is designed to help U.S. government program officers determine the potential market constraints to increasing access to credit through lease financing products. Used in conjunction with the Model Scope of Work in *FS Series #7: Enhancing the Leasing Enabling Environment*, this checklist can be used to determine if program resources should be dedicated to leasing interventions and which interventions would be most appropriate in a given country's context.

Key Questions	Yes	No	Comments/Responses
Financial Sector			
Has there been prior work to promote or develop leasing?			Look at what has been accomplished, what was not successful and why, and what successes can be built upon.
Are there any leasing companies currently operating?			If so, how many? Find out what type of financial products they offer, what kind of training they have had, the market they serve, and the total annual volume of new leases. This will help you understand the current value of leasing in the market.
Are leasing companies willing to invest in new product development?			Leasing companies must be serious about making an investment before intervention efforts are made. Ask how they plan to obtain additional capital and finance needed training.
Are leasing companies licensed or regulated?			If no, there may be greater freedom for leasing (depending on the attitude of the government and regulators).
Are banks interested in leasing and ready to put up a significant amount of capital?			Most financial institutions are interested in modern financial products; however, the real test is the amount of capital they are willing to risk.
Can banks offer leasing under their current regulations?			In some countries, banks can enter leasing only through a subsidiary. Also, the amount of capital that the bank can invest may be limited.
Is there a functioning capital market or other local sources that could provide funding for a leasing company?			
Have lead stakeholders to work with been identified?			Existing leasing companies, business chambers, ministries, members of Parliament, other donors, international equipment vendors
Do financial institutions have the ability to appropriately evaluate credit risks using cash flow analysis?			This is a fundamental tool for evaluating the viability of the equipment to enable lease payments.
Do financial institutions currently finance the agricultural sector?			It is important for financial institutions (i.e., leasing companies) to understand agricultural finance before entering into agricultural leasing.
Are the governor of the central bank and/or the minister of finance supportive of leasing?			It is important to know early on who the allies are and their level of understanding of modern leasing.

Enabling Environment			
Is there a separate law on leasing?			If not, is leasing allowed under the civil code?
Does the civil code provide for rental and leasing?			
Does the tax code define tax ownership of leased assets?			How does the tax code treat leasing?
In case of bankruptcy, does the legal system recognize leased assets as separate from the borrower's other assets?			If not, this may be a barrier to leasing.
Does the country have an effective judicial process for defaulted borrowers?			Creditor rights under defaulted loans/leases may be a barrier to accessing credit.
Does the country have a functioning collateral registry?			
Market Factors			
Are there equipment manufacturers in the country?			Manufacturers can support vendors/dealers to offer financial products.
Are there equipment dealers in the country?			It is important to look at the reputation of equipment dealers and the market's perception of the product quality.
Do SMEs understand leasing as a product?			A financial sector-supported public awareness campaign may be needed (with support from USAID).
Are there equipment parts and repair shops?			
Is there a secondary market for used equipment?			Look beyond consumer-oriented cars, trucks, and household items. How is used commercial equipment sold?

Resources

There are numerous resources on lease financing that may be referenced to better understand the context, theory and practice of the questions and issues covered in this checklist. Primary resources used in the development of this checklist can be found in the references section of *FS Series #7: Enhancing the Leasing Enabling Environment*. In addition, select websites recommended as "gateways" to further resources on leasing finance are listed below.

Recommended Websites

National Equipment Leasing: <http://www.nationaleasingco.com/tools/handbook.php>
Amembal & Associates: <http://www.amembalandassociates.com/publications.html>
The International Finance Corporation: <http://www.ifc.org/publications/>
US Agency for International Development: microLinks: Microenterprise Learning, Information and Knowledge Sharing: http://www.microlinks.org/ev_en.php

MARCH 2010

This diagnostic tool appears in *FS Series #7: Enhancing the Leasing Enabling Environment*, which was produced for review by USAID. It was prepared by Roger Bird of The QED Group, LLC and Chemonics International Inc. for the Financial Sector Knowledge Sharing Project, delivery order number EEM-E-03-05-00006-00.