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**By Aloysius Michelo Chimuka**

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**Master of Business Administration Finance  
Copperbelt university  
supervisor name: Dr Habazoka Lubinda**

# **A Study of the Development of the Leasing Industry in Zambia**

Chimuka M. Aloysius<sup>1</sup> and Dr Habazoka Lubinda<sup>2</sup>

Department of Accounting and Finance, Copperbelt University, P O Box 21692, KITWE

## **ABSTRACT**

Access to credit is critical to businesses and individuals. This is because access to financing is crucial to their survival, sustainability, growth and ultimately to a country's economic growth, employment and asset formation

In Zambia, productive sectors, which are vital to economic development, face-increasing difficulty in accessing long-term finance. Leasing is an alternative to traditional forms of financing; unfortunately, the industry has not taken a prominent role in financing initiatives in Zambia.

The aim of the study was to get insight of the development and challenges of leasing market in Zambia. Further, the study would provide an assessment of the contribution of the current legal and regulatory infrastructure in developing the leasing industry in Zambia.

The study used primary data from nine non-bank leasing companies, Bank of Zambia officials and Ministry of Finance officials. Secondary data was gathered from various financial sector and leasing publications, reports and dissertations.

The findings of the study reveal that the prudential performance of the sector has been unsatisfactory. The study revealed that the industry performed average in capital adequacy, but performed poorly in asset quality, earnings and liquidity performance. The regulatory system was still fragmented and operating in an environment with insufficient legislation. The study further revealed that the regulatory body had not yet put enough effort in promoting the leasing markets in Zambia. The main regulator, Bank of Zambia, lacked technical and supervisory capacity to adequately, supervise the industry. The industry faced a number of challenges that inhibited it from fully participating in the financial sector.

In addition to regulatory infrastructure reforms that were needed to expand the industry, other factors such as access to long-term low cost funding needed to be attracted, the leasing market needed to be educated on the availability of lease finance and strengthened supply-chain relationships are necessary.

The Zambian leasing market may not develop fully if banks and big corporate companies did not take active part in these modern financial products.

## **1.0. Introduction**

Access to finance is one of the most widely discussed topics in business (Bathala and Mukherjee: 1995, Fletcher: 2005, Fundanga: 2010, Nair: 2004, World Bank: 2006). The major hindrance to SME development, effective domestic investment, economic growth and development and

ultimately poverty reduction was access to affordable and reliable finance or credit (Adam and Hardwick: 1998, Beattie et al: 1998, Brealey and Myers: 2003).

According to the World Bank survey (2007) of enterprise development in Zambia, about 16 percent of the businesses surveyed had access to some form of credit. Similarly, according to the FinScope survey of 2009, financial access landscape revealed that only about 37 percent of adult population had access to finance and about 62 percent of the adult population had no access to any form of financing (FinScope: 2009).

Traditional forms of financing have failed to satisfy the financing needs of businesses and individuals (Fundanga: 2010, Brealey and Myers: 2003, Gallardo: 1997, Fletcher et al: 2005, FinScope: 2005).

According to the FinScope<sup>TM</sup> survey (2009), prominent financial access barriers associated with traditional forms of financing included proximity to financial institutions; perceived affordability of financial products; perceived appropriateness (in terms of need) of financial products; perceived eligibility; and regulatory barriers, such as statutory “Know Your Customer” (KYC) requirements under anti-money laundering legislation. The KYC was perceived an access barrier because only 2.6 percent of unbanked adults had access to the standard KYC documentation (FinScope: 2009). Further, the survey, lists other forms of financial exclusion such as usage barriers. According to FinScope (2005), the usage barriers comprise Income-related barriers, attitudes and perceptions with regard to money matters and financial institutions.

In Zambia, according to the FinScope (2009), most adults in both the rural and urban, earn their income on an irregular, inconsistent basis. Only 14.4 percent of urban inhabitants earn a salary or wage from a company or business, reducing to less than three percent for rural adults (FinScope: 2005).

The FinScope survey (2009) indicated that a small proportion of Zambian adults did not have any income. However, 50 percent of rural and 27 percent of urban adults did not have a regular monthly income and almost 80 percent of adults earned below K400 000 a month, including those who do not earn a monthly income (FinScope: 2009). The picture sketched by the income-generating landscape outlined in the discussion above was that most rural inhabitants were involved in agriculture and the single biggest income-generating activity in urban areas was self-employment implying that incomes were likely to be low, irregular and inconsistent for most Zambian adults (FinScope: 2005).

This above analysis points to a lack of certainty and predictability of income of the Zambian adult population – an important factor when being considered for eligibility under traditional forms of financing (FinScope: 2009).

There was need, therefore, to develop other innovative financial products that would circumvent access pitfalls associated with these traditional forms of financing (FinScope: 2005).

One form of such financing that has the ability to emerge as an innovative form of financing is Leasing finance (Westley: 2003, Droglea, Grabara and Todaran: 2011).

Leasing is based on the proposition that profits are earned through use of assets, rather than from their ownership (World Bank, 2000). It focuses on the lessees' ability to generate cash flow from business operations to service the lease payment rather than on the balance sheet or past credit history (I.F.C.: 2009).

Entrepreneurs and businesses in Zambia are increasingly having trouble in accessing credit (Fundanga: 2010, FinScope: 2005, 2009). This has constrained productivity capacity of businesses and individuals and in turn as hampered economic sector growth, domestic investment and ultimately poverty reduction (FinScope: 2005, Fundanga: 2010, Haiss and Kichler: 2009)

The challenge remains is to transform a poor performing leasing industry into one that can become a reliable asset financing option in Zambia in spite of the industry being in existence since independence (Fundanga: 2010, FSDP: 2009). There is need therefore to devise supply-side strategies that would translate into increased usage and growth of leasing finance in Zambia (FSDP: 2009)

An expanded leasing industry would to play an increasing bigger role in financing decisions and contribute more to the achievement of economic development, diversification, sustainable growth and poverty reduction in Zambia by increasing access to financing (I.F.C.: 2008, (Fundanga: 2010, Nair et al: 2004, Westley: 2003).

A developed leasing sector provides mechanisms to ensure utilization of assets in the economy to stimulate efficiency and productivity (,).

In order to achieve that, there is need therefore to provide insight of the state of level of the leasing industry in Zambia in the eight-year period from 2004 to 2011, identify the challenges of leasing provision in Zambia and assess of the contribution of the legal and regulatory infrastructure towards creating a conducive environment in which leasing would thrive.

## **1.1 The questions**

1. What are the trends in the development of the leasing industry in Zambia?
2. How has the legal and regulatory framework contributed to the development of the leasing industry in Zambia?
3. What are the major challenges facing the Leasing market in Zambia?

## **1.2. The Objectives**

The objectives of the study were to determine the trends of the Leasing industry in Zambia and to assess the contribution of the legal and regulatory framework to the development of the leasing sector in Zambia. Further, the study sought to highlight the major challenges faced by the leasing market in Zambia.

## 2.0. LITERATURE REVIEW

Modern day Leasing began as a manufacturer's tool for increasing sales (World-leasing Yearbook: 2003). It now has evolved to become a specialized financial service that serves most sectors of the economy (Amembal: 2005). As the World-leasing book (2003) estimated, by the year 2008, worldwide leasing volumes would reach just over \$643 billion. Similarly, White Clarke (2012) indicates that between 2007 and 2008, the share of the worldwide leasing volume represented by emerging markets (Asia, South America, and Africa) had increased by approximately 52 percent from 19.5 percent in 2007 to 29.6 percent. In the US leasing market as reported by USAID (2012), leasing volumes exceeded \$ 200 billion followed by Japan with \$ 68 billion. The contribution of leasing to total US equipment finance market recorded 46.8 percent and was worth \$ 625 billion in 2010 (USAID: 2012).

Leaseurope (2011) reported that European leasing industry grew at average rates of 10.7 percent in 1995 but declined to an average of negative 30.3 percent by 2009 owing to the effect of the global recession experienced in 2008. However, the study indicated that leasing levels in Europe had recovered and recorded 7.4 percent growth rate in 2011 (Leaseurope: 2011). The picture of leasing in Europe was similar to that one in the US as reported by the US Equipment Leasing and Finance Associations. USAID (2012) reported that new business volume in January 2009 was down roughly 22 percent and in February 2009 was down by nearly 40 percent.

In Africa, many countries leasing industry had begun establishing themselves in the financial system due to varied interventions that Governments and leasing stakeholders had embarked on to develop domestic leasing markets.

Sory (2005) revealed that the Burkinabe leasing industry has been one that has moved from being non-existent to one that is nascent as evidenced by the proportion of total asset financing of one percent in 1996 to an estimated reach of 45 percent by 2008. Further the International Finance Corporation (I.F.C.) reveal that in Rwanda, the leasing industry had recorded encouraging recognition as evidenced by the increase in the lease transactions and value portfolio of lease transactions in the economy (I.F.C.: 2007). The Rwandan leasing industry study indicated that in 2006, 68-lease transaction had been entered into amounting to US\$ 7.5 million and by 2007, the number of lease transactions were well over 164, with a value of over US\$16 million. By June 2008, the leasing transactions were about US\$ 20 million (I.F.C.: 2007).

According to I.F.C. (2007 and 2008), the Ghanaian leasing industry was one of the most successful and longest reigning leasing industries in Africa. The Ghanaian leasing industry could only be comparable to those of highly industrialized and productive economies of the U.S.A. and those of Europe (I.F.C.: 2008). The leasing industry in Ghana could be traced as far back as the 1980's and by 2009 was acknowledged to be a competitive mode of asset financing in Ghana (I.F.C.: 2007). According to the study (I.F.C.: 2008), firstly, the number of lease providers had increased from five in 2004 to fourteen by 2008. Secondly, by 2007, according to I.F.C. (2008),



the value of new leases booked increased to \$93.31 million from \$13.72 million in 2004 representing a 580.1 percent increase (I.F.C.: 2008). Correspondingly, the number of new leases recorded in the Ghanaian leasing industry increased from 166 in 2004 to 1,381 in 2007 representing a lease contract increase of 732 percent (I.F.C.: 2007).

The remarkable performance of leasing industries in some African countries has been because of a varied number of interventions that transformed the industries into success. As regards the Burkinabe leasing market, about 58 percent of lease contracts had duration of 36 months on average, while those of 48 months represented 26 percent while those for 60 months recorded 11 percent (Sory: 2005). This shows that the long-term nature of the leases competed favourably in the market place and thus contributed to the improved performance of the industry. The leasing penetration rate in the Burkinabe leasing industry was estimated at 28 percent and was due to reach 45 percent in a three-year period, if the apparent obstacles were removed (Sory: 2005).

The study of the Rwandan leasing industry revealed that the improvement of the industry was because of the increased stakeholder participation in legislative reforms (I.F.C.: 2009). The report by I.F.C. (2007) indicated that the International Finance Corporation had collaborated with the Rwandese government in spearheading legislative reviews by working to enhance the legislative, tax and accounting environment for leasing in Rwanda. Further, according to I.F.C. (2009), the corporation has embarked on capacity building, providing training to lessors, lessees, government officials, and other stakeholders in the leasing industry and has developed the leasing business by creating opportunities for local and foreign investment in leasing through developing supply-linkages between equipment manufacturers and financial institutions (I.F.C.: 2007). In order to enhance market awareness on leasing to the Rwandan population and businesses, I.F.C. had been educating the public about leasing, including the current players in the market (I.F.C.: 2009). Increasing public knowledge and awareness of leasing amongst all stakeholders through publications, the print and electronic media, the Rwandan market now has an understanding of the benefits of leasing, and has translated into sector growth and expansion (I.F.C.: 2007).

Similarly, lease providers involvement in activities aimed at expanding the industry was as crucial as any other effort aimed at expanding the industry. A study by the Kisaame (2003) revealed that the Development Finance Corporation of Uganda (DFCU) a major lease provider in Uganda had played a significant role in expanding the Ugandan leasing industry. This is because, according to Mutesasira et al (2001), the company expanded its own profitable operations; educated the marketplace; offered tremendous support in creation of more effective legal, regulatory and fiscal environment through advocating for a conducive leasing atmosphere through taxation, legislative and regulatory reforms and, promoting financial sector development by lobbying for new instruments.

Legislative reforms that allowed commercial banks to be involved in lease provision have had profound effect on the improved performance of the Ghanaian leasing industry. The phenomenal



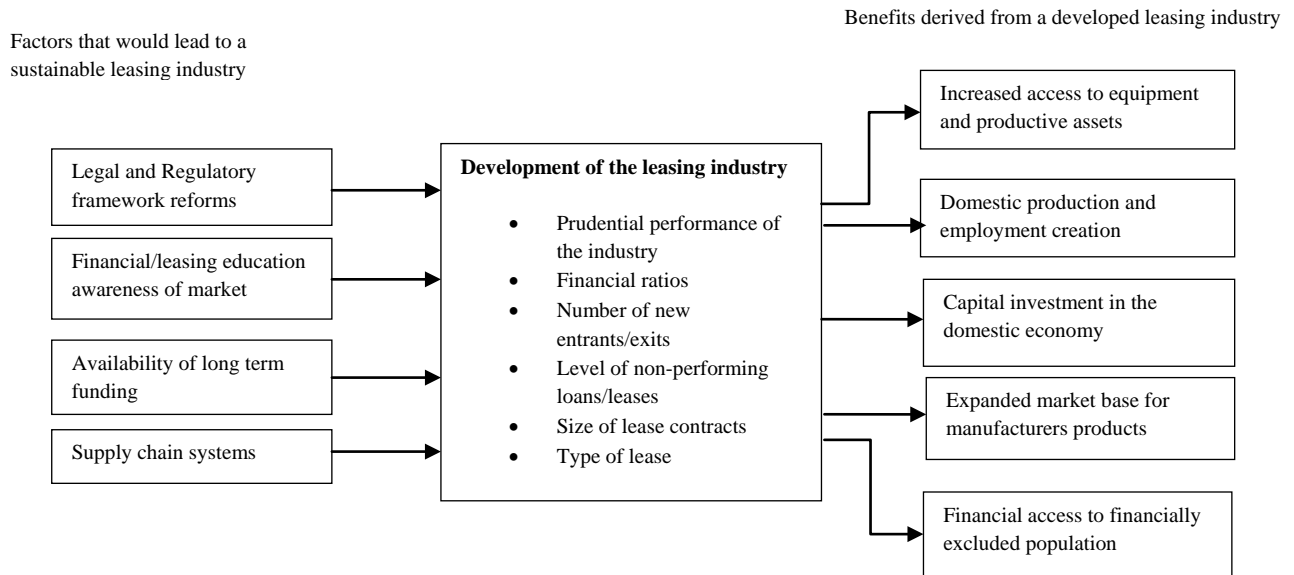
increase could have been attributed to the passing of the Universal Banking Law in 2007, which allowed banks to directly, engage in leasing as part of their operations without any special licenses (I.F.C.: 2008). The banks were deposit-taking institutions and so had several funding options, which provided larger pool of funds at relatively cheaper cost and eliminated the funding challenges experienced by the non-bank lessors (I.F.C.: 2007). Further, the banks had a larger capital base so that, they were able to write larger ticket leases as compared to the non-bank lessors (I.F.C.: 2008). The wider branch network and wide pool of existing customers allowed the bank lessors to provide the existing clientele an alternative funding option- leasing (I.F.C.: 2008).

Leasing legislative changes continued to score successes in the expansion process of the leasing industry. According to I.F.C. (2007), the government of Tanzania developed the Bank of Tanzania (B.O.T.) Act and the Banking and Financial Services Act, both of 2006 (I.F.C.: 2007). The two bills were aimed at enhancing the accountability, regulatory and supervisory roles of the Bank of Tanzania in the management of the financial sector (TANZALEP: 2005). The focus of the two laws was to include in the realm of authority of the B.O.T., the regulation and supervision of the leasing industry (Kaniki: 2007).

Further, the Tanzanian government reorganized the Small and Medium Enterprises (SME) policy of 2003, which clearly articulated a clear vision and determination to strengthen the SME window, in order to provide effective ways in which, SME's would be catered for by leasing providers (Kaniki: 2007). One such way had been the government's continued support of SME's through establishing guarantee-scheme, whose intention was to assure banks and other financial institutions such as the leasing companies of repayment of any credit provided to the SME's (TANZALEP: 2005).

The efforts by Governments, regulators, lease providers and involvement of other industry stakeholders in expanding the leasing industries of various countries had led to the creation of a sustained, expanded leasing industry and consequently the conceptual framework underpinning the study as depicted in figure 3.1. below.

### 3.0. Conceptual framework



**Figure 3.1.**

The figure 3.1. above shows the conceptual framework for the study. It shows that expansion and growth of a sustainable leasing industry is dependent on the establishment of an appropriate legal and regulatory infrastructure and vigorous financial education or financial awareness of the local population. Expansion and growth of the leasing industry would involve strengthening of internal and external supply chain relationships, ensuring availability of low cost long-term capital sources and lengthening of the lease duration. The benefits that could be derived from an expanded leasing industry include an increase in access to equipment and productive assets, increased domestic production and employment creation. Other benefits of a developed leasing industry are an increase in capital investment of the domestic economy, expanded market base for manufacturers' products and enlarged access to financial services.

Measurement of the level of development of the leasing industry would involve assessment of the prudential performances of the industry, financial ratios, number of new entrants/exits, level of non-performing loans/leases, size of lease contracts and type of lease offered.

### 3.2. Theoretical Framework

There are two theoretical bases underpinning the study.

Firstly, there are two alternative approaches to analysing regulation policy namely the public interest view and the private interest view. These are called theories of regulatory policy (Posner: 1974).

Secondly, in financial literature, the financial development theories explained the relationship between financial development and economic growth relationship and are envisaged as that

either financial development spurs growth or indeed growth generates demand for financial products (Thangavelu and Jiunn: 2004, Schumpeter: 1912).

Patrick (1966) proposed the “supply-leading” and “demand following” hypothesis where he called conditions where financial development spurs growth as supply- leading theories of financial development while where growth generates demand for financial products as demand-following theories.

## **4.0. METHODOLOGY**

### ***4.1 Research design***

The study employed a descriptive research design that involved subjective assessment of attitudes, opinions and behaviour of the study items. The study was a qualitative research study than quantitative, as it would enable the researcher make value judgment about the worth of the leasing industry legal and regulatory infrastructure.

### ***4.2. Population***

The population of interest covered all lease finance providers in Zambia, and their legal and regulatory agencies. Particular focus was on leasing companies, which were registered with the BOZ as non-bank leasing companies.

The study population of leasing companies consisted ALS Capital Limited, Commercial Leasing (Z) Limited and Leasing Finance Company Limited. Others included in the population were Stechas Financial Services (Z) Limited, IMS Financial Services Limited, Alios Finance Zambia Limited, Executive Financial Services Limited, AFGRI Leasing Services Limited and Focus Financial Services Limited.

The legal and regulatory agencies included in the study were the Bank of Zambia (BOZ) and Ministry of Finance and National Planning (MOFNP).

### ***4.3. Sample design***

Since the population was small, i.e. nine leasing institutions, all were included in the study to give appropriate results and only those regulatory agencies involved in the regulation and supervision of leasing were considered.

### ***4.4. Data collection techniques***

Primary data for the study was collected by using questionnaires. One set of questionnaire was used to collect data from the leasing companies, another to collect data from regulatory institutions.

The questionnaires consisted of a few closed-ended questions with a several open-ended questions to enable the respondents express their views and opinions.

Whenever necessary and appropriate, interviews were used to seek clarification or gather in-depth data, which may be relevant to the assessment of the regulatory framework-governing lease financing development in Zambia.

Secondary data was gathered through desk research (documentary review) from a variety of documents and existing relevant literature such as textbooks, journals, articles, reports, statistical bulletins, dissertations and the Internet.

#### ***4.5. Data presentation and analysis***

Data was analysed qualitatively against the background of the research questions as well as objectives of the study descriptively.

Tables, frequencies and percent were used to analyse data quantitatively and to summarize the data collected. The analysis and findings were depicted by use of bar charts, pie charts and frequency tables to enable us fully interpret the collected data.

### **5.0. Findings and Discussion**

All components of the leasing industry's' prudential performance exhibited a reduction in overall performance. The composite performance of leasing companies showed that the proportion of leasing companies that performed satisfactorily reduced from 55.56 percent in 2004 gradually reducing through the years to 40 percent in 2007 and 22.22 percent in 2011. In contrast, the industry performance established a gradual increase in companies that have performed below average from 11.11 percent in 2004 gradually increasing to 50 percent in 2007 and 60 percent in 2010. The proportion of leasing companies that performed poorly in 2011 was 33.33 percent.

The capital adequacy of the companies exhibited a reduction in the capability of the institutions; consequently, their ability to satisfactorily, compete in the financial market was compromised. Examination of the capital adequacy performance of leasing companies revealed that in 2004, 78 percent of the assets performed satisfactorily, rising to 88 percent by 2005. By 2006, the proportion of leasing industry that had healthy capital base was at 50 percent, significantly reducing to only 30 percent by 2010. Those companies that performed below average recorded 22 percent in 2004 falling to 13 percent, in 2005 and 2006, but rising to 30 percent in 2007, 2008 and recording a substantial 50 percent by 2010. The asset quality performance showed deterioration in the proportion of leasing industry that exhibited satisfactory asset quality from 77.78 percent in 2004 down to only 10 percent in 2010, while those that performed below average asset quality exhibited an increase in the proportion of companies from 22.22 percent in 2004 to 90 percent in 2010.

Furthermore, the level of non-performing loans was ever increasing, indicating that the number of loans/leases that had the potential to become delinquent was on the rise. The level of non-performing loans and leases to the total sector assets had exhibited an increasing trend, recording an 8.75 percent of the total sector assets held by the leasing companies in 2004, but rising steeply in 2007 to 16.3 percent and to 20.04 and 36.17 percent in 2009 and 2010 respectively. However, by 2011, the sector had recorded 8.05 percent non-performing loans and leases performance. The reduction in the proportion of non-performing loans and leases to the sector total assets in 2011 was attributed to a write-off, of ZMK 31.4 billion of non-performing loans and leases, translating into about 58 percent of the sector's total non-performing total loans and leases. This means, the income that the leasing companies would have gained from the offer of the loans and leases had lessened, thus reducing the earning capability of the industry assets.

Income from loans and leases of the leasing companies constituted on average 80 percent of the total sector earnings, the large levels of non-performing loans and leases led to poor industry earnings performance. The poor earnings exhibited by the industry resulted in the poor industry ROA and ROE performance.

Sixty-six point six seven (66.67) percent of the companies exhibited satisfactory earnings performance in 2004 falling to 50 percent in 2005 to only 10 percent in 2010. Further, 33 percent of the companies had shown unsatisfactory earnings performance in 2004 rising to 70 percent in 2008 and 2009 reaching 90 percent in 2010. In terms of return on equity (ROE) performance, the sector recorded 70 percent in ROE in 2004, reducing significantly to 11 percent in 2005 and slightly higher in 2006 to 35 percent. However, by 2008 the sector recorded its worst ROE performance down to negative 248 percent and negative 202 percent in 2009. Further, the sector recorded a dismay ROE performance of negative 88 percent and negative 30 percent in 2010 and 2011 respectively.

Return on asset (ROA) performance shows a 30 percent return on assets performance in 2004, dropping to 2 percent 2005 and 5 percent in 2006 and 2007. A rather more disappointing performance was the fall in the ROA in 2008 to negative 43 percent in 2008, negative thirty-four percent and negative 7 percent in 2009 and 2010 respectively. By 2011, the sector had recorded negative five percent ROA. The poor ROA and ROE may have discouraged the investor from committing more capital to the line of business.

The operations of leasing companies was still restricted to urban areas with Lusaka province accounting for about 73 percent of the total lease contract portfolio followed by Copperbelt province that is accounting for about 18 percent and the other provinces, nine (9) percent. In terms of physical distribution, seven (7) of the leasing companies are found in only one province, representing 87.5 percent, while 12.5 percent is represented in more than two provinces. These statistics show that in terms of physical distribution, the leasing companies have a limited scope from which to carry out their operations. They seek to serve the population, which already is financially served. Other financial service providers such as the commercial banks and Micro-

finance institutions were already well established in these markets and competed more favourably and vigorously than could the lease providers. The target clientele of the leasing companies are corporate clients who have a good credit history and can access other financial services in the market easily.

The agricultural sector, an emerging sector, would be vital to the growth and development of the leasing industry, if properly harnessed. This was because the agricultural sector contributed about 17 percent of the leases, trailing behind the transport and distribution sector attracted the most leases in over the period claiming about 48 percent of the total leases disbursed. The agricultural sector would provide more leasing opportunities than the construction and mining sector. This is because agricultural machinery suppliers have outlets within Zambia where the lease providers can get the equipment at reduced prices.

The Bank of Zambia is the only regulatory agency of the leasing industry. Its mandate provided for by the BFSI 1994 repealed in 2000.

However, the legal and regulatory system was not adequate to regulate the leasing industry. This is because there was yet to be specific leasing policy within which leasing legislation would sufficiently regulate the industry. Leasing legislation was poorly developed and the only piece of legislation that was meant to regulate the leasing industry was the BFSI of 2000. It is important to note that the act regulates all financial sector institutions under the supervision of the Bank of Zambia. As at present, there is no leasing industry specific legislation. However, under the FSDP II there are proposals to develop leasing laws that will govern the conduct of leasing companies and the provision of the lease finance service.

Because the regulatory agencies are inadequate in regulating the industry in terms of technical knowledge, it is very easy for lessors to manipulate the system if some do not have integrity. Leasing providers filled-in reports per quarter about their operation, but verification processes are very inconsistent and lengthy. In this way, the customer could be exploited and pay higher lease rates.

However, with the fragmented regulatory systems at play, the leasing industry may not fully participate in the financial market and may therefore be unable to lobby for favourable legislation or tax regimes.

The current regulatory system has still scored some achievements. The current BOZ regulation framework to some extent provided a level playing field to all financial players and ensured that consumer protection is maintained and financial system stability had been achieved by having adjusted the minimum capital requirements and rigorous registration requirements. This in some way guarantees the players the safety of their investments in leasing companies.

The major challenges experienced by the lease providers included the lack of a leasing policy and leasing laws, which would adequately provide for incentives that would contribute to the growth of the sector.

The other challenge experienced by the leasing providers was the lack of skilled staff. According to the lease providers, no training institution in Zambia offered any specialised leasing training as such; most staff only relied on, on-the-job training experience. This limited the technical capacity of the staff to competently and sufficiently, structure lease-financing transactions. Further in-house structured training was very expensive to arrange as trainers could only be engaged from developed countries. This was because there are no resident leasing trainers in Zambia. Leasing needed specialized employee skills that could equip them competently structure a lease transaction.

Another challenge was the poor supply chain systems that exist in the country. It was difficult to find suitable suppliers for particular specialised equipment. This was so because, firstly, there were no established equipment manufacturers in Zambia, from which lease items could have been obtained. For that reason, equipment supplied under lease financing tended to be relatively expensive. Secondly, these suppliers requested for full payment before the asset was sent, in some cases deposits needed to be paid upfront before the equipment could be sent. This put unnecessary strain on the lessors' cash flows, as the lease provider would have to pay some amount even before any revenue could be received.

According to the BOZ officials, regulatory challenges of the leasing industry involved the lack of technical capacity by the regulators to effectively, supervise the subsector. This was because the BOZ had no qualified staff to supervise the operations of the lease providers. The BOZ focus on regulation was creating a safe financial system and to improve integrity and credibility of financial institutions, through setting of minimum capital requirements and prudential supervision.

## **6.0. Conclusions**

The leasing industry was underdeveloped in Zambia as portrayed by the unsatisfactory prudential industry analysis, despite its potential for supporting the development of small and medium firms, and other economic activities.

As the FSDP, work-groups sought to address legal and regulatory inadequacies, more needed to be done in the area of financial education and access to long-term low cost capital in order to fully, stimulate participation of the leasing industry in the economy. The over-reliance on one regulatory agency, BOZ, has disadvantaged the subsector, as it is technically incompetent to fully, understand the operations of the leasing industry. Its major focus is prudential regulation. The introduction of well-designed and effectively implemented leasing regulation alone is not sufficient to promote growth and produce viable sustainable lease finance.



The lease providers should not take a passive stance in developing the industry, rather they should take an active role in addressing the challenges that they face. Presently, leasing providers had lagged behind in sensitizing the public on the availability of leasing finance, its operations and structure.

The poor credit culture in Zambia had a profound negative effect on the growth and development of the sector as exhibited by the increasing levels of non-performing loans. This was partly because of the huge capital expenditure leasing providers need to acquire the assets, and if the contract failed, the Lease providers may not recover such funds, resulting in huge financial losses.

Lastly, the introduction of leasing legislation must be accompanied by the effective implementation of regulatory and supervisory policies for it to have any impact. Therefore, capacity building played a significant role in ensuring the effective execution of regulation.

The study concluded that the development of leasing would be achieved by carrying out interventions on the suppliers of leasing in order to provide a favourable environment for leasing provision and to stimulate demand for the financial product. This conforms to the supply-leading hypothesis, which suggests that financial development stimulate economic growth.

As such below are some recommendations that may save the industry and possibly grow and develop the sub-sector.

## **6.1 Recommendations**

The study recommends that through the FSDP working group, Government should expedite the establishment of specific leasing laws, which will clarify some gaps left by the current legal system.

Government in corroboration with the leasing providers should establish efficient and cost effective supply chain systems that will expedite the acquisition of assets to be leased out. Establishment of such supply system should have packaged inherent credit facility, for lessors to use. Further, the payment regime of the facility should match lease contracts payment. This would enable the lease providers match cash inflows to the cash outflows.

Government through the MOFNP should endeavour to develop a leasing policy, within which all leasing laws should be framed, to facilitate growth and development of the leasing industry.

Bank of Zambia and Zambia leasing association (Zamlease) should provide more information on the leasing business, with up-to-date statistics and analysis on key trends in the industry that could be used by leasing players. The BOZ and Zamlease should disseminate leasing information in expert magazines, produce leasing columns in newspapers, and various publication that analyses events and trends affecting business, politics and economics, provides quarterly ratings of leasing companies.

The leasing companies in collaboration with the other stakeholders should take responsibility of educating the public about leasing, its benefits and risks, to effectively impact market supply and demand for lease financing especially in the rural areas and the informal sector.

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The authors

<sup>1</sup>The author is an MBA Finance student in the School of Graduate Studies.

Email: aloysiuschimuka@yahoo.com

<sup>2</sup>The co-author is a lecturer and is currently the Head of Accounting and Finance Department in the School of Business at the Copperbelt University.

Email: haabazoka.lubinda@cbu.ac.zm