LEASING POTENTIAL FOR SMES IN TANZANIA: EXPERIENCE FROM LESSORS AND LESSEES

Tobias Swai*[1] and Moyo Violet Ndonde**[2]

ABSTRACT

Lease finance has been referred to as one of the best alternative sources of long-term finance for Small and Medium Enterprises (SMEs). There is a lack of literature on the engagement of both lessors and lessees in relation to lease finance in Tanzania. The researchers employed seven case studies consisting of two lessors and five lessees, in order to present the current experience and perspectives of the leasing business in Tanzania. The findings suggest that the lease finance has potential in Tanzania based on the needs of SMEs. Good clientele, good suppliers and the availability of credit in a good regulatory environment are important for lessors. Commitment to the business, quality of suppliers, good tracking of cash flows and the availability of markets are important for SMEs which seek lease finance.

Key Words: *Leasing, Financial Lease, Small and Medium Scale Enterprises*

BACKGROUND

It is widely agreed that, although Small and Medium Enterprises (SMEs) are important to all economies, they lack access to commercial banks' funds in most developing

Business Management Review 11(2) pp 77-95 ISSN 0856-2253©July-December 2007 FCM.

* Tobias Swai is Assistant Lecturer, Department of Finance, University of Dar es Salaam.

** Moyo Violet Ndonde was Programme officer for the Tanzania Leasing Programme which was implemented by International Finance Corporation (IFC) and financed by Switzerland International Development Agency (SECO). Currently works with IFC in Nairobi, Kenya.

countries (OECD, 2006; Naim, 2008). Developing countries like Tanzania have engaged in empowering the sector by undertaking various measures, including the establishment of SME policies with clear strategies to develop the sector including access to financial services. The underdevelopment of the financial sector in most developing countries means that the measures fail to create an impact for the sector. Most SMEs are engaged in activities linked to the agriculture sector, which is given less attention by financial providers. Despite having excess liquidity (Aloisi, 2002; Aikaeli, 2006), commercial banks have been reluctant to lend to SMEs (Olomi and Shimba, 2003; FSDT, 2006; Naim, 2008).

The extent to which the problem of lack of access to bank loans and other non-equity finance exists seems to affect SMEs more than large firms in most developing countries (Claessens, 2006). In 2003, around 55 percent of small firms in Tanzania indicated that lack of access to non equity finance as a major problem, while only 27 percent of large firms indicated the same (see Table 1). SMEs in other African countries, Latin America and Asia (except Indonesia) are also more constrained in accessing external finance than large ones (Claessens, 2006).

Table 1: Percentage of Respondents Indicating Lack of Access to External Finance as a major problem

Region	County	Year	Small (1-49 Employees)	Medium (50 - 249 Employees)	Large (250+ Employees)	Average
Africa	Ethiopia	2002	43.5	48.0	27.9	42.3
	Kenya	2003	60.5	30.6	39.3	44.1
	Tanzania	2003	54.8	38.2	27.3	48.3
	Uganda	2003	47.3	39.0	33.3	45.0
Asia	Bangladesh	2002	42.5	45.8	36.4	41.6
	Indonesia	2003	16.0	16.6	19.5	17.5
	Pakistan	2002	38.6	34.6	27.5	37.6
Latin America	Brazil	2003	61.9	60.6	51.9	60.5
	Guatemala	2003	36.4	33.3	22.0	34.1
	El Salvador	2003	36.5	19.6	19.5	31.0

Source: Summarized from Claessens, (2006).

The various reasons associated with SMEs' limited access to financial services from banks are, among others, the limited experience and capacity/human capital of the banks offering loans to SMEs (Olomi and Shimba, 2003). Furthermore, loan processing by the majority of the banks is normally done at their headquarters, which are often located far away from the majority of SMEs. Further, lack of credit rating bureaus and information regarding borrowers makes the process of evaluating creditworthiness of the SMEs difficult (Chijoriga, 1997). Based on the regulations governing banks' operations, banks are forced to insist on sufficient collateral, which consists basically, of land and property. From the bank perspective, it follows that commercial banks are less innovative in creating products which are suitable for the sector, although they have excess liquidity.

As an alternative to bank loans, SMEs have ended up seeking loans from microfinance institutions (MFIs). However, it has been argued by some researchers (e.g. Gallardo, 1997), that MFI loans are not suitable for SMEs, because they are offered on a modular basis which requires SMEs to graduate from very small loans to larger loans and sometimes to access them as a group. The need for new forms of finance, which are appropriate for the sector, with relatively low financial risk to the commercial banks, is important in this regard. Lease finance is regarded as an alternative source of financing for SMEs because it relies on the underlying leased asset and cash flows as collateral, other than the wealth of the enterprise and the owner (Honohan and Beck, 2007).

This study fills the literature gap on lease finance in Tanzania by gathering evidence of existing practices of financial leasing. In examining the leasing potential of SMEs, the study articulates the various sectors and activities which can be financed by financial leasing arrangements, especially SMEs. The study also employs case studies, which examine the practice and the benefits derived by lessors and lessees financial lease transactions. The study also tried to view the factors from the lessor's and lessee's in point of view by examining the markets to which leasing services could be extended, based on current practice.

The rest of the paper is organized as follows. First it provides a brief literature review of leasing, the development of leasing in Tanzania and the link between leasing and economic development. Secondly, it provides a brief description of the methodology used to arrive at the conclusions. Thirdly, study findings are presented based on desk research as well as interviews with owners of SMEs which are leasing beneficiaries. At the end the researchers draw a conclusions.

LITERATURE REVIEW

General Overview of Lease finance

Literature on lease finance in developing countries is scant, especially in Tanzania. The little that is known is based on consultant reports and market studies. This is due to the fact that leasing in developing countries is a new form of finance which is yet to be explored by financial service providers. Leasing has been defined by various authors (Amembal, 2000; ILO, 2003 and Mutesasira *et al*, 2001) as a way of financing the acquisition equipment and property. It is an important source of medium and long-term financing for companies. A lease is a contract whereby the lessor (the leasing company) provides exclusive use of an asset to a lessee (the user of the equipment/property) for a period of time in return for payment.

Two types of leasing are identified, namely financial and operating leasing. Under financial leasing, businesses eventually own the leased asset at the end of the lease period. During the leasing period, the lessee makes periodical payments, which consist of the principal amount plus interest representing the return on investment for the lessor. Operating leasing is referred to as a rental agreement, whereby a lessee acquires the right to use a particular asset without the option of owning the asset after the rental period (Anembal, 2000).

Lease finance has been identified as a vibrant and dynamic financial product in the world. World Reports indicate that $1/8^{th}$ of the world's private investment are financed through leasing (Euromoney, 2008). The origins of leasing can be traced back to 2010 BC, but the modern and sophisticated leasing business started in the US and UK in the late 19^{th} Century, whereby rail cars and locomotives were financed through equipment trust certificates (Amembal, 2000). The global volume of leasing in 2005 indicated that Europe and North America accounted for 40 and 41 percent, while Africa and South America accounted for only 4 percent. Asia accounted for 14 percent while Australia and New Zealand accounted for 1 percent (Euromoney, 2008).

Theoretically, lease finance is argued to be more appropriate for SMEs as they are viewed as being more risky as regards bank loans than large firms. Lease finance is regarded as being more advantageous than borrowing from financial institutions (ILO 2003; Naim, 2008). Such advantages range from collateral arrangements, to flexibility in payment terms, and tax savings. Although leasing can provide financing solutions for SMEs, it has not been fully implemented in Tanzania and most developing countries (ILO, 2003).

Leasing Finance Development in Tanzania

In Tanzania, various measures have been undertaken to establish lease finance. Financial leasing in Tanzania can be traced back to the 1970s when the Government through the then state owned National Bank of Commerce (NBC) established a leasing company known as Karadha. The performance of Karadha was hampered by various challenges, including lack of management skills and proper monitoring, and the dormant private sector. Karadha stopped operating in the early 1980s, leaving the country with no leasing company. The first private company to enter the market for commercial leasing to the private sector was the United Leasing Company (ULC) Ltd. in 1995.

Leasing activities resumed in Tanzania in 2006 following the initiatives of International Finance Corporation (IFC) and Switzerland Secretariat for Economic Affairs (SECO) to finance projects and provide conducive environment for the establishment of the leasing business in Tanzania. Since then, IFC has implemented a three-year programme to revive the sector. IFC/SECO have also raised the awareness of the government, commercial banks, lawyers, accountants, SMEs, academicians and related parties of the need for lease finance especially for SMEs.

During the lifetime of the IFC/SECO project, various market reports were produced on an annual basis. A market study of leasing in Tanzania between 2004 and 2006 revealed that leasing transactions had increased by almost 115 percent from US $20.9 million to $ 44.9 million (IFC, 2005). In 2005/06 only 3 percent of the lease finance was advanced for manufacturing equipment. Most of the finance was invested in transport equipment (77 percent) and construction equipment (20 percent). The low concentration of leasing in the manufacturing sector might be due to the fact that many SMEs and lessors are not aware of what sectors have the potential to obtain lease finance. There are not many players in the business; IFC estimated that there are about 20 potential lessors. Only one provides a full service as a leasing company, and most of the others provide lease finance in the form of asset financing.

The enactment of the Leasing Act No.5 of 2008 (URT, 2008a), which sets out the regulatory requirements for the leasing business, has given confidence to investors in the sector. On the other hand, the Income Tax Act 2004 treats the lessee as the owner of the equipment if he/she has a lease term exceeding 75 percent of its useful life (URT, 2004). Another development in the regulation of the sector concerns the auditing of and accounting for the lease. Tanzania subscribes to the International Financial Reporting Standards, whereby the International Accounting Standard (IAS) 17 provides for accounting for leases.

Review of Sector Development in Tanzania

Most of the information presented in this section is derived from the Economic Survey of 2007. The development of the leasing sector depends greatly on the development of other sectors in the economy and the performance of the economy as a whole.

Economic Development

A review of the economic development of the country indicates that the economy has been faring well despite economic downturns. Real GDP growth decreased from 7.8 percent in 2004 to 6.7 percent in 2006, rising to 7.1 percent in 2007. According to the Ministry of Finance and Economic Affairs (MOFEA, 2008) real GDP was planned to grow to 7.8 percent in 2008, 8.1 percent in 2009, 8.8 percent in 2010 and 9.2 percent in 2011. There has also been a rise in the importation of capital goods as indicated in Table 2.

Table 2: GDP Growth, Capital Good and Leasing Volume 2004-2007

	2004	**2005**	**2006**	**2007**
Real GDP Growth - percent	7.8	7.4	6.7	7.1
Investment/GDP ratio - percent	4.8	4.5	4.4	4.1
Capital Goods *(In Million USD)*	**944.9**	**1,184.8**	**1,435.2**	**1,738.7**
Transport Equipment	*251.6*	*318.2*	*374.8*	*479.9*
Building and Construction	*203.8*	*282.7*	*338.0*	*416.6*
Machinery	*489.5*	*583.9*	*722.4*	*842.2*
Leasing Volume *(In Million USD)*	20.80	30.70	44.90	42.30
Lease as percentage of Capital goods	4.2	5.3	6.2	5.0

Source: *Ministry of Finance and Economic Affairs (2008) and IFC (2008)*

Financial Sector

It is argued that the development of leasing goes hand in hand with the development of the financial sector**.** There have been notable developments in the financial sector which can be a source of capital for lessors and working capital for lessees. Naim (2008), pointed out that effective leasing requires excellent local currency financing. The number of commercial banks in Tanzania increased to thirty five (35) from three in 1990. According to the URT (2008b), the number of cooperative societies increased from 7,299 in 2007 to 8,257 in 2008. During the same period, SACCOs recorded an increase of 30.4 percent from 3,469 to 4,524. The number of SACCOs members also increased from 1.3 million to 1.6 million, with loan portfolios increasing by more than 76 percent from Tshs 115.1 billion to Tshs 202.7 billion. There have also been developments in the insurance sector. The insurance market in Tanzania is growing, with 17 insurance companies and over 20 registered insurance brokers offering various insurance products.

Agriculture Sector

Agriculture is the backbone of Tanzania's economy. The sector contributed 26.5 percent to GDP in 2007, with an annual increase of 4.0 percent since 2006. The potential of the sector for leasing lies in the need for farm machinery such as tractors, tillers and other farm implements.

Construction Sector

The construction industry is one of the key players in the national economy. The sector has been growing at the rate of 11 percent for the past five years (URT, 2008b). The sector constituted over 60 percent of capital formation and is believed to employ about 9 percent of the workforce. The Contractors Registration Board (CRB) registered 662 new contractors in 2007/2008, bringing the total number of contractors to 4,630. The lack of construction equipment has been identified as one of the obstacles to the completion of construction projects on time. It also limits the ability of local contractors to secure and accomplish construction projects on time (CRB, 2008).

Transport Sector

The increase in the road network calls for an increase in the transport of goods by road. Major improvements in the roads in the central and lake zones of Tanzania give an opportunity for the transport of more goods to these areas as well as to neighboring countries of Uganda, Rwanda, Burundi and the Democratic Republic of Congo.

Tourism Sector

Tourism is one of the priority sectors in Tanzania. The sector accounts for 67 percent of all the service receipts from February 2006 – February 2007. The percentage of tourists increased to 11.6 percent in 2007 with a 9 percent increase in revenue. Various promotional activities were carried out by the Tanzania Tourist Board in 2007, targeting Europe, South Africa and the USA.

Manufacturing Sector

The manufacturing sector is dominated by private firms, especially SMEs. Small manufacturing firms are capable of contributing significantly to the growth of the economy as well as employment. According to the Government's strategy for Economic Development and Poverty Reduction known as MKUKUTA, the sector's contribution to GDP was expected to reach 15 percent by 2010, from 9 percent in 2006. According to the Economic Survey of 2007, the sector grew by 1.6 percent in 1995 to 9 percent in 2005. Small manufacturing firms can be a potential for leased equipment and production systems.

Other Sectors

Lease finance is a possibility for many other sectors, such as mining, and the service sector, including printing, publishing and education. With an increasingly learned society in Tanzania through the implementation of the Primary Education Development Programme and the Secondary Education Development Programme, Tanzania will experience a growth the in the literacy level in the near future. According to Economic Survey of 2007, the health and education sectors recorded a growth of 122.1 percent in 2007 in accessing loans from financial institutions, followed by loans from financial intermediaries, which recorded a growth of 138.2 percent. According to IFC (IFC, 2008), private sector participation in health service provision is estimated to be 33 percent of total health service expenditure.

A summary of the various sectors and businesses and the type of equipment with the potential for leasing is presented in Appendix I.

Assessment of Potential for leasing

In the absence of market players and a database for lease finance activities, various measures have been adopted to assess the potential for leasing in developing countries. A study by IFC in Georgia (IFC, 2004) suggested that leasing accounts for 0.5 to 1 percent of GDP in developing countries and 2 to 5 percent in developed countries. Al-shiab and Bawnih (2008), quoting a study by IFC in Jordan in 1996, indicate various percentages in leasing volume based on the GDP of developed countries such as USA (1.91), Austria (2.73), Germany (2.29) and Canada (2.11) as well as for the developing countries of Egypt (0.76), Malaysia (0.36) and Jordan (1.01).

Based on the importation of capital goods, IFC (2004) indicates that lease finance accounts for 20 to 30 percent of capital goods imports. For Georgia, the growth on leasing was estimated to be 15 percent of capital goods.

Effective Measures Concerning Lessees and Lessor Engagement in Lease finance

Various factors have been identified as important when analyzing which SMEs have the potential to venture into lease finance as lessees. According to the ILO (2003), the lessor will look for the personal details of the entrepreneur and then evaluate the business. The evaluation of the business involves an analysis of the production process, the market for the business, the value of the leased property and the expected cash flow during the lease term, as well as looking at the number of employees.

From the lessor's point of view, according to Naim (2008), four factors are critical in the provision of leasing services. These are excellent financial management skills, access to diversified sources of local currency financing, excellent governance and performance management framework and a sustainable competitive niche.

APPROACH AND METHODOLOGY

The study employed seven case studies, two on the lessors and five on the lessees. As outlined in the literature review, very few players in the leasing industry are directly involved in pure leasing. The researchers interviewed the management of the Sero Lease and Finance Company Limited (SELFINA), which provides lease finance to women entrepreneurs based in Dar es Salaam, and Equity for Tanzania Limited (EFTA), based in Kilimanjaro. SMEs who are beneficiaries were interviewed to gain an understanding of their leasing transaction experiences. The case studies highlight the fact that lease finance may be more flexible for SMEs than other forms of financing. The SME clients were obtained from the lessors, and were based in Dar es Salaam, Pwani, Arusha and Kilimanjaro regions. The SMEs' owners were interviewed without the presence of a representative from the lessors to obtain unbiased responses. A set of interview questions was developed for both lessors and lessees.

STUDY FINDINGS

The case studies are presented in two sections one for the lessors and the other for the lessees. The analysis is presented by showing the factors that the lessors and lessees have in common in order to discover the key issues pertaining to lease transactions. A summary of the lessee cases is presented in Appendix II.

Lessors

Case I: SERO Lease and Finance Limited (SELFINA).

SELFINA is a not-for-profit micro leasing company, located in Dar es Salaam. It provides micro leasing services to SMEs, alongside training and micro finance. The management is committed to the business and works as a team. The management of SELFINA pointed out that loan from financial institutions is difficult for SMEs to access. The company works with SMEs and, through training, provides them with an opportunity to identify business opportunities, for which they are financed through micro leasing and micro finance arrangements. Focusing only on women entrepreneurs, SELFINA offers its services in Dar es Salaam, Mwanza, Pwani, Iringa and Mbeya regions. The advantage of offering its services to women entrepreneurs, according to the management is that women are more trustworthy. The company collaborates with other financial institutions such as banks, SACCOs and MFIs. SELFINA recorded a growth rate of 100 percent in portfolios with no problem of bad debts. The main reason given is that with asset financing through a lease finance arrangement, the entrepreneur cannot change its use easily. SELFINA has more than 4,000 clients seeking lease finance. It intends to grow its portfolio to Tshs 40 billion in the next five years, and has sought external finance from banks and international institutions. SELFINA charges competitive interest rates to clients and a down-payment of 20 percent. The company has financed various assets such as generators, tailoring machines, stone crushers, mining equipment, power tillers and many others. The company has leased x-ray machines, construction equipment, tourist equipment, elevators, generators, laundry machines, irrigation systems, small manufacturing machines, and many others.

Case II: Equity for Tanzania (EFTA)

EFTA is a non-profit-making small company providing lease finance to clients in Kilimanjaro, Arusha and Manyara regions. EFTA provides 100 percent loans with no down-payment. The company provides leasing after a careful analysis of business plans. It also charges an interest rate of 16 to 18 percent. The lease term is normally 36 months, with flexible payment schedules and in amounts of not more than Tshs 10 million. The company in collaboration with the clients provides training and business plan development services before advancing the lease finance. The lease portfolio of EFTA is low and it has many clients seeking lease finance. The company is financed externally by financial and social institutions, both in Tanzania and abroad. According to the company management, good management, the quality of the leased asset, a stable power supply, close monitoring of the clients and good markets for the products are very important criteria for lease finance.

Lessees

Case I: Saidati

Saidati Iddi Ramadhani is a married woman with 3 children. She started a small vegetable vending stall ("genge") in 1999 in Mlandizi marketplace, Pwani region. In the same year SELFINA conducted business awareness training in the area. She joined SELFINA's along with other women in the area. After six months, she leased a tailoring machine worth Tshs 75,000/-. She continued with her original business and borrowed Tshs 500,000/- as working capital. She realized that there was an opportunity for her to sell maize flour after visiting Arusha on a business trip. She decided to enter into partnership with a friend, and started running a small maize flour mill in Arusha. The market for the product was in Arusha, Dar es Salaam and Mlandizi. In 2004, she leased a maize milling machine and started manufacturing maize flour in Dar es Salaam instead of Arusha and continued with her own establishment.

By 2005, her business had grown well but she realized that transportation costs were high and so she needed to cut these down by having her own truck. In 2005, she leased a 4-tons truck from SELFINA for 3 years. She has successfully paid for the leased milling machine and the truck. "*Success in any business involves hard work and a* *focus on the business by separating business funds from personal funds."* she said. Saidati is aiming to increase her production capacity from the current production of 10 tons per day to 20 tons per day. She has provided direct employment for over 10 people, improved her standard of living and has provided a sustainable income for her family.

Case II: Dominic Lema

Reverend Dominic Lema is a long-serving and a farming entrepreneur. He owns about seven acres in Kilimanjaro near Mailisita. In 2006, he was disappointed with the lack of rain. Fortunately his land is near a natural spring and therefore he thought of irrigation farming. In 2007, he approached EFTA and leased an irrigation system (3 Horse Power) worth Tshs 8.5mil, supplied by a local company with international affiliation. He successfully entered into a contract with a buyer of French beans, which was evidence for obtaining lease finance. To date, Rev. Lema owns 5 acres of French beans, one acre of ginger and one acre of bananas and his business is still growing. During the interview he said *"French beans make a good business and they grow for 60 days only and you can harvest up to 4,000kgs per acre. If It had not been for the leased irrigation system, I wouldn't have been able to develop to this extent".* Currently Rev. Lema employs more than 15 people, mostly women. Talking about leasing as compared to a bank loan, Rev. Lema said *"EFTA provides a low interest rate with no bureaucracy. The problem with banks is that they ask for collateral which is very hard for most farmers in Tanzania"*.

Case III: KWENMIL

Located in Nkuu village in Machame Kilimanjaro, KWENMIL is owned by Mr. Eliasifiwe Kweka. The entrepreneur obtained lease finance from EFTA after failing to obtain a loan from commercial banks due to the lack of collateral and the amount of red tape by the bank officials among other reasons. With the experience of working with a successful milling company in Dar es Salaam, Mr. Kweka obtained training in food processing and decided to open his own milling plant in the village. He obtained lease finance worth Tshs 7 million from EFTA. Currently the enterprise is registered formally and meets all the food certification standards. The production capacity of the milling plant is 20 tons a day and it is expanding. The company products are sold to various markets in Dar es Salaam, Moshi and Arusha. Commenting on lease finance, the entrepreneur said, *"Lease finance benefts entrepreneurs if they focus on their business and concentrate on original ideas and are not a copy-cat business"*.

Case IV: Dallos and Company

Dallos and Company is a business partnership between Mr. Ali Dallos, a graduate in business studies, and Mr. Issa Kajia, a graduate in chemical processing engineering. After their retirement from formal employment, they decided to combine their expertise. They studied the market and found that soaps were of poor quality and that there was huge potential for good quality detergents in Arusha. They came up with a business plan and presented it to several banks, hoping to get a loan. They failed to secure a loan from the banks and lodged their application to EFTA. They leased a manufacturing system worth Tshs 12.5milion from EFTA. The machine was made locally by the Technology Development and Transfer Centre of the University of Dar es Salaam. The lease was for 3 years with a grace period of 3 months and no down-payment was made by the company. At the time of conducting these interviews, the firm had not yet started full-scale operations as they were looking for raw materials and testing their production system. The firm planned to start operating in October 2008. Currently it employs 5 people and several indirectly, since 100 percent of their raw materials are obtained locally. Commenting on lease finance, Mr. Dallos said, "Lease finance *is good starting new ventures. After they have grown, they can be trusted by bankers"*.

Case V: Matarimo Tailoring Mart

Located in Kinondoni in Dar es Salaam, Matarimo Tailoring Mart is owned by Mrs. Betty Bisama (Matarimo). Betty started her business in the 1990s in Mbeya when she was still an employee of one of the parastatals. She applied for a personal loan from a commercial bank and utilized it for acquiring four tailoring machines. She employed 5 people to operate them. In 1993 she resigned from her job and concentrated on her business. She realized that there was a better market for her products in Dar es Salaam than in Mbeya, and so she moved her operations to Dar es Salaam in 2003. In 2004 she approached SELFINA as she needed to lease an embroidery machine worth Tshs 1.5 million. It took only a week for her request to be processed, after attending a training course. In 2006 when the country was experiencing a power crisis she leased a generator worth Tshs 1.0 millions. *"The embroidery machine and the generator were very helpful in my business"* said Matarimo.

Betty produces embroidered gowns which are sold to various outlets in Dar es Salaam. She has also participated in trade fairs in Kenya, Mozambique, Zimbabwe and Malawi. The gowns are also sold in UK and USA markets by other traders who buy them from her mart. She is considering expanding by producing the embroidered and gowns wholesaling them only. *"Lease finance is very helpful to small businesses like ours. The lessor is much close to my business and makes regular visits which a bank cannot do. But the only problem is the down-payment and interest rate. I hope more market players in this form of finance could come up with more flexible terms"*, said Betty in her remarks on lease finance.

Implication of the Results

The analysis of lease finance indicates that there are unexplored opportunities for leasing which is evidenced by the growth of the financial sector and the sectors of agriculture, construction, tourism, manufacturing, transport and service. The cases document the evidence that lease finance has been in existence with varying opportunities for both the lessors and lessees. The newness of the sector is contributed to among others by delayed operationalization of the leasing act. The case studies of the lessees indicate that lease finance is suitable for various sectors, regardless of gender, business status and the experience of entrepreneurs.

Moreover, the cases demonstrate the involvement of various sectors and prove that lease finance can be provided to sole proprietorships, partnerships and limited liability companies and most importantly to small businesses. SMEs also can lease equipment which can be important for both local and international trade. In terms of the amount of lease finance, this can start from as little as Tshs 1 million.

Two of the SMEs indicated that they bought locally made machinery. There is a need to promote local innovation. The results suggest that more efforts need to be geared at exploiting the leasing potential of the private sector. Creating awareness to both lessors and potential SMEs is important for the development of leasing in Tanzania. The Lack of local financing sources can hamper greatly the development of leasing, since banks have no incentive for not maintaining high liquidity ratios, and so it is high time either to lend to potential lessors or to establish lease finance operations.

CONCLUSION

The growth of various sectors in the economy means that these are great potential for offering lease finance to SMEs. The results indicate that SMEs could sell more of their products to local, regional and international markets if they had access to well managed lease finance. There is however lack of data to quantify the estimation in monetary terms. This paper calls for lessors and lessees to venture into leasing transactions. There is however the challenge of making operational the Leasing Act, the registration of movable assets such as machinery, and stable electricity supply. Other challenges include measures to reduce the amount of red tape when accessing bank loans for the working capital required by SMEs.

Future studies analysing the leasing potential of SMEs should find ways to quantify in monetary terms their potential, as well as examining the pricing of the products leased by lessors to lessees. The studies should also involve more lessors and lessees by examining specific issues pertaining to lease finance, such as taxation and accounting. Studies on leasing for large firms, ‘big ticket leasing’, should also be undertaken to provide more understanding and evidence of the potential of the leasing business in Tanzania.

REFERENCE

Aikaeli, J. (2006), Efficiency and the Problem of Excess Liquidity in Commercial Banks in Tanzania. Unpublished PhD. Thesis, University of Dar es Salaam.

Aloisi, T. A (2002), Implication of Financial Regulations for the Management of Assets and Liabilities of Depository Institutions in Tanzania, Unpublished MBA Dissertation, University of Dar es Salaam.

Al-shiab, M. O. and Bawnih, S. (2007), "Determinants of Financial Leasing Development in Jordan". *Studies in Business and Economics Journal*, Qatar University, Vol.14 No. 2, 2008.

Amembal, S. P (2000), International Leasing: A complete Guide, Publishers Press, Salt Lake City, Utah

Ary Naïm (2008), Access Finance: A Newsletter Published by Financial and Private Sector Development Vice Presidency, Issue No 23.

Chijoriga, M.M (1997), An Application of Credit and Financial Distress Prediction Models to Commercial Banks Lending: The Case of Tanzania. Unpublished PhD Thesis, University of Vienna.

Claessens, S (2005), "Access to Financial Services: A Review of the Issues and Public Policy Objectives." World Bank Policy Research Working Paper 3589.

Contractors Registration Board (2006), Annual Consultative Meeting Proceedings 2006.

Contractors Registration Board (2008), Proceedings of the CRB consultative Meeting on Contractors' Financial Management Aspects: Seeking Collaborative Solutions to the Contractors Financial Challenges.

Euromoney Institutional Investor Plc (2008), World Leasing Year Book 2007.

Financial Sector Deepening Trust (2007), FinScope Tanzania Survey 2006: Demand for financial services and Barriers to Access. Downloadable from http://www.dgroups.org/groups/FSDT-Tanzania/index.cfm?op=main&cat_id=13202.

Fletcher, M., Freeman, R., Sultanov, M. and Umarov, U. (2005), Leasing in Development: Guidelines for Emerging Economies, International Finance Corporation, Washington D.C.

Honohan, P. and Beck, T. (2007), Making Finance Work for Africa, The International Bank for Reconstruction and Development/The World Bank, Washington D.C.

Gallardo, J. (1997), "Leasing to Support Small Businesses and Microenterprises" World Bank Working Paper 1857, Washington, DC.

IFC (2004), Georgia Business Development Project, Survey Analysis.

IFC (2005), Leasing in the United Republic of Tanzania: A Snapshot of the Leasing Market in Tanzania.

IFC (2008), Tanzania Leasing Market Study 2007 – June 2008. Unpublished Market report. IFC Office, Dar es Salaam.

IFC (2008), The Business of Health in Africa: Partnering with the Private Sector to Improve People's Lives.

ILO (2003), Leasing for Small and Micro Enterprises: A Guide for Designing and Managing Leasing Schemes in Developing Countries, ILO Geneva.

Mutesasira, L. K., Osinde, S. and Mule , N. R. (2001), Potential for Leasing Products: Asset Financing for Micro- & Small Businesses in Tanzania and Uganda, A Microsave Africa Publication.

Ministry of Finance and Economic Affairs (2008), Macroeconomic Framework for the year 2008-2011

National Bureau of Statistics (2007), Industrial Sector Performance in Tanzania.

Olomi, D. R. and Shimba, A. I. (2003), Why Micro Small and Medium Enterprises Have Limited Access to Bank Loans and What Should Be Done About It.

Pissarides, F. (2001), "Financial Structures to promote SME development in South Eastern Europe" Series Paper of European Bank for Reconstruction and Development, London.

United Republic of Tanzania – URT (2003) Small and Medium Scale Policy.

United Republic of Tanzania (2004), Income Tax Act 2004.

United Republic of Tanzania (2008**a**), Leasing Act No. 5.

United Republic of Tanzania (2008 **b**), Economic Survey 2007.

United Republic of Tanzania (2008_{c}), Budget Speeches accessed from www.tanzania.go.tz/budgetspeeches.

USAID (2006) Leasing: A Potential Solution for SME Expansion and Rural Financial Sector Deepening: A Study of Russia Micro Report #46.

Appendix I: Summary of the Sectors, Businesses and Type of equipment potential for leasing by SMEs

Sector/Subsector	Businesses	Types of Equipment
Agriculture	Fruit and food processing, diary, farming, oil mills	Machinery, Mills, Tractors, tillers, trailers, solar systems, irrigation systems.
Transport	Roads	Bicycles, motorbikes, Buses, minibuses, trucks, pickups, etc.
Tourism	Tour Operators, lodges and hotels	Motor vehicles, camping equipment, catering equipment, washers, driers, elevators, generators, etc.
Service	Garage, Catering Services, printing, security services, photographic, dry cleaning, sports centres, marketing and promotion	Catering equipment, motor vehicles, machinery, powerful computers.
Health Care	Hospitals and dispensaries	Medical equipment.
Fishing	Small-scale fishing	Boats, fishing gear and coolboxes
Construction	Road and building contractors	Graders, compactors, crushers, mixers, surveying equipment, brick-making machines.
Wood Manufacturing	Carpentry and furniture making	Machinery, electric/fuel-driven chain saws, furniture-making machinery
Education Sector	Private primary, secondary and colleges	Office equipment, computers, laboratory equipment, generators
Manufacturing	Small agro processing plants, domestic consumables industries, packaging, animal feed, leather processing, chemical processing, etc	Milling plants, small manufacturing systems, packaging machines.
Mining	Small-scale miners	Shafts, conveyor belts, generators, compressors, electric diggers, etc.

Source: Mutesasira et al (2001), IFC (2008), Field studies.

Appendix II: Summary of the results from the case studies

S/No	Variable	Case I	Case II	Case III	Case IV	Case V
1	Location- Region	Pwani	Kilimanjaro	Kilimanjaro	Arusha	Dar es Salaam
2	Nature of Location	Semi-Urban	Semi - Urban	Rural	Urban	Urban
3	Gender	Female	Male	Male	Male	Female
4	Registration Status	Sole proprietorship	Sole proprietorship	Company	Partnership	Partnership
5	Type of Business	Food/Transport	Agriculture	Food Processing	Manufacturing	Tailoring
6	When Business started	1999	2006	2007	to start Oct 2008	1993
7	Type of Leased Property	Milling machine/Truck	Irrigation system	Milling machine	Manufacturing Machine	Embroidery Machine and Generator
8	Value of Leased Equipment	7mil /22 mil	8.4mil	7.4mil	12.5mil	1.5mil/1mil
9	Lease Terms	12 months/3 years	3 years	3 years	3 years	12 months
10	Down payment applicable?	Yes	No	No	No	Yes
11	Supplier of the leased property	Local/International	Local - foreign affiliation	Local	Local	Local
12	Have you experienced problem with leased property?	No	No	No	Not yet	No for Embroidery. Yes for the generator due to overload
13	Successfully possess the asset(s)?	Yes	In progress	In progress	In progress	Yes
14	Have you tried Bank loan?	No	Yes	Yes	Yes	Yes
15	Were you successful with Bank Loan?	N/A	No	No	No	Yes. Personal Loan
16	Markets	Local	International	Local	Local	Regional
17	Number of Employees currently (Directly in the business)	10	15	12	5	7

Source: field data.