

# Study on Factors affecting Supply and Demand of Leasing in Rural areas & Evolution of Leasing in India

<sup>1</sup>Vidhate Vikas Devram & <sup>2</sup>Dr. Mahesh Chandra

<sup>1</sup>Research Scholar, OPJS University, Churu Rajasthan (India)

<sup>2</sup>Associate Professor, OPJS University, Churu Rajasthan (India)

---

## ARTICLE DETAILS

### Article History

Published Online: 20 February 2019

### Keywords

Rural, lease, farms, assets, land

---

---

## ABSTRACT

Farms and other rural enterprises regularly need access to long haul credit expected to secure hardware because they don't have the necessary guarantee. Most assets that rural enterprises claim can't be used as guarantee: titles to land are regularly nonexistent and portable assets such as livestock and warehouse receipts are not legitimately permissible as insurance. Leasing is a financing tool that overcomes this constraint. Leasing offers several advantages over loans, both to the lessees and to the lessors. For lessees, the most significant advantage is access to a source of finance. For farms and other rural enterprises with no access to bank loans, this could be their solitary means. Notwithstanding access, leases might be more moderate than loans because up front installments are lower than bank requirements and extra guarantee is seldom required.

---

## 1. Introduction

In most industrial countries, leasing is a key source of investment financing given by hardware manufacturers, banks, and autonomous leasing companies. Starting out as a producer's tool for increasing sales, it has developed into a specialized service that serves most sectors of the economy including horticulture (ranch gear leasing contributes to more than 10 percent of the US\$242 billion U.S. leasing industry).<sup>2</sup> In most creating countries hardware leasing is in its early stages. Notwithstanding, in countries where it has grown significantly, its advancement effect is estimated to be significant.

There are two basic types of leasing structures being used:

- A working lease is an agreement that allows the lessor, as proprietor, to hold legitimate ownership of an asset however allows the lessee to appreciate the monetary use of the asset for a foreordained period before restoring the asset to the lessor. Toward the finish of the lease time frame, the asset continues to be possessed by the lessor.
- In a finance lease, the lessor is the proprietor of the asset; in any case, toward the finish of the lease time frame ownership is ordinarily transferred to the lessee on the installment of a residual worth price<sup>1</sup> of the asset which is usually pegged at 10% of the first asset cost, or less. Thus, a finance lease is essentially a finance transaction dressed up as a lease.

The thought 'leasing' in the standard sense, isn't new to Indian condition anyway the modern thought of 'leasing' is extremely unfamiliar to India. Following 25 years of constant credit limitations and following a period of financial policies as far as which credit has progressively been diverted towards

increasingly delicate and need sectors, the two bankers and borrowers have understood that satisfactory credit is never again accessible as an issue of regular practice. The credit crush by the business joint stock banks and the extended limitations by the MRTP Act and Reserve Bank of India, have opened new vistas for the industrial finance through leasing companies. The procedural and administrative deferrals in getting the finance just as capital supplies in time, likewise loan huge assistance for the improvement and headway of leasing companies in India.

Leasing companies might be non-banking finance companies, or non-banking non-monetary companies. Money related leasing is viewed as a monetary action; working leasing is definitely not. Thus, if a substance is essentially occupied with either money related leasing or other loaning activities, it should register itself as a Non-Banking Financial Company (NBFC) with the RBI. Companies primarily occupied with working leases are non-banking non-money related entities, and don't go under regulatory domain of the RBI. In the event that a leasing substance is a NBFC, it should stick to several prudential guidelines of the RBI.

The tax nuances of leasing are concerning material direct tax provisions, the tax issues are seemingly addressed as to roundabout tax with GST becoming effective. In terms of direct taxation, the salary from leasing business is taxable in the wake of conceding depreciation conclusion. While the law does not specifically set down distinction among money related and working leases, from the purpose of annual tax frequency, it is for the most part accepted that it is just in case of working leases that the depreciation is asserted by the lessor. In case of a monetary lease, the Lessee claims the depreciation. Depreciation rates for most basic use assets in India ranges between 15%-20% on declining balances technique; as a result, most lease transactions don't result into a significant tax preferred position to the lessor.

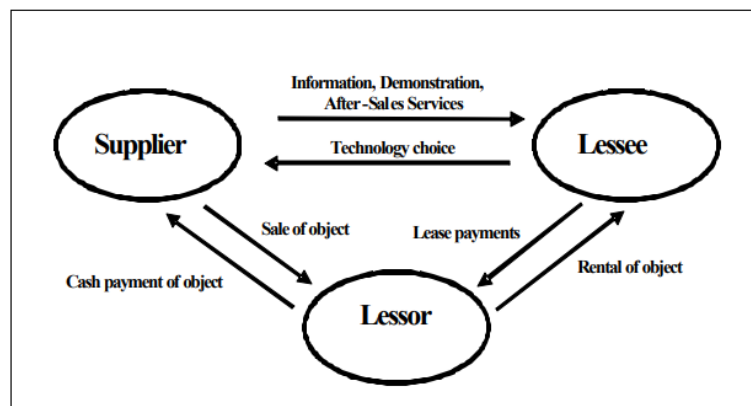


Figure1 A typical finance lease

### 1.1 Leasing worldwide

Comprehensively, leasing has developed at a CAGR of 10.35% somewhere in the range of 1983 and 2000 and at a CAGR of 5.04% somewhere in the range of 2000 and 2014. The leasing volumes rose from USD 93.5 billion in 1983 to USD 944.3 billion as toward the finish of 2014. District wise, North America has always been the market chief, capturing the most extreme share of the worldwide leasing volumes, trailed by Europe and Asia. In terms of leasing entrance, India is set a lot of lower in the ranks among the created and developing countries around the globe. As toward the finish of 2014, Australia, Canada and UK had the best the infiltration rates with 40%, 31% and 28.6% respectively. In terms of regulatory developments comprehensively, introduction of IFRS 16 to supplant FAS 13 (in USA) and IAS 17 (internationally) is one of the most remarkable changes. The new standard, which will become effective from 1st January, 2019, attempts to change the lessee's method for lease accounting substantially. This standard removes the distinction between operating leases and financial leases. With the exception of short-term leases or small-value leases, the assets will be promoted in the books of the lessee at a discounted value of the lease rentals. The new standard, be that as it may, does not transform anything for the lessors. Further, this standard won't have any significant bearing to SMEs. The new standard may usher another time of shorter-term, higher residual value leases, as, in that case, the value of the asset that goes on the monetary record of the lessee is a lot lesser than the genuine reasonable value of the asset.

### 2. Evolution of leasing in India

Leasing in India originated in 1973. It developed in popularity as a financial item rapidly, and by 1986, according to RBI's records, there were 339 equipment leasing companies with leased assets accumulated to USD 36.85 million. From 1986 till 1996 was a time of a significant blast in the industry. The factors that attempted to fuel the blast included tax incentives because of first year depreciation and investment remittance, positive response to leasing IPOs by the capital markets, strong execution by early starting companies, and so on. There were two additional factors, discussed beneath, that filled an unsustainable development – the bait of open deposits, and absence of accounting standards.

### 3. Leasing as a rural finance tool

the method of reasoning for supporting the advancement of leasing as a rural finance tool, and supports it with

information gathered from selected lessors providing leases in rural areas. Information from ten lessors (from eight countries) is presented. The first section presents the relevance of leasing in the rural setting; the second section reviews understanding of leasing in four significant rural sectors; the third section compares the advantages and constraints of various institutional forms of lessors; and the last section discusses organization level issues applicable to leasing in rural areas. Notwithstanding references made to lessors in the important sections, addendum 3 provides a comparison network of their leasing services and index 4 provides profiles of the lessors. In 2002/2003, the leasing providers surveyed for this study had given over US\$125 million in leases in rural areas (including small towns). In excess of 75 percent was for farming or horticultural processing equipment. The cases of rural leasing checked on span several regions—Africa, South Asia, Central Asia, and Latin America, and several institutions—three microfinance organizations (one bank, one NGO, and one agreeable), six privately owned businesses, and one state-claimed organization. The privately owned businesses include one specializing in microleases and one equipment supplier. Nine out of the 10 lessors assessed gave finance leases or its variants (retroleases and procure purchase leases); just one gave operating leases. The information is not indicative of the size or nature of the rural leasing sector because the survey was neither exhaustive nor representative; in any case, it indicates the significance of the sector and the capability of leasing as a rural finance tool.

### 3.1 Relevance

Leasing has the capability of halfway addressing the market disappointment in rural credit. Access to credit is constrained in rural areas of most developing countries. Business banks have poor rural effort. Credit unions and microfinance organizations (MFOs) too have constrained effort in rural areas and for the most part give short-term credit. Disappointment of most state-possessed advancement banks has additionally exacerbated accessibility of term-loans in rural areas. Credit accessible from informal sources (cash lenders, family, friends, and so on.) is usually both short-term and too costly for investment-financing. Leasing is an option in contrast to borrowing for rural enterprises to get equipment expected to modernize creation and in this manner increase efficiency. Aside from the advantage of access to a means of financing equipment, leasing is also liable to be more reasonable to rural enterprises than are loans. Farmers and rural enterprises are especially constrained by the absence of assets that can be

used as security. Leasing overcomes this constraint because it requires no extra insurance or less security than normally required by loans. Most of the surveyed lessors don't require extra security or require this just from a small extent of lessees. The let down payments commonly required by leases contrasted and the value required by loans also makes leases increasingly moderate to rural enterprises that have constrained funds or access to acquired funds. While the down payments required by the surveyed lessors are significantly higher than those required in created leasing markets (15 to 25 contrasted with 1 to 4 percent), this is still lesser than the 30 to 40 percent value required by banks in these contexts. From the lessor's perspective, not having to obtain guarantee is especially advantageous in a rural setting. While the difficulties involved in creating, perfecting, and enforcing security are material in both urban and rural contexts in most developing countries, it is increasingly severe in rural areas where enterprises are less liable to hold titles to their asset, asset registries are less liable to be utilitarian, and judicial systems bound to be inefficient. They are also liable to profit by not being restricted by interest rate ceilings and sector specific credit allocations—factors that have customarily constrained rural lenders. The tax-preferred position of leasing is probably going to be a less significant factor in rural leases. Most lessees in rural areas don't settle government expenses because of exemptions or because their incomes are lower than the minimum taxable levels. Consequently, rural lessees are probably not going to profit by the use of lease rentals as a tax-shield. They are bound to profit by decrease in lease rates if lessors can benefit of tax-benefits (lessors using the capital allowances on assets as a tax-shield). This, in turn, would rely upon whether the run of the mill tax treatment is accessible to finance leases since most leases in rural areas are probably going to be of this sort. Rural lessees would also profit if lease payments are absolved from value-included taxes (VAT) since most rural enterprises are probably not going to have the option to use VAT credits.

#### **4. Factors affecting supply and demand of leasing in rural areas**

This section discusses organization level issues that have specific relevance in rural areas and issues that the surveyed lessors have innovatively addressed.

##### ***Down payment***

The down payment required by the surveyed lessors is significantly higher than those commonly required by lessors in created leasing markets. While the high down payments are probably going to make leases less reasonable to rural enterprises, this is probably going to be a response to the higher risks lessors face in a rural setting. The surveyed lessors give two reasons to requiring down-payments. One, in the case of repossession, some of the costs of seizure and change in market value could be recouped from the down payment, and second, it creates a strong incentive for the lessee to continue making payments to abstain from losing the down-payment. Down-payments among the firms surveyed went from 10 percent to 40 percent, with most being in the scope of 15-25 percent. Down-payments demanded also differ by equipment type. For instance, CECAM requires 20 percent down-payment for equipment, however requires 25 percent for

livestock because of the higher risk of losing this asset. John Deere, Mexico demands 30 percent down payment for farming equipment, yet just 15 percent for construction equipment.

##### ***Monitoring***

Monitoring is worried about ensuring on-time lease payments and the physical presence of the leased assets. In rural areas, monitoring costs can be enormous because of the higher distances to lessee locations and their dispersion. Be that as it may, innovative means to diminish monitoring costs can be used, for instance, contracting a neighborhood business support focus to screen the leases. CECAM uses its strong network linkages to screen its leases.

##### ***Equipment maintenance***

In spite of the fact that maintenance is the lessee's responsibility in finance leases (the most well-known sort in rural areas), ensuring that satisfactory maintenance service is accessible is imperative to diminish the risk of default because of equipment breakdown. In rural areas where maintenance services may not be easily accessible, this is a significant risk. Better equipment maintenance could also be improved by: 1) incentives that empower suitable maintenance by lessees, and 2) requiring equipment maintenance capabilities or compulsory training as a capability criteria for being considered for a lease. ANED negotiates contracts with equipment suppliers that include specialized training for new lessees.

##### ***Insurance***

Two types of insurance are pertinent in leasing: 1) multiperil insurance against the risk of incidental loss, harm, and untimely harm; and 2) obligation insurance for the risk of losses that may strike others (mischief to life, wellbeing, and property) from the use of the assets. The first is usually not mandatory while the second is mandatory for certain assets such as vehicles. Obligation insurance is especially significant in the cases of vehicle leases to shield the lessor from risk claims arising out of accidents. Non-accessibility of insurance services in rural areas could be a significant constraint to providing leases in rural areas.

##### ***Used equipment leasing***

Leasing used equipment is probably going to be increasingly moderate to a bigger number of rural clients than leasing new equipment. It also allows lessors to offer shorter-term leases—entailing lower credit risk and assetliability the executives problems. More than 60 percent of leases composed by DFCU Leasing are for used equipment (Kisaame 2003). Used equipment anyway have a higher risk of break-downs. CECAM requires a higher down-payment to offset the higher risks associated with used equipment (40 percent instead of 20 percent demanded for new equipment) (Fraslin 2003). When leasing companies lease used equipment, they also make markets for used-equipment and make leasing progressively reasonable.

##### ***Repossession***

Repossession can be costly in a rural setting because of the land dispersion of enterprises. Defaults resulting from cataclysmic events such as common calamities and value fluctuations of rural commodities may also require renegotiation

of contracts instead of repossession. For instance, during a crisis in the fishing industry that seriously influenced NLCL clients, NLCL renegotiated leases that encouraged the recovery of funds for the organization.

## 5. Conclusion

The significance of leasing in a nation is usually estimated by advertise entrance. The most immediate measure of market entrance is the extent of leasing volumes to all fixed investment

in plant and equipment. The normal value of the asset toward the finish of the lease is called residual value. Any uncertainty in the measure of residual value, estimated at the inception of the lease, is called residual value risk. In case of financial leases, since the residual value is regularly prefixed, the residual value risk is immaterial. In case of contract purchase transactions, given the nominal purchase choice, the residual value itself is unimportant.

## References

- [1] Amembal, Sudhir P. 2010. International leasing : the complete guide. Salt Lake City, Ut: Amembal & Associates.
- [2] Barua, Dipal. 2013. —Personal Communication. ||
- [3] Brealey, Richard A. and Stewart C. Myers. 2013. Principles of corporate finance. Boston, Mass.: McGrawHill/Irwin.
- [4] Cabraal, Anil, Mac Cosgrove-Davies, and Loretta Schaeffer. 2006. Best practices for photovoltaic household electrification programs : lessons from experiences in selected countries. Washington, D.C.: World Bank.
- [5] Chaves, A. Rodrigo, Susana Sanchez, Saul Schor, and Emil Tesliuc. 2011. Financial markets, credit constraints, and investment in rural Romania. Washington, DC: World Bank.
- [6] Jain, Sanjay and Ghazala Mansuri. 2013. —A Little at a Time: The Use of Regularly Scheduled Repayments in Microfinance Programs. || Journal of Development Economics, 72:1, pp. 253-79.
- [7] Khan, Imtiaz. 2013. —Personal Communication. ||
- [8] Kisaame, Juma. 2009. —Case Study of DFCU Leasing Company—Uganda. || Paper presented at —Paving the Way Forward for Rural Finance: An International Conference on Best Practices || June 2-4, 2009: Washington, DC.
- [9] Mutesasira, Leonard K., Sylvia Osinde, and Nthenya R. Mule. 2010. —Potential for leasing products: Asset financing for micro- and small businesses in Tanzania and Uganda. || MicroSave-Africa: Nairobi.