

GAFI Efforts to Promote the Leasing Sector in Egypt

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Financing Opportunities for SMEs in Egypt
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Outline

- Role of GAFI to promote the Sector
- Main Issues Identified in the 1st Roundtable 2005
- Where we stand since 2005
- Legislative & procedural amendments
- Leasing sector: Facts and Figures
- GAFI Initiative: Partnership with USAID-EFS
- Future Approach

Role of GAFI to promote the Sector

- On the policy level: GAFI has maintained a close and ongoing dialogue with the main leasing companies since March 2005. One main achievement is the ability to raise sector issues to the Ministry of Investment which is the supervisory body.
- On the facilitation level a number of simplification procedures took place. GAFI officials / legal advisors ensure the proper communication and implementation of rules to leasing department staff.
- GAFI is embarking on the formation of a Leasing Collateral Registry in conjunction with USAID.

Main Issues Identified in the 1st Roundtable 2005

Legal & regulatory Issues		Technical & operational Issues	
1.	Taxation/Interest	1.	Extending leases to companies with incomplete financial reporting and insufficient credit information.
	i. Sales Tax		
	ii. Sale and Lease Back		
	iii. Debit Interest		
2.	Limitations within the Leasing Law	2.	Need for activation of Egyptian Leasing Companies Association.
	i. Inability to conduct operating lease.		
	ii. Inability to transfer a lease contract to an entity that is not registered as a lessor.	3.	Raising SME awareness regarding leasing as an alternative financial tool.
	iii. Procedures associated with registration of a leasing contract, in terms of time taken, documentation procedures and cost.		
	iv. Legal procedures associated with repossession of a leased asset, in case of lease default, in terms of lengthy court procedures and absence of an implementation body.		

Where we stand since 2005

Item	Status
Registration of leasing Contracts	√
Formation of Policy Advocacy Dept. with a team assigned for leasing issues	√
Promotion of a Leasing Co. in Upper Egypt	√
Sales Tax concerning Sale and Lease Back	√
Debit Interest	√
GAFI partnership with USAID-EFS providing Technical Assistance for Leasing Reform	√
Sales Tax (pending issues)	In process
Operating lease	In process

Where we stand since 2005

Item	Status
Transferring a lease contract to an entity that is not registered as a lessor	In process
Enforcement of ownership rights	In process
Extending leases to companies with incomplete financial reporting and insufficient credit information (SME)	In process
Raising SME awareness	In process
Activation of Egyptian Leasing Companies Association	In process

Legislative & Procedural amendments

Legislative Amendments

- The Ministerial decree No.126 of 2006 that treated leasing companies as financial entities i.e. Debit interest paid by leasing companies on loans and advances they have obtained and that are more than four fold the average of equity rights according to the financial statements prepared according to the Egyptian standards are not deductible costs.
- Jul. 2006 the Egyptian Tax Authority has clarified the tax treatment of leasing capital assets in case of repossession, concession, and sale and lease back transactions.
- Contracts of incorporation of leasing companies , establishments and loan & mortgage contracts related to their business shall be exempt from the stamp tax as well as notarization and publication fees for a period of 5 years from the date recorded on the commercial register according to law 8 of 1997.
- Sales and lease back transactions are exempted from sales tax that enhances the in-cash flow of the lease.
- GAFI is currently studying methods to introduce operating leases and vendor leases to the market.

Legislative Amendments

١٠ - الوقائع المصرية - العدد ٥٥ في ١٢ مارس سنة ٢٠٠٦

وزارة المالية

قرار رقم ١٢٦ لسنة ٢٠٠٦

بتحديد الشركات التي تباشر نشاط التمويل
ولا يسرى عليها حكم البند (١) من المادة (٥٢)
من قانون الضريبة على الدخل رقم ٩١ لسنة ٢٠٠٥

وزير المالية

بعد الاطلاع على قانون الضريبة على الدخل الصادر بالقانون رقم ٩١ لسنة ٢٠٠٥ ؛
وعلى اللائحة التنفيذية للقانون المذكور الصادر بقرار وزير المالية رقم ٩٩١ لسنة ٢٠٠٥ ؛

تفسير :

(المادة الاولى)

تعتبر من شركات التمويل التي لا يسرى بشأنها حكم البند رقم (١) من المادة (٥٢)
من قانون الضريبة على الدخل رقم ٩١ لسنة ٢٠٠٥ المشار إليه الشركات الآتية :

١ - شركات التوريد .
٢ - شركات التأجير التمويلي .

(المادة الثانية)

ينشر هذا القرار في الوقائع المصرية .

وزير المالية
د. يوسف بطرس غالى

Legislative & Procedural amendments

Procedural Amendments

- GAFI is currently approving import invoices of Transport Vehicles in the tourism sector with a collection of customs duty at a fixed rate of 5%.
- Simplification of procedures associated with registration of a leasing contract, in terms of time taken (48 hours maximum), documentation procedures (No obligatory form is required and any number of equipments can be recorded in the same contract) which facilitates leasing to a group of SMEs.
- The first Credit Bureau established in September 2005 and starts operation in July 2007 which will facilitate SMEs access to Credit.
- GAFI is currently studying the amendment of financial accounting standards for the leasing companies to introduce IAS 17 instead of the EAS 20.

Leasing Sector: Facts and Figures

Years	# of contracts	Value (EGP mn)
Up to 2001	3780	8909
2002	433	1662
2003	469	1396
2004	948	1658
2005	899	3283
2006	1042	2497
2007*	602	1300
Total	8173	20705

Total Number of Leasing Companies: 241

* Till June 2007

Source: GAFI- Companies Sector Database

Lease Contracts Booked by Asset Type

Values in EGP million

Asset type	2003	2004	2005	2006	2007*
Heavy Equipment	48	151	951	239	244
Medical Equipment	1	4	46	4	—
Production Lines	81	428	334	114	135
Planes	1008	36	11	191	—
Cars	96	628	674	1343	442
Office Equipment	89	234	181	201	49
Power Equipment	18	7	135	110	22
Real Estate	55	170	951	295	408
Total	1396	1658	3283	2497	1300

* Till June 2007
Source: Companies Sector database-GAFI

GAFI Initiative: Partnership with USAID-EFS

Project Name	USAID-EFS
Project Purpose	Providing Technical assistance on leasing reform
Project Timeline	May 2007-March 2008
Stakeholders	Related Governmental Bodies & Business Community

Project Components

USAID-EFS Technical assistance project

Assess obstacles and impediments to leasing

GAFI Capacity Building and Training Workshops on Leasing

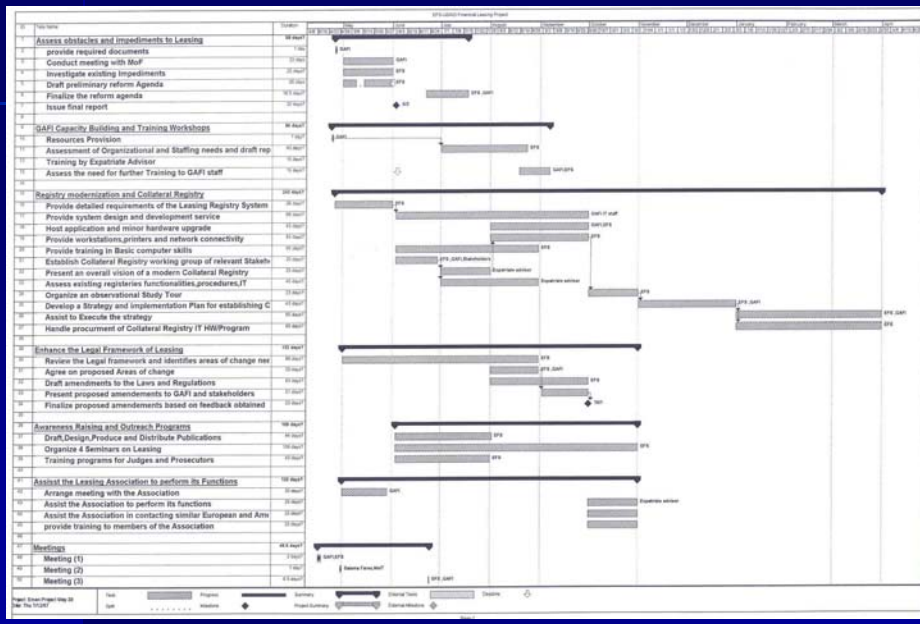
GAFI Leasing Registry modernization as basis for a Collateral Registry

Enhance the legal framework of Leasing

Plan and Execute Public Awareness and outreach Programs

Assist the leasing association to enable it to perform its functions

Project Components



Future Approach

- Credit Information and Risk Management.
- Taxation Law.
- Activation of the Leasing Association.
- Raising Awareness of Leasing as a Financial tool.
- Enforcement of Ownership.
- Need for Cheap Funds.