

LATINFINANCE



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Purchasing Power

With economic and political stability now widespread in Latin America, leasing looks to be an increasingly viable option for companies financing capital goods purchases.

Leasing – paying installments to use equipment during a set period of time – has long been touted in Latin America, to little avail.

Currencies fluctuate, finance ministers snatch away tax incentives on a whim and cultural norms make middle managers reluctant to commit to long-term finance. Businesses of all sizes would rather own their respective computers, trucks and machinery. That way, if times get rough, at least they have an asset to unload.



Specialized lessors wipe sensitive information from decommissioned IT equipment.

No More False Starts

And so, the leasing business has had several false starts in the region. Most of the successful outfits in Latin America today cater to so-called captive markets. For example, a company that sells soda pop might rent out dispensing machines to restaurants as an incentive for the food joints to only sell its fizzy drink brand. Similar arrangements are commonplace for heavy equipment companies like tractor maker Caterpillar or airplane manufacturer Boeing.

Given this limited scope, less than 10% of capital goods are acquired through leasing in Latin America compared with about 30% in the US. Some markets are more developed than others, with leasing accounting for 18% of capital goods purchases in Colombia and 25% in Chile, notes Rafael Castillo-Triana, a principal for Latin America at The Alta Group, a consultancy that specializes in leasing. Alta compiles an annual ranking of leased assets in the region and according to the most recent data available, for year-end 2005, Brazil was the biggest market, with 44% of the \$23.22 billion in leased goods in Latin America.

In recent years, the leasing market in many countries – including Brazil – has enjoyed double-digit growth and many are optimistic that it is on track for continued, substantial expansion. "Leasing is directly correlated to GDP growth," explains Castillo-Triana. By freeing up working capital through leasing, companies can invest more in their operations.

Leasing companies are at a disadvantage, though, versus other financial companies when it comes to capital costs because they often have to borrow from the banks and get stuck paying double spreads. So the trick for the sector is to diversify its source of funds. Increasingly, leasing firms are tapping capital markets to lower funding costs. In a country with highly developed capital markets, like Chile, these deals have helped reduce those costs to 2%. In Brazil the cost of funds is a heftier 20%.

Leasing also offers greater security for the lender. If a client fails to pay, the lender can simply repossess the asset whereas a commercial bank would have to await bankruptcy proceedings only to get stuck with an asset that it doesn't really want in its portfolio. "In the field of IT, there was an allergy [to leasing]," recalls Castillo-Triana. "Traditional leasing companies didn't understand technology." And so, computer makers, armed with extensive inside market information, began their own leasing divisions.

Industry veterans predict leasing will soon take off. "We are at the brink of seeing leasing brought to the next level," says Enrique Riquelme, head of HP Financial Services in Latin America. As a unit of computer maker Hewlett-Packard, HP Financial helps companies finance their transitions into newer technology equipment. As an asset class, Riquelme says information technology equipment, a \$30 billion market in Latin America, offers some of the best opportunities for leasing. "You're not going to decide to stop using computers unless you go back to the abacus," notes Riquelme. And while some leasing outfits turn a pretty profit specializing in, say, mining equipment, there are many more companies using computers.

Joseph Pucciarelli, a research director for the leasing evaluation service at technology consultancy IDC, explains that it's hard to gauge the market. "In developing economies, a lot of activity happens at the micro-level, so getting a handle on it is very difficult," he says. For information technology, both Brazil and Mexico rank among the top 25 markets in the world for equipment leasing. In 2005, Brazilian companies used it to supply \$12 billion of IT equipment while Mexicans took out leases worth \$7.6 billion. For the same period, US companies leased \$15 billion in IT equipment.

"As mid-sized companies grow [in Latin America], my expectation is that they will finance a quarter to a third of all capital equipment," says Pucciarelli. This financing will in turn spur economic development and more leasing. "As these countries grow, you're going to see a rush of sales financing being made available," Pucciarelli predicts.

HP Financial's Riquelme was at Citibank in 1994, charged with building out the bank's leasing operation in Mexico. Then the peso crashed. "We went to sleep in Switzerland and woke up in Bangladesh," he recalls. Given the increased sovereign risk, Citibank scrapped plans to offer a broad portfolio of leasing products in Mexico. Now with a territory of eight countries and limited capacity in other parts of the region, Riquelme is able to design IT solutions for thousands of clients. He can even offer third-party equipment from competitors like Cisco and Dell.

The International Finance Corporation has also had a long, difficult history with leasing in the region. The for-profit development bank has been trying to support the financing tool in Latin America since the mid-1980s. Marcos Brujis, manager of new business in Latin American financial markets for the IFC, says that disappointments over the years have led many leasing promoters to drop the concept. "In the beginning in Latin America, there were huge tax advantages [for leasing]. Then – as in a notorious case in the 1980s in South America – a finance minister would come in and decide to change the rules to solve some fiscal problem," he recounts. Lessons the IFC has learned over the years include that it needs to work with local banks on leasing, and that long-term financing ought to be in local currencies to cushion the blow of fluctuations.

Serge Devieux, another IFC manager for financial markets business development, asserts that the environment for leasing is better than in years past in large part because economies are more stable. Leasing is even fashionable, he says.

A Brighter Future

For the fiscal year ending in June, the IFC had a worldwide leasing portfolio of \$345 million, most of which was in Central Europe and the Middle East. For the subsequent 12-month period, the bank hopes to show more results in Latin America. Sectors of interest include: efficient and renewable energy; medical equipment; and IT equipment. For instance, in Colombia the IFC is working with a client to provide companies with financial incentives to lower emissions and use energy more efficiently. "If using more modern equipment helps them pollute less, for example, and this result is quantifiable, then the IFC will give the company a rebate and a discount on the interest rate," Devieux explains.

Aside from generally being a cheap form of financing, leasing also enables companies to turn to lessors for maintenance or to upgrade old equipment. José Luis Higuera, president of the Mexican pure leasing association and owner of a medium-sized leasing company says that in his experience, 15% of equipment is returned at the end of the lease term. His business has a portfolio of 70,000 items ranging from logistics goods like pallets to printing presses worth \$80 million. When equipment comes back, Higuera spiffs it up and then sells it as semi-new. Demand is very high for used equipment.

The Mexican leasing market has been growing 30% annually in recent years, with some of the roughly three dozen lessors diversifying into specialized areas like water treatment plants. Mexican companies of all sizes increasingly understand the mechanism, and are willing to give leasing a try. Close to half of the equipment out on leases is IT, as firms – especially banks – realize that they need professional and accountable services to completely wipe sensitive data from computers.

With some small- and medium-sized companies already tapping into leases, the next logical step could be consumer goods like

cars. This would represent a radical shift in Mexican consumption patterns. "The mass market is more complicated," explains Higuera. "This is the phase that we still have to get to by developing mechanisms for risk and collections."

In Brazil, vehicle leasing for recreational drivers is already a reality. Rafael Cardoso, president of Brazilian leasing association Abel, says approximately 70% of leasing deals in Brazil are for vehicles. Large Brazilian banks are working hard to develop financing for more product lines. "If you compare leasing with other credit lines, it's the cheapest," Cardoso asserts. **LF**



Advanced Search

Keyword(s)



Order by:

- Relevance
- Date - newest first
- Date - oldest first

Period:

- All
- Previous Three Months
- Previous Six Months
- One Year
- Specify Date Range

From:

To:

Search Tips

" + " Searches

Google ignores common words and characters such as "where" and "how", as well as certain single digits and single letters, because they tend to slow down your search without improving the results. Google will indicate if a common word has been excluded by displaying details on the results page below the search box.

If a common word is essential to getting the results you want, you can include it by putting a "+" sign in front of it. (Be sure to include a space before the "+" sign.)

Another method for doing this is conducting a phrase search, which simply means putting quotation marks around 2 or more words. Common words in a phrase search (e.g., "where are you") are included in the search.

For example, to search for Star Wars, Episode I, use: **Star Wars Episode +I**

" - " Searches

Sometimes what you're searching for has more than one meaning; "bass" can refer to fishing or music. You can exclude a word from your search by putting a minus sign ("-") immediately in front of the term you want to avoid. (Be sure to include a space before the minus sign.)

For example, to find web pages about bass that do not contain the word "music", type: **bass -music**

" ~" Searches

You may want to search not only for a particular keyword, but also for its synonyms. Indicate a search for both by placing the tilde sign ("~") immediately in front of the keyword.

For example, to search for food facts as well as nutrition and cooking information, use: **~food ~facts**

Phrase Searches

Search for complete phrases by enclosing them in quotation marks. Words enclosed in double quotes ("like this") will appear together in all results exactly as you have entered them. Phrase searches are especially useful when searching for famous sayings or proper names.

"OR" Searches

Google supports the logical "OR" operator. To retrieve pages that include either word A or word B, use an uppercase OR between terms.

For example, to search for a vacation in either London or Paris, just type: **vacation london OR paris**

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