Emerging Countries: Development of Equipment Leasing and Finance Markets In the Non-BRIC Countries

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Objectives of this session

• Gain insights into opportunities and risks of engaging in equipment leasing and financial business in emerging countries by . . .

1. Understanding the impact of historical, current and future global economic conditions,
2. Reviewing multi-national organized efforts intended to facilitate development and growth,
3. Studying critical strategies and key modalities for “going international,” and
4. Discussing actual experiences.
The Global Economy
Which Emerging Countries are More Attractive?

Operational Definitions of Emerging Countries?
The Global Economy

What the World Looks Like Today…..
The Global Economy
What the World Looks Like Today . . .

CHINA
INDIA
USA
REST OF THE WORLD

INDONESIA
BRAZIL
PAKISTAN

BANGLADESH
RUSSIA
NIGERIA
JAPAN

POPULATION:
While the US holds 5% of the World’s population, China (20%), India (17%), Brazil (3%) and Russia (2%) host 42% of the global inhabitants Europe altogether hosts only 11%, and declines

BY 2050, INDIA WILL HAVE THE LARGEST WORLD POPULATION
REAL GDP:
While the US holds 21% of the World’s GDP, China produces 13%, India (6%), Brazil (3%) and Russia (3%). The EU produces 15%. 80% of global GDP is currently produced by 20 countries
Which Countries are Emerging?

Countries transitioning between Developing and Developed Status

- Argentina
- Brazil
- Chile
- China
- Colombia
- Chile Republic
- Egypt
- Hungary
- India
- Indonesia
- Israel
- Jordan
- Malaysia
- Mexico
- Morocco
- Pakistan
- Peru
- Philippines
- Poland
- Russia
- South Africa
- South Korea
- Taiwan
- Thailand
- Turkey

In summary:
Latin America, Asia, Eastern Europe, Middle East and Africa

MSCI All Country World Index by Morgan Stanley Capital International 2006

- Developed markets
- Emerging markets
The Global Economy
State of the Leasing Industry

In the International Arena
The Global Economy
Equipment Leasing/Finance in Europe

• New leasing volumes reported in the Leaseurope 2006 annual enquiry to date reached almost **287 billion** euros.
• Based on these figures, the organic growth of the leasing market attained a level of 6.34% for the year of 2006.
• The value of the entire European leasing market in 2006 is estimated to be in region of 327 billion euros.
• Total managed portfolio in Europe is estimated to exceed 600 billion euros.
The Leasing Industry in Latin America grew over 47% from 2005 to 2006, and represents total assets of US$ 33.7 billion.

Brazil has the largest leasing industry representing 48% of the total leasing portfolio in the region;

Mexico has a leasing industry smaller than the Chilean and Colombian;

Argentina and Puerto Rico have the fastest growing leasing industries

Banks are the main players

Central America: CAFTA and consolidation around banks. GE, Scotiabank and HSBC investing (Citi exiting and re-entering in the last couple of years)
The Global Economy
Equipment Leasing/Finance in Africa

- South Africa has a solid leasing industry dominated by 4 Banks;
- Egypt is growing its leasing industry since the 1995 Leasing Law. Average annual originations: US$ 285 M/year;
- Sub-Saharan Africa is joining the leasing league, procuring for best practices and for investment promotion in their countries. To highlight: Tanzania, Ghana, Madagascar, RDC, Nigeria…

Map Source: AON
China Leasing Industry: Continuous growth, Leasing Law in process, Foreigners coming blindly. Expect surprises…
• Japan: Mature leasing industry, penetration of 9% of total investment. IT represents 35% of originations;
• India: Growth impaired by hostile Tax Legislation and funding restrictions;
• Korea: Mature and consolidating players in the industry recovering from the 1998 crisis;
• Australia: Solid Leasing industry
• Malaysia, Thailand, Indonesia and other countries are in the build-up phases.
• Saudi Arabia, Kuwait, UAE, Bahrain all regulate leasing based upon Sharia Law, on the « Ijara » foundation. Leasing is emerging since 2000 and growing;
• Kuwait lease receivables exceed US$ 2 billion (6 companies);
• Israel leasing industry is highly concentrated in car leasing and financing
• Iran: Emerging leasing industry with investment of IFC (2002). Mostly controlled by State owned Banks

Map Source: AON
The Global Economy
Recent, Current and Future Treads . . .

Outsourcing from Developed Countries?

Global Conflicts, e.g. Iraq war, regional disputes?

Currency fluctuations/disequilibrium?

Politics?

Sub-prime meltdown in U.S.?
The Global Economy
Multi-National Organized Efforts

• World Bank: International Finance Corporation
• Other Multi-National Initiatives
• Unidroit – the Model Leasing Law
The Global Economy
Multi-National Organized Efforts

- International Finance Corporation
Investing in Leasing in Emerging Markets
IFC Services and Value Proposition

January 2007
The International Finance Corporation

An Institution of the World Bank Group
- Created in 1956
- Total Capital **US$11.1 bn** held by 179 countries
- Board of 24 Executive Directors
- AAA/Aaa rating
- A triple bottom-line

IFC’s Mission
“**To promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people’s lives**”

To Achieve Its Mission, IFC
- Provides loans and equity to viable projects
- Mobilizes capital from multiple sources
- Provides technical assistance and advisory services to companies and governments
IFC at a Glance

IFC Total Commitments FY06:
UD$ 8.3 billion

Portfolio as of end FY06, by Industry
- Agriculture & Forestry
- Finance & Insurance
- Utilities
- Oil, Gas & Mining
- Transportation & Warehousing
- Nonmetallic Mineral Products
- Manufacturing
- Collective Investment Vehicles
- Information Technology
- Industrial & Consumer Products
- Food & Beverages
- Chemicals
- Other

Portfolio as of end FY06, by Region
- South Asia
- East Asia and the Pacific
- Sub-Saharan Africa
- Global
- Europe & Central Asia
- Latin America & the Caribbean
- Middle East & North Africa
- Global
- Sub-Saharan Africa
- South Asia
- East Asia and the Pacific

Total portfolio for IFC’s account, FY06:
US$ 21.6 billion
A Strong Commitment to Leasing

A Core Component of IFC’s FM Strategy
- Increase access to financing to Small & Medium Businesses
- Broaden the range of financial services available in EMs

An Historic Area of Focus for the IFC
- Over the past 30 years, IFC has financed 190 leasing projects in 57 countries for $1.3 billion

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Transactions</th>
<th>US$m</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>26</td>
<td>60.2</td>
<td>4.7%</td>
</tr>
<tr>
<td>Asia</td>
<td>66</td>
<td>376.9</td>
<td>29.2%</td>
</tr>
<tr>
<td>Europe, ME, North Africa, (1)</td>
<td>101</td>
<td>672.2</td>
<td>52.1%</td>
</tr>
<tr>
<td>South America</td>
<td>24</td>
<td>170.7</td>
<td>13.2%</td>
</tr>
<tr>
<td>World</td>
<td>1</td>
<td>10.0</td>
<td>0.8%</td>
</tr>
<tr>
<td><strong>Cumulative Total</strong></td>
<td><strong>218</strong></td>
<td><strong>1290.0</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

- IFC has set-up or improved leasing regulations in 35 countries
- IFC operates 28 Leasing technical assistance projects across the globe for $14 million of committed funding

*Legal & Regulatory, Market Research, Institution Building, Public Awareness, Promotion of local and foreign investment*
Key Lessons Learned

Development Impact

Legal and Regulatory Framework/ Business Environment

Bank Subsidiaries, Captive Companies, Niche Players

Financial Management
Looking Forward…

Assisting EM Banks develop leasing operations

Helping stand-alone leasing companies develop new products

Encouraging developed players to invest more in Ems

Supporting improved access to local currency funding in Ems

Exploring new frontiers in Equipment Financing in Ems
The Global Economy
Multi-National Organized Efforts

• Other Multi-National Initiatives
  • Mongolia: Trade Finance Program
The Global Economy
Multi-National Organized Efforts

• Diverse cultural, social, legal and regulatory environments
  • The Unidroit Challenge
The Global Economy
Multi-National Organized Efforts
Unification of Private Law

- UNIDROIT – The Model Law on Leasing
  - Motivated by inquiries from developing countries interested in enacting leasing law
  - Multilaterals interested in improving the law and regulations in developing countries to the Best Standards of Practice of the leasing industry worldwide
  - Following the precedent experiences of the UNIDROIT Ottawa Convention of 1988 and the UNIDROIT Cape Town Convention of 2001
  - Adopting a Draft Model Leasing Law (still under discussion)
The Global Economy
Multi-National Organized Efforts
Unification of Private Law

- ELFA took interest in the UNIDROIT Model Law project and developed working groups...
- ...However the existing gap between the US Law and the law in force in the rest of the world was ignored...
- The only way the Model Law can catch-up with US law is by understanding and tendering bridges between US Law and:
  - Civil Law systems prevailing in Europe, Latin America, Africa and Asia Pacific (except South Africa, Australia, New Zealand, Hong Kong and Singapore);
  - Shari’a Law (Muslim Law) prevailing in the Middle East and part of Africa.
  - Public Policy Law regulating financial services providers (Basel Accord)
Going International
Critical Strategies

• Developed or Emerging Markets
• Demographics
• Country Risk
• Business environment
• Niche players
Going International
Key Modalities

• Cross Border and/or
• Permanent establishment, and/or
• Piggy backing
Going International
Critical Strategies
Developed or Emerging Markets

• The core of this strategy is whether to select an international expansion with:
  – Countries having mature economy and social organization, or
  – Countries in transition to development
• This will submit the strategy to test in highly competitive markets and mature leasing industries, or
• Will submit the strategy to the test of sharing a learning curve with the market and its stakeholders.
The core of this strategic approach is to enter into the markets having high purchasing power, or potential to improve it;

Generally combined with another strategic approach, will determine which tests to face;

In general, it leads to a long term sustainable market position, but may be subject to economic and volatility cycles.
Going International
Critical Strategies
Demographics: Purchasing Power

ASIA PACIFIC

And the winners are:
- China
- Japan
- India
- Korea
- Indonesia
- Australia
- Thailand

LATIN AMERICA

...the winners are:
- Brazil
- Mexico
- Argentina
- Colombia
- Chile
- Venezuela

AFRICA

The winners are:
- South Africa
- Egypt
- Algeria
- Nigeria
- Morocco
- Tunisia

MIDDLE EAST

- Iran
- Saudi Arabia
- Israel
- United Arab Emirates
- Syria
- Kuwait

EASTERN EUROPE

- Russia
- Ukraine
- Czech Republic
- Romania
Going International
Critical Strategies
Country Risk

• This approach is focused in the selection of target markets based upon the perceived country risk as per Rating Agencies;
• Although it tends to follow an indicator, this approach alone has many flaws, such as:
  – Not only the good financial shape of government indicates good shape of the country;
  – Government defaults some times are more opportunities rather than challenges;
  – It does not address the actual risk map of a leasing company/industry
Going International
Critical Strategies
Business environment

• This strategic approach is based upon the target country regulations and business environment. Particular items are:
  – Starting a business
  – Dealing with licenses
  – Hiring and firing workers
  – Registering property
  – Getting credit
  – Protecting investors
  – Paying taxes
  – Trading across borders
  – Enforcing contracts
  – Closing a business

• The World Bank’s “Doing Business” database is the primary source of information. Double checking is encouraged.
• This approach is based upon exploiting a field of specialization, e.g.
  – A player in infrastructure leasing follows the needs and investments in infrastructure (CAT Financial in China);
  – A player in agricultural equipment follows large agricultural producer (DLL or John Deere in Brazil);
  – A player in IT follows large needs and investment in IT (Sun, IBM, Dell and HP in all emerging markets)

• This approach has larger risks but usually generates higher returns

• A niche can be defined by equipment type, customer profile or any other criteria
Going International
Key Modalities

• Cross Border
• Permanent establishment
• Piggy backing
• Tax issues (Withholding tax, remittance, etc);
• Foreign exchange issues;
• International legal issues:
  – Does the country have Investment Protection instruments (a BIT or a FTA?)
  – Does the country follow UNIDROIT guidelines and/or is a party on the UNIDROIT Conventions? (For aircraft and large ticket items covered, the Cape Town Convention)
  – If not, check legal issues for repossession and enforcement of contracts;
• [Define the threshold of permanent establishment?]
Going International
Key Modalities
Permanent establishment

- Regulation of foreign investment
  - Again BIT or FTA protection
  - Reporting and registration requirements
  - Restrictions to foreign investors;
- Licensing requirements and regulatory intervention;
- Leasing Law and regulations on asset based financing;
- Capital markets regulations and development
- Tax regulations
- Labor regulations
- Enforceability of contracts and insolvency law
- Other relevant regulations (IP, international trade, Antitrust, environmental, etc.)
Going International
Key Modalities
Piggy backing

- There are multinational groups already with permanent presence in certain territories
- Your company can arrange to deal with such groups
Going International - Deere Actual Experience

Determinants:

• “Critical Mass”
  – Above the line, certain options
  – Below the line, cross-border only

• Legal, tax, regulatory infrastructure

• Risk mitigation
Going International
Actual Experience

[Sun Microsystems]
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*Questions*