

## THE DEVELOPMENT OF INTERNATIONAL LEASING - A STIMULATOR FOR COOPERATION BETWEEN KYRGYZ REPUBLIC AND THE CIS

*Toichubek uulu Altynbek, Graduate Student, Senior Instructor, Kyrgyz State University  
of Construction, Transportation and Architecture*

*J. Shakirova-Weiss, Graduate Student, Research Assistant,  
"CNS" Corporation, USA*

**International Leasing** is a form of economic cooperation that promises great future benefits; however, currently it is not widely used in the CIS. Especially, in the recently encountered economically trying periods, leasing as an investment activity had come to play an increasingly significant role both in the Kyrgyz Republic and the CIS.

The factors contributing to the importance of development of leasing in the CIS are:

- shortage of money flow in manufacturing industries during continuous economic crises;

- high rate of overused and outdated equipment (70-90% of equipment used in most manufacturing industries). This in turn, necessitates the modernization of such industries.

*Leasing can be described as a form of investing of financial assets at which a lessor acquires a property from an entity and then leases this property to a lessee for a given period of time (usually three or more years) in return for an agreed fixed charge which is generally paid in periodic installments.* When a lessor purchases a property for leasing, then payment usually comes from either savings or borrowed money, or sometimes from initial downpayments of lessee. If one or more parties are nonresidents, then leasing is considered to be international.

We should mention that leasing is an important structural part of national economies in developed countries where 20% of total investments are in leasing. Among Western European countries, most advanced in leasing are France, Great Britain, Germany and Italy. European leasing companies purchase and lease all types of properties, equivalent to 16% of total investment activities in Europe, annually [1].

In the USA, 45% of the total machinery and equipment expenditures are transacted by leasing activities [2].

According to statistical data in 1994, the leasing agreements among the world's largest 87 leasing companies amounted to USD 360.519 Billion [3].

Leasing experience has undergone a remarkable development since the formation of the CIS. Leasing companies have emerged as early as 1992 in the CIS. By 1995, the Leasing Coordination Office was established by the International Monetary Fund in Bishkek, Kyrgyz Republic. During its activity in Kyrgyzstan, the

International Financial Corporation (IFC) approved eight investment projects, amounting to USD 48 Million, from its own funds, for development of leasing activities. These projects have been targeted to cover a broad spectrum in various fields of Kyrgyz economy. The majority of the funds were used on the gold mining industry project "Kumtor", some funds were spent on manufacturing of packaging materials ("Altyn-Ajydar"), while the remaining funds were allocated to three financial projects ("Demir" Bank, "KIKB" and "FINKA"). In addition, the IFC approved financing for the Regional Fund of Investments to be used for leasing activities with the objective of providing the necessary capital for new and existing small and medium enterprises. More recently, the IFC has made leasing investments in pasta manufacturing company "Akun".

*Based on the above, we can conclude that the development level of Kyrgyz leasing activities is far below that of the world leasing market's norm considering that in 1994 Kyrgyzstan's population was about 1/1000 of the world's population, USD 48 Million spent on Kyrgyz leasing by IFC was insignificant in comparison to the USD 360.519 Billion spent by the world's largest 87 leasing companies.*

The Kyrgyz Republic has succeeded in international leasing with countries beyond the borders of the CIS (unfortunately, for now, it is only for importing of equipment). However, as far as international leasing with the CIS concerned, it needs further development.

A comprehensive program for promotion of domestic and foreign investments into Kyrgyz economy, approved by the Kyrgyz Parliament, through Decree No. 714 (on November 16, 2001), emphasizes the significance of developing international financial leasing for the purpose of attracting investments from the CIS and to conduct joint investment activities.

**A strategic objective of the Kyrgyz Republic is to achieve a level of development in leasing that provides 15-20% of total investments, with a significant share of leasing activities coming from international leasing with the CIS.**

Leasing is a special interest to entrepreneurship in the CIS. Entrepreneurial activities in the CIS can be promoted by equipment leasing projects in the following fields: farming/agricultural technology, road and building construction technology, trucking industry, aviation technology, river and sea transportation, forestry, wood

processing and paper manufacturing industries, textile manufacturing, automotive industry, metallurgy, pharmaceutical, petrochemical and oil industries [4].

Therefore, equipment leasing in the above mentioned fields needs strong governmental support both on national and intra/inter CIS levels.

Considering the overall experience in leasing and the specifics of current economic reforms, in our opinion, an efficient development of international leasing in the CIS could be achieved by the following actions:

1. Improvement of legal base for leasing cooperation. As we understand, efficient international leasing in the CIS requires agreed upon standards for preparing and accepting legal documents suitable to meet the specific needs of all CIS members; including, leasing laws, law enforcement recommended by the CIS Inter-Parliamental Assembly, adaption of the UNIDRUA Convention resolutions, preparation of bi and multilateral documents aimed to promote the development of international leasing in the CIS.

2. Establishment of CIS-wide taxation system favorable for leasing activities. In particular, leasing

companies need transparent and efficient taxation system that levies taxes only on margins.

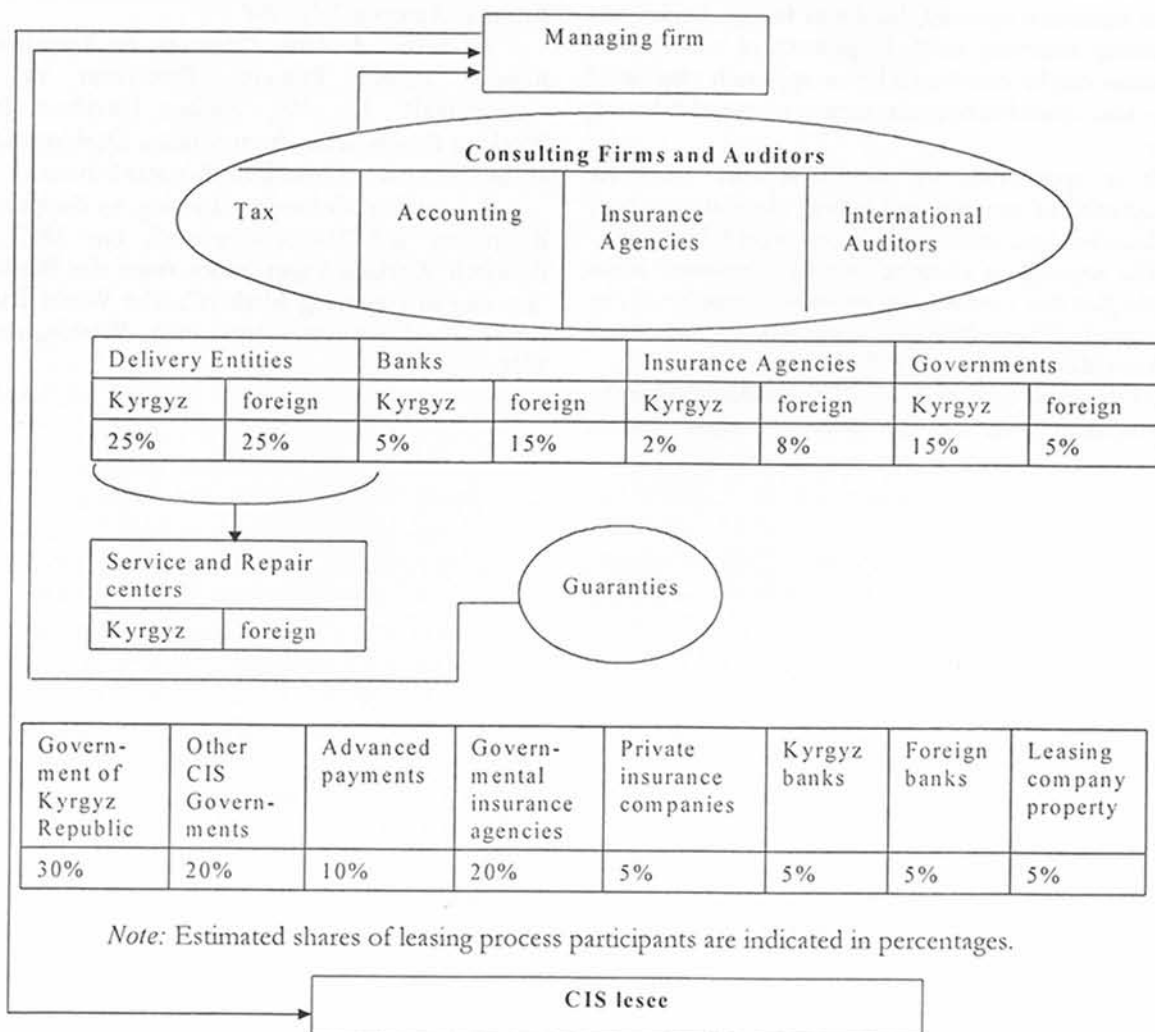
3. Enactment of tax policies, aimed to stimulate investors providing both financial and manufacturing equipment leasing. Significance of these policies stems from the fact that the CIS market is traditional and extremely high in equipment demand.

4. Provision of favorable custom regulations for leasing activities in the CIS economic space, including fully or partially waived custom duties on items designated for leasing (especially, custom tariffs on equipment which is not manufactured locally).

5. Utilization of fast amortization method on a property designated for leasing.

6. Establishment of an international fund by CIS governmental and private investments with the objective of promoting the development of leasing. Financing from this fund should be earmarked for investments in leasing projects that could significantly impact manufacturing processes and entrepreneurial activities in the CIS.

**Draft model for creation of equipment leasing companies in the CIS**



8. Provision of deductions, in the form of internal investment credits, for CIS banks engaged in leasing activities.

Implementation of major leasing projects aimed to deliver manufacturing technology, equipment and assemblies is significantly constrained by the lack of sufficient funds in the CIS. **This prevailing condition could be improved by the active participation of interested parties with the objective of creating leasing companies and attracting additional investments from countries beyond the borders of CIS.**

Our proposed draft model that can assist the establishment of equipment leasing companies is shown below:

Our proposed model indicates that such companies can be created with funds from industrial, banking and insurance institutions with additional capital made available by some of the Commonwealth Independent States. Considering the integral capital structure of leasing companies, their activities must be in synchronization with merchandise deliveries both from the CIS and countries beyond the CIS.

At the same time, it is important to conduct larger leasing activities with joint guaranties of our government, other interested CIS governments, government and private insurance agencies, local and foreign banks, and the leasing company itself. In percentage terms, these guaranties can be distributed by an approach capable of taking into consideration the nature of specific leasing activity.

It is appropriate to note here that successful development of international leasing depends on both local business institutions and various other CIS entities.

*The urgency of creating leasing companies stems from the fact that currently no business is capable to pay for its needed technology and manufacturing equipment which could cost millions of U.S. dollars.*

At the same time, one should not underestimate the opportunities given by the already existing leasing

companies to conduct international leasing activities in the CIS economic space.

In conclusion, the above mentioned actions aimed for development of leasing in the CIS can not only promote the rejuvenation of manufacturing industries, but also stimulate integration of the CIS.

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