Jordan: Financial leasing and its stimulation of the national economy

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Financial leasing is a relatively recent tool in the financing of economic projects in Jordan. Whatever their nature – whether industrial, commercial or agricultural – such projects require modern equipment for the exercise of their business and activities. Relying on traditional means of financing could create obstacles for the progress of these projects and, because of the high prices of the machinery and the equipment, traditional financing will require that these projects freeze part of their capital, or provide high-valued guarantees that could hinder the work of the projects as well as expose them to bankruptcy in extreme cases.

Financial leasing was therefore introduced in major projects to provide the necessary funds to ensure continuity and the modernization of processes, through technological progress.

The essence of financial leasing is to enable the projects to get the equipments and devices needed without bearing the costs of buying them all at once, and in a manner that guarantees the rights of the lessor by retaining ownership of the equipment until its value is fully paid. As such, financial leasing can be considered an active legal tool in financing all forms of projects.

How Financial Leasing Works

In practice, a Financial Lease comes into play when one party (who will be the lessee) desires to make use of machinery and equipment needed for the exercise of their business, or when they need to modernize the equipment they already posses while not having the money necessary to purchase such equipment. The lessee will present their project to one of the institutions specialised in financial leasing. If the institution approves the project for financing, they entrust the lessee with the negotiations for the purchase of such equipment and appliances and leave determination of the specifications and delivery of the equipment to the lessee and the provider. The equipment is then purchased in the name of the financial leasing institution (lessor), which in turn leases the equipment to the lessee for a limited period, in exchange for an agreed payment. At the end of the leasing term, the lessee will have three choices: to buy the equipment, return it upon the expiry of the contract, or re-lease it for a further period.

The Benefits of Financial Leasing

The importance of financial leasing in economical terms is that the lease, as a contract, encourages its beneficiaries to take on new projects, or upgrade their existing projects by backing them with modern instruments and highly developed equipment. As a result, this contributes in turning the economical wheel by:

1. Encouraging investments: Investments contribute to economic growth, thereby allowing small and medium enterprises to undertake a wide range of new and existing projects and giving them the opportunity to finance their equipment. These projects constitute a broad basis in the economical

growth of any country with limited sources of funding. Financial leasing, being one of these means, opens the door for these projects.

2. Contribution to economical growth through direct credit and employment of savings to finance project investment. As a result, this leads to a boost in the economic development in the country by increasing the productivity of projects.
3. Reducing the effects of inflation on the cost of expansions or the establishment of new projects, as financial leasing eliminates the waiting periods required by the projects to provide for their financial needs, whether by the composition of reserves or by the floatation of stock to raise capital. This in turn avoids the higher costs of expansion or new projects, compared to the cost that would have been necessary to obtain equipment without the wait through financial leasing.
4. Stimulation of the competition between the different sources of funding, leading to a reduction in the cost of projects. For example, a project will not have to resort to mortgaging its assets fully in order to get the funding needed for the exercise of their activity. Mortgaging requires expenses for registration, in addition to the fact that it limits the ability of the project to borrow extra funding in cases of emergency expansions.
5. Financial leasing contributes to the regularity with which equipment can be updated, which can result in economic advantages, especially in the constantly changing worlds of medicine and technology.

The government of the Hashemite Kingdom of Jordan recognised the advantages of financial leasing on the economic development of the country and its positive impact on the real lives of its people. Therefore, organising financial leasing within a legislative framework was considered an important step and Law No. 16 of 2002, which included 25 articles that deal with financial leasing, was passed. The adoption of this law was a positive move that led to the acceleration of national economic growth by encouraging individuals and companies to utilise the specialised institutions and enter into financial leasing contracts.