

ANNEX US3 – LEASING VS. PURCHASE¹

Procurement option

When the Recipient buys an item, the purchase price is for the entire cost of the item. The Recipient is free to use that item as much as it wishes and for any purpose for which the item was designed. Usually in donor-funded programmes, the Recipient pays the full price for the item at time of purchase and the only other payments are for maintenance and insurance, if applicable.

The Recipient owns the item and can dispose of it when it desires and how it desires, with the donor's approval, if required. For example, if a vehicle is purchased and the full price paid at the time of delivery, the Recipient is only responsible for keeping the vehicle maintained and insured and has no additional obligations to the seller. The Recipient can use the vehicle as much as it wants without restrictions, and when the car is no longer required, it can be sold or transferred to another use.

Leasing option

When the Recipient leases an item, the Recipient is paying only for a portion of time in the life cycle of the item. However, the lease usually restricts how the Recipient can use the item and the lengths of time it is available for use. There might be penalties for additional usage over the allowed amounts. For example, leasing a photocopier might restrict the Recipient to 500 copies per month and impose a charge of 10 cents per page for any copies above 500 copies. There are on-going monthly payments for the lease and the leasing company might impose other fees. At the end of the lease period, the Recipient returns the item to the leasing company and has no responsibility for disposition.

Issues to consider in deciding lease or purchase:

How long will the item be used?

Will it be used for the industry established standard life cycle, for example two years for a laptop, three years for a desktop? If the item will be used for longer than the industry life cycle, it is a better option to procure the item than to lease.

What is the amount of funding available?

If funds are restricted and the item is needed for a short-term period, the leasing option might be preferable.

The total cost

Ultimately, data must be gathered on the total cost of both options before a decision is made. The total cost must include all costs including inception fees, bank fees, financial costs, contract termination penalties, the expected length of time the item will be used and the extent to which the item will be used (there are sometimes restrictions on use of an item in a lease with added cost for use beyond the restrictions).

Disposition requirements

It will be easier to dispose of a leased item by returning it to the lessor

Short-term costs

The short-term monthly cost of leasing is usually significantly less than the cost of buying.

Medium-term cost

The medium-term cost of leasing is nearly the same as the cost of buying. This is assuming the buyer sells/trades the item at the end of its useful life and the leaser returns the item to the lessor at the end of the lease.

Long-term costs

¹ Source: InsideNGO workshop on USAID Rules and Regulations London 2012 adapted by DCA

The long-term cost (more than three years) of leasing is always more than the cost of buying. This is assuming the buyer keeps the item at the end of its useful life and the leaser extends the terms of the lease or originally leased the item for an extended period.

The following is an example of a flow chart that is useful to decide on leasing vs. procurement.

