

Strengthening the Leasing Sector

Address at the International Conference on Small and Micro Leasing held at Karachi on
November 2, 2000

**Mr. Chairman and Members of the Leasing Association,
Your Excellency the Ambassador of Switzerland, Chairman SECP,
Distinguished Ladies & Gentlemen,**

It gives me immense pleasure to be present at this first International Conference on small and micro leasing being held in Pakistan. The focus of the Conference on small and micro enterprises is timely as this sector is receiving high priority from the Government. The small and micro enterprises can play a crucial role in poverty alleviation and the Government has taken many decisions in this regard, foremost amongst which has been the formation of Khusali Bank – a bank specifically established for micro enterprises.

Leasing has established itself as a well recognised mode of financing in Pakistan and I am pleased to see its progress in the last decade. From a few leasing companies in the early 90s the number has increased to over 30 and the investment volume has grown from about Rs. 9 billion in 1995 to Rs. 29 billion in 1999. By extending medium term credit facilities to the industrial and service sectors, the leasing companies have played an important role in capital formation. Being a relatively young industry in Pakistan, the penetration of leasing at about 6% of fixed private capital formation is still below the level of other developing countries where it ranges between 10 – 15%. Thus the potential for growth is good and I hope the leasing companies will meet the challenges of the economic development taking place in our country.

I will show how the economic agenda of the present government is linked to the contribution the leasing sector can make.

First, improved governance is intended to lay the foundations for a new economic order in which hard work, business ethics and competitive business practices take the place of connections, concessions, tax evasion, loan default and a rent seeking environment that has been prevalent in this country for a long time. This new entrepreneurial class will need the financial assistance from financial institutions such as the members of Leasing Association of Pakistan.

Second, macroeconomic stabilisation efforts have been successful but need to be sustained over time and provide the impetus for revival of economic growth. Industrial and services growth have not been upto our expectations. Here again the leasing sector can help promote investment in the industrial and services sectors.

Finally, one of the tough challenges the present government has taken upon itself explicitly is poverty alleviation. Empirical evidence from all over the world shows that Micro enterprises and SMEs – the theme of this Conference – can prove to be potent agents for reducing poverty. I am sure that this Conference will make concrete recommendations and measures to support micro leasing and SMEs.

For the leasing sector which is normally faced with a high risk, high reward situation it is imperative to reduce the risks and for this reduced level of risk maintain high rewards. To be able to achieve this, you have to diversify across sectors, diversify across geographic areas, diversify across size of the enterprises and bring forth new products tailored to the growing needs of the economy.

In this regard, I will submit four areas of diversification for your consideration.

First, the Export Development Strategy has identified seven new thrusts for export development – gems and jewellery, fruits and vegetables, I.T. , fisheries, light engineering goods, granite and marble, chemicals. The textile vision 2005 has identified value added goods with textiles such as ready made garments as the main

area of emphasis. In view of the characteristics of these sub-sectors the supply of lease financing to these firms should help reduce the market risk as their goods are destined for a much larger world market. The correlation in the movements between domestic market and the world market is not that high.

Second, the leasing activities should spread themselves outside the large urban centres such as Karachi and Lahore. There are formidable new business opportunities at places such as Sialkot, Daska, Gujranwala, Gujrat, Peshawar, Faisalabad, Hyderabad and Quetta. The de-concentration away from the main centres would help develop new client base and thus reduce credit risk, which otherwise is quite high if the portfolios is concentrated in a narrow client base limited to few cities only.

Third, as most of you know, the government's four priority areas of economic revival are agriculture, SMEs, Oil and Gas and IT. At least one of these areas – SMEs has a natural fit with the leasing sector. SMEs have a higher capacity for labour absorption, they cater to the demands of the average household, most of their products are based on domestic raw materials and their repayment record is much better than that of the large borrowers. The payment risk of leasing companies is reduced if the SMEs are included as the dominant borrowing class.

Fourth, the leasing sector has done very useful service to the economy but it has focussed mainly on industrial equipment and automobiles. There is a need to go beyond this narrow focus and develop new products and services which can meet the emerging demands of the economy. Of course, those within your industry who pioneer these products will earn higher returns in the initial stages but as these products become standardised and widespread the risks will become realigned with rewards.

I would like to bring to your attention once again a theme which I have been advocating for past one year. There are too many financial institutions in this country with weak capital base, rudimentary technology, inadequate human resources and managerial skills and a low capacity to absorb unanticipated exogenous shocks. I would therefore very much like to see fewer but stronger financial institutions which can mobilise and allocate resources in a cost effective and efficient manner. This will require voluntary mergers and consolidation both horizontally and vertically. This will also pave the way for development of exports of financial services from Pakistan to the rest of the developing world resulting from liberalisation under WTO. We, the regulators are ready to engage in a dialogue.

The Swiss Agency for Development and Cooperation is doing commendable work in the micro sector in the NWFP and I thank them and the Swiss Government for this initiative. I hope the programme will be successful and that it would lead to extension of such schemes in other parts of Pakistan, both by SDC and other institutions.

I thank the joint sponsors of the Conference – The Leasing Association of Pakistan and The Swiss Agency for Development and Cooperation for their effort in focusing the attention on the small and micro sector and for getting experts from Pakistan and abroad to share their experiences.