

IDLC

Industrial Development Leasing
Company of Bangladesh Limited

LEASE FINANCING IN BANGLADESH



UNITED LEASING COMPANY LIMITED

PROGRESS IN PARTNERSHIP

The Daily Star

Special Supplement

October 21, 1993. Designed and planned by Anupam Publicity Agency

LEASING INDUSTRY IN ASIA

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IDLC of Bangladesh Ltd.

Leasing is now a widely used source of financing in the developing countries of Asia. The leasing industry is not yet the largest capital market product, but it is growing and one day may become so. The concept is becoming popular almost all over and very soon leasing will become a centre-court performer in the financial sector. In Asia, it is operating at different stages of maturity consistent with the prevailing economic and

sector for decades. But their lack of dynamism coupled with the failure in recycling the funds invested, deterred the economic development as envisaged. IFC, ADB, and other several other international financial institutions then placed considerable attention on the development of leasing companies and channelling their funds to the small and medium-sized enterprises and industries. From a macro perspective, leasing companies have played an important role in these economies since leasing is closely associated with productive sectors, and with small and medium scale enterprises. By providing such entities with an alternative source of medium term finance, the leasing industry facilitated growth in investment and capital formation.

Size of the leasing industry

Asian leasing business registered a very high growth as most Asialease members reported a very favourable increase in the business in the 1990s. The volume of leasing business increased by 18.7% in 1990 totalling an annual volume of US\$ 77.5 billion. Compared to 1989, in 1990 Asia also gained 1.8% more in world market share in the leasing industry of US\$ 331.71 billion.

Growth of the Asian leasing market

The Japanese market, the

second largest in the world after the US, reported a healthy 19% increase in new business in 1990. Japanese leasing business dominates Asia because it enjoys a sizeable and growing domestic leasing industry. The Korean leasing industry doubled its volume in 1990 and now ranks eighth in the world. It grew by 96% in 1990. The Hong Kong industry not only grew but also continued to facilitate the cross-border leasing market. Other Asian countries demonstrated impressive performance. Thailand grew by 75%, Sri Lanka by 30%, Singapore's growth was 23%, Indonesia's growth was 23% and Malaysia grew by 17%.

ASIALEASE-The future

Statistics show that Asia shows some of the highest economic growth rates and its leasing companies are to benefit by participating in the high growth of investments. The leasing industry has a genuine contribution to make in financing capital equipment in the region, in much the same way leasing contributed to the development in North America and Europe. With this favourable condition, leasing industry will tend to prosper in the Asian countries in the future.



financial situations in the developed and developing nations. As such, the environment including the variety and degree of competition also differ in these countries.

Introduction of leasing in the Asian market

Leasing entered the Asian market in the 1960s with Japan as the pioneer in the field. Later, between 1970 and 1990, Asia witnessed the emergence of many leasing companies to meet the growing demand for investible funds. The International Finance Corporation (the private sector financing arm of the World Bank) alone has helped establish ten equipment leasing companies in Asia including one in Bangladesh. Other international Financial Institutions such as The Asian Development Bank, The Commonwealth Development Corporation also participated in the process.

Leasing companies' contribution to the economic development

The leasing companies came into the scenario when the capital markets of the developing countries in Asia needed a boost. In these countries, the existence of long term fund lending institutions (euphemistically called DFIs) has been confined almost totally to the public



MESSAGE FROM ASIAN LEASING ASSOCIATION

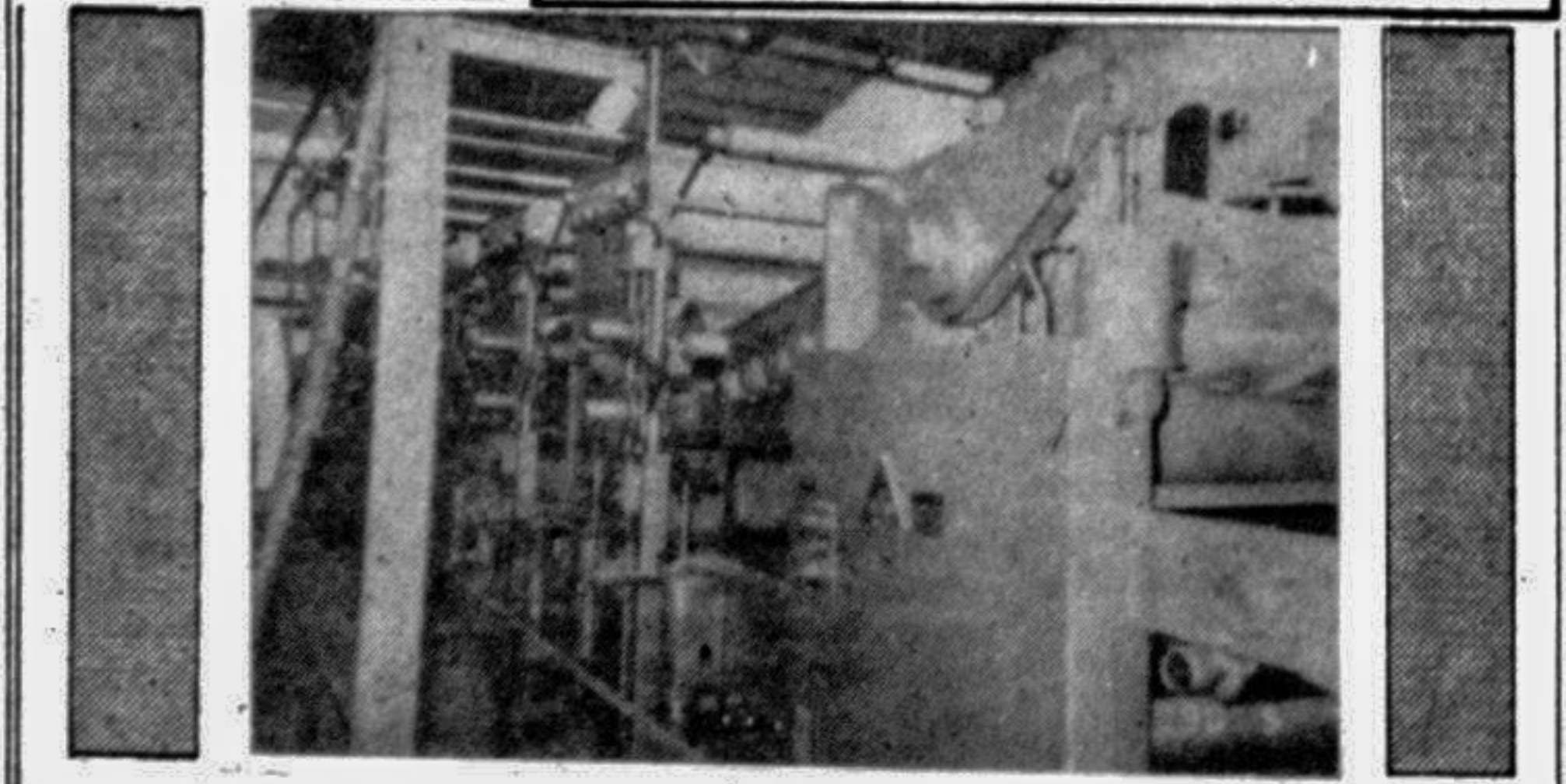
It is indeed gratifying for me to send this message on the occasion of the Seminar on Lease Financing conducted for the first time in Bangladesh. This demonstrates firm commitment of Bangladeshi entrepreneurs to join the global movement in capital financing. I welcome your endeavours and ambitions.

The lessors — leasing businessmen in Bangladesh — will be delighted to learn that although the leasing business globally experienced a slow growth of only 9.7% in 1990, the Asian lessors succeeded in increasing the volume by 18.7% amounting to US\$ 77.5 billion. As a result Asia's share in the world lease market increased from 21.6% in 1989 to 23.4% in 1990. Asialease is striving hard to keep up with the progress.

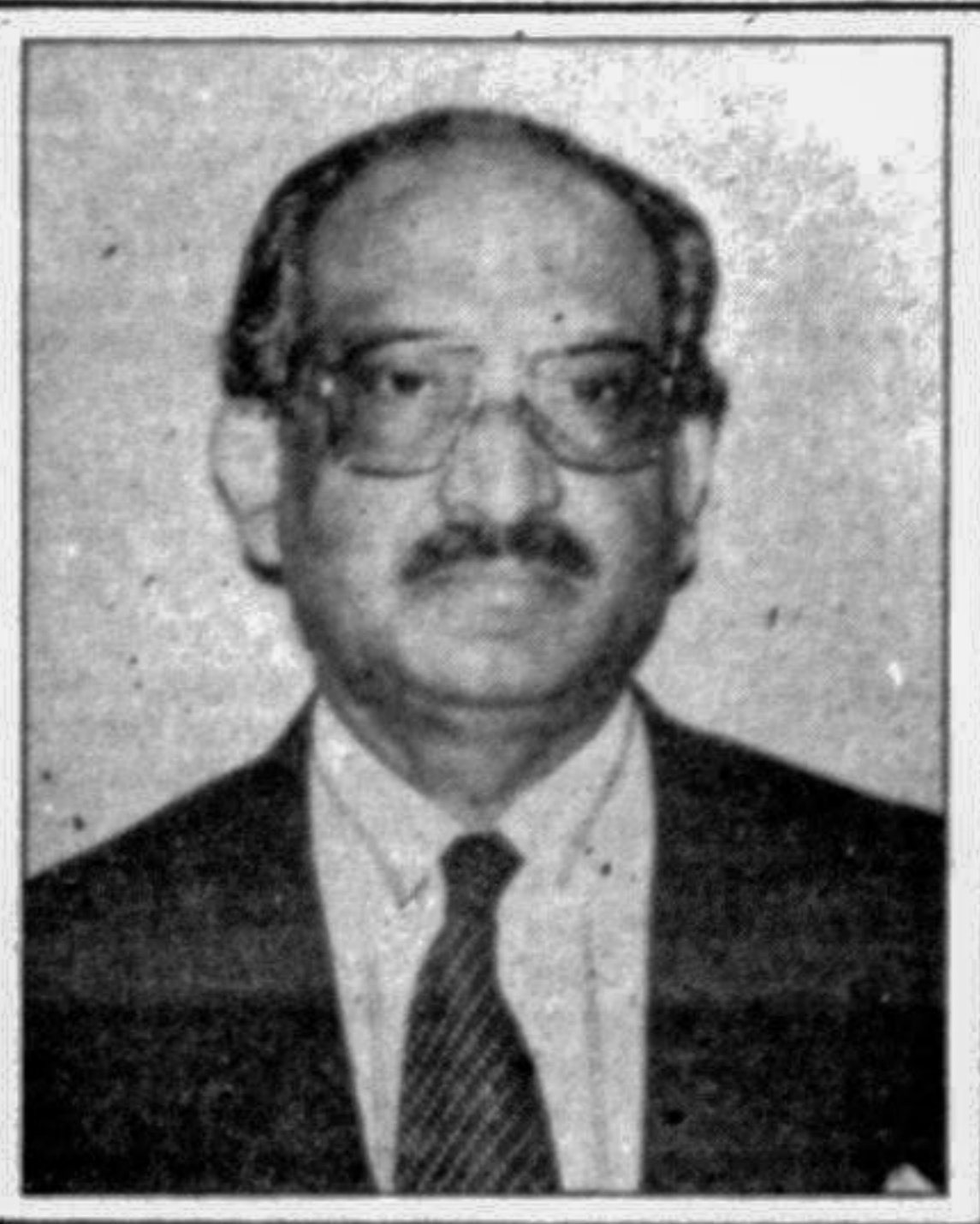
I take this opportunity to congratulate the Industrial Development Leasing Company (IDLC) and United Leasing Company (ULC), who as pioneers in the leasing business, are striving hard to meet the growing needs of capital finance in Bangladesh.

I wish every success to the Leasing Seminar in Bangladesh.

Abdul Latif Bin Yahaya
President
Asian Leasing Association



Textile Machinery leased by Industrial Development Leasing Company of Bangladesh Ltd.



MESSAGE

I am glad to know that the Industrial Development Leasing Company (IDLC) and United Leasing Company (ULC) are organizing a Seminar on 'Lease Financing in Bangladesh' on 21st October 1993. The Seminar I understand first of its kind in Bangladesh, will be held on the occasion of the 26th Governing Council Meeting of the Asian Leasing Association.

Lease financing has become one of the most dominant sources of capital financing around the World. Bangladesh government is also going to promote leasing business to help the process of industrialization. I welcome the endeavours of the Industrial Development Leasing Company (IDLC) and United Leasing Company (ULC), who, in the meantime, as pioneers in the leasing business in the country, are helping the industrialization process in Bangladesh. Also, I thank the International Finance Corporation (IFC) of World Bank, Asian Development Bank, Commonwealth Development Corporation, Korea Development Leasing Corporation and other International financial institutions for playing a key role in shaping leasing business in the country.

I believe Bangladesh provides a very conducive environment for leasing business and I hope potential entrepreneurs will come forward to join the industry.

I wish the seminar on 'Lease Financing in Bangladesh' a success.

(Md. Saifur Rahman)
Minister
Ministry of Finance
Government of the People's
Republic of Bangladesh



MESSAGE FROM INDUSTRIAL DEVELOPMENT LEASING COMPANY AND UNITED LEASING COMPANY

We are very pleased that a seminar on Leasing is being organized for the first time in Bangladesh to be participated by the entrepreneurs of the country, top level executives of different banks, financial institutions, and members of various chambers.

Leasing as an alternative source of financing was introduced in Bangladesh in 1986 and since then it has made significant progress in assisting the private sector industries mainly in their balancing and modernizing programs. Leasing in Bangladesh, now includes in its portfolio diversified investments, spreads among various industries ranging from textiles, leather to food and allied, engineering, shipping, transportation, etc.

The seminar will also be participated by distinguished members of the Asian Leasing Association, representing eleven Asian countries some of which have already been in the leasing business for over a decade. We look forward to sharing their wisdom and experience which will enrich our knowledge and benefit us greatly.

Being the pioneers of the leasing business in Bangladesh, it is a great honour for us to organize and hold the Asian Leasing Association Seminar, the first of its kind in Bangladesh.

We wish the seminar a success.

DEREK ELSE
CHAIRMAN
IDLC OF BANGLADESH

KAFILUDDIN MAHMOOD
CHAIRMAN
UNITED LEASING COMPANY

LEASING - A NEW INSTRUMENT OF FINANCE IN BANGLADESH

A. Rouf

Managing Director
United Leasing Company Limited

Economic Background
Bangladesh is gradually adopting measures to utilize its financial sector so that it can stimulate industrialization and investment. Foreign Exchange and investment related regulations have been relaxed to encourage foreign investment. Interest rates have been lowered to provide impetus for increased investment and accelerate industrialization. Economic indicators are showing some developments.

In the fiscal year 1992-93 GDP growth rate increased to 5% compared to 3.9% in the preceding year. Inflation was curbed and contained at 3%. The industrial sector recorded a growth of 8.6%. Export earnings increased by 25.4% and major contribution was made by the Garments Industries (52.4%). The country is trying to bring about changes to accommodate economic system relying on market forces. This is not an easy target to achieve but one can feel encouraging ripples in the system already.

Introduction of Leasing in Bangladesh Market

Leasing is an alternative source of financing and this new technique of credit packaging was introduced in Bangladesh by the two joint venture companies namely Industrial Development Leasing Company of Bangladesh Limited (IDLC) and United Leasing Company Limited (ULC). In 1986, IDLC was established in collaboration with IFC, KDLC, and other sponsors pioneering the entry of lease financing in the country. Then in 1989, ULC was established with the participation of ADB, CDC, the Lawrie Group Plc of UK and other institutions. The emergence of the leasing companies since their inception have created awareness about lease financing and definitely made significant progress with the objective of assisting the development of productive enterprises and industries. Leasing can be defined as a Contract between a lessor (the owner of the equipment) and a Lessee (the user of the equipment) wherein the right to use an asset is transferred by the lessor to the lessee for consideration in the form of rentals.

The lessor acquires the asset on behalf of the lessee and in return the lessee makes fixed monthly payments which are based on the cost of the asset over an agreed period. Although during this period the lessor owns the asset, it is for the lessee to use it as an economic owner.

Leasing is fairly a new concept in Bangladesh and it provides finance for acquisition of asset as an additional source. The procedures adopted in leasing is fast, flexible with minimum documentation. What leasing offers is not money alone, but value added to it in the form of assistance in acquiring the asset itself and other services. In a situation where the entrepreneur intends to acquire an equipment urgently for balancing and modernization and without straining the resources otherwise available, leasing provides an ideal opportunity.

Investment Portfolio
Wide use of lease financing in an economy pre-supposes a certain degree of industrial and general economic development. Notwithstanding the present situation, the economy as a whole appears to be advancing towards that direction. The economic indicators and the increase in the volume of lease financing supports the view that investment is increasing though at a very slow pace.

The leasing industry in Bangladesh, now, includes in its portfolio diversified investments spread among various sectors ranging from Textiles, Leather to Food & Allied, Engineering, Shipping, Transportation, etc. The lion's share of the lease financing was utilized by the textiles and garments sectors where a lot of activity is currently taking place. The following table gives the sector-wise break-up of lease contracts in 1992 :

cost are all included in the acquisition cost and thus may be "financed" which is not possible with equipment acquired from other financial institutions.
d. Lease finance guards against obsolescence risk.
e. The most important reason why leasing is preferred to loan finance is that rentals are treated as revenue expenditure and are entirely deductible for tax purpose.
f. The appraisal and documentation process are



SECTOR	NO. OF LEASES	EXPOSURE IN MILLION TAKA
Jute, Ceramic, Leather	9	11.54
Textiles (Spinning & Weaving)	10	65.51
Textiles (Dyeing & Printing)	9	71.05
Textiles (Garments)	32	64.57
Engineering	2	8.67
Cement and Construction	10	17.44
Chemicals & Pharmaceutical	13	35.67
Food & Allied	20	50.30
Services	45	49.30
Others	22	27.48
TOTAL	172	404.53

Advantages of Lease Financing

Leasing companies are borrowing funds from both local financial institutions and foreign sources like IFC, ADB, and CDC. Repeated lowering of the country's overall bank rate is putting competitive pressures on the leasing companies. However, lease financing has some distinctive advantages over other conventional modes of financing. The major ones are given below:

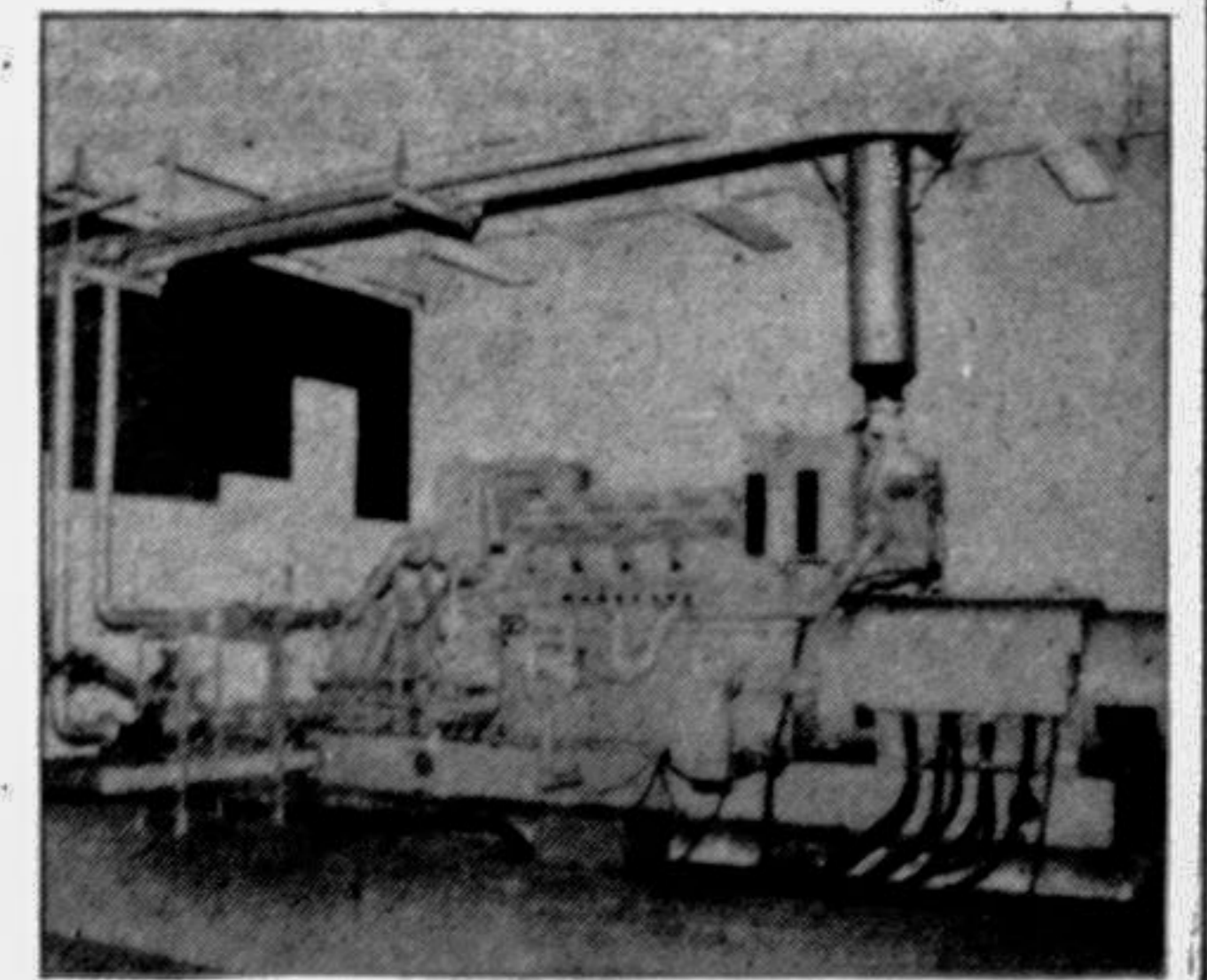
- Although leasing is more expensive than its competitors, flexible terms and conditions more than offset the price difference; leases in many cases are custom tailored in the sense that upon specific requests from potential lessees, rentals may be structured to match the cashflow of a particular company.
- By requiring a smaller cash outlay, leasing results in conservation of working capital for the lessee.
- In lease-financing, incidental acquisition costs such as freight, marine insurance and installation

simple, prompt and convenient which ensures quick implementation of the project.

Future Prospects

It may be expected that various deregulating measures along with the endeavours to change the economy with vitality and hope will act along to achieve the objective of accelerating industrialization and investment. Once the inertia is overcome, and greater political stability is ensured, the economy has the capability of demonstrating larger growth figures and is likely to follow the trends of the developing South-East Asian countries.

The economy will then gradually bear a fast growing industrial sector supported by a more sophisticated financial system. In the backdrop of this there is no doubt that leasing would continue to grow and make substantial contribution toward country's economic development in the coming years.



A Gas Generating Set leased by United Leasing Company Ltd.