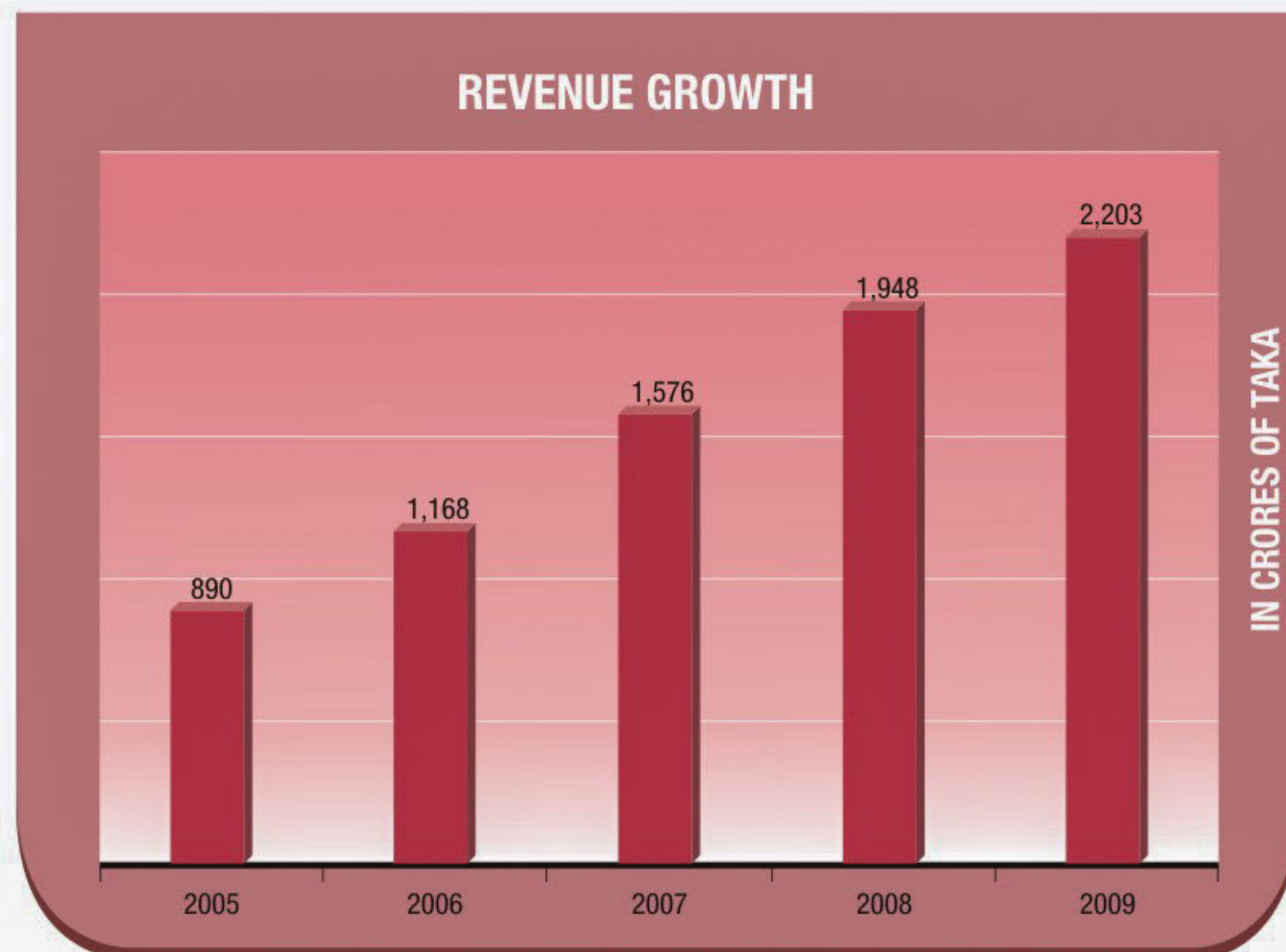
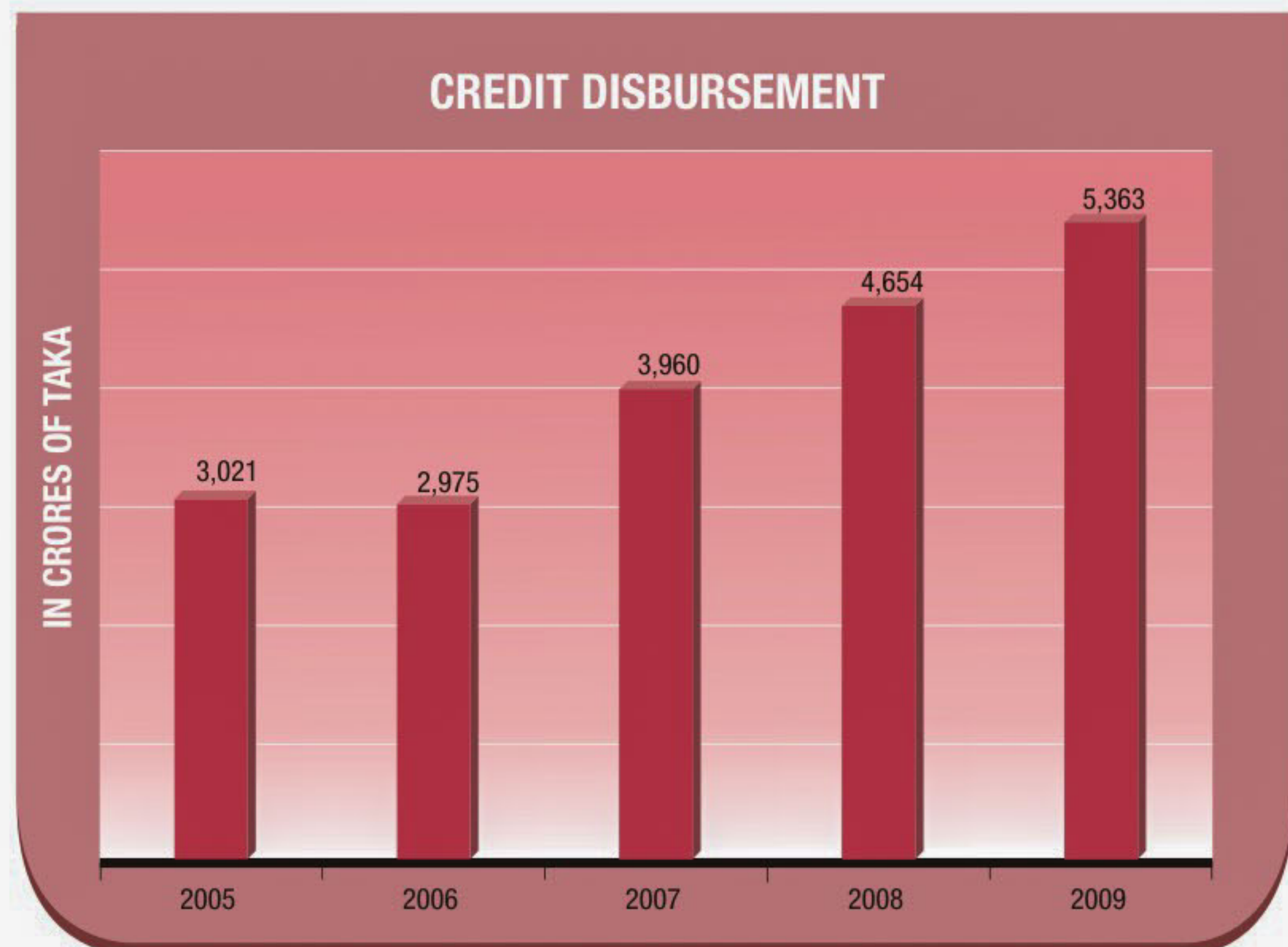


Build Your Wealth



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Paradigm shift in leasing



SAJJADUR RAHMAN

HOW many people, do you think, know that leasing and finance companies have products and services similar to those of a bank? These companies have deposit and credit products, which are understood by people to be the core business of banks. Leasing companies also undertake stockmarket operations, including merchant banking and brokerage services, just like banks.

The finance companies, known as financial institutions (FI) or non-banks, offer retail products such as car loans, mortgage loans and credit cards. They also present SME (small and medium enterprise) financing. Yet, they are not known as banks.

For leasing companies, these are not their core activities. They are supposed to focus on lease financing rather than taking on banking, according to the Financial Institutions Act, 1993.

There are 29 FIs in Bangladesh, of which, 21 are listed on the stock exchanges. These institutions have so far disbursed Tk 18,000 crore. Areas of investment include, textiles, garments, transport, real estate and hous-

ing, power and energy, and services. But in recent years, the major source of income (60 percent) for the FIs was from the stockmarket.

Top executives of these companies say the drift to other businesses was "valid".

Bangladesh Leasing and Finance Companies Association (BLFCA) data show lease financing has been declining continuously. Of their total investment portfolio, 80 percent was dedicated to leasing five years ago. It came down to 55 percent in 2009 and 40 percent at the end of 2010.

Now, the leasing companies earn more from capital market operations than their core business, for withdrawal of the depreciation allowance and some other measures, including tax issues, said industry insiders.

"We want depreciation allowance to be reintroduced, for the sake of saving this industry from possible collapse," Mafizuddin Sarker, president of the association and managing director of LankaBangla Finance, told The Daily Star.

The main product of these companies is lease financing. It is considered a good solution to meet requirements of capital machinery and working

capital, which also entails income tax benefits for both the lessee and lessor.

The government withdrew the depreciation allowance on lease assets in the fiscal budget for 2007-08. But the system exists in our neighbouring countries, including India and Pakistan.

Such allowance means that on all leasing transactions, the owner of any asset should be entitled to a depreciation allowance on machinery, plant, vehicle or furniture given to a lessee.

National Board of Revenue officials said the depreciation allowance was withdrawn, considering adoption of the International Accounting Standard-17, under which, leased assets are shown as receivables, not fixed assets, in the books of accounts of a lessor.

"We understand this is merely an accounting regulation and taxes are always calculated based on regulations that may vary with accounting practices," the BLFCA chief said.

Asad Khan, managing director of Fareast Finance and Investment, went a step forward with the argument. "Leasing will be a forgotten product in five years if the govern-

ment doesn't withdraw the ban on depreciation allowance."

His company's present exposure to lease funding is only 5 percent, which was 75 percent a few years ago.

"We are forced to invest in other areas (stockmarket) because at the end of the year, our shareholders want profits," said Khan. "We are also drifting away from our core and specialised business for a scarcity of energy."

Some other factors hurting the growth potential of the industry are the high tax rates, double taxation in case of subsidiaries and limitation on extending credit facilities to subsidiaries. Restriction on collecting long-term deposits is also seen as a barrier to the industry.

Currently, the tax rate for banks and non-banks is the same at 42.5 percent.

"It's not practical to keep the banks and leasing and finance companies within the same tax bracket since a major portion of bank revenue comes from fee-based earnings," Sarker said.

He said the cost of funding by leasing is significantly higher than the banks. Banks are the main source of funds for the financial institutions.

The association also proposed that

the dividend receivable from a subsidiary or associate company should be exempted from further taxes, provided that the subsidiary company has paid income taxes once on its earning.

"Double taxation (on the mother company and subsidiary) places our tax burdens at over 50 percent," said the BLFCA president.

According to the Financial Institutions Act of 1993, no FI shall expend or use more than 25 percent of its paid-up capital for a subsidiary.

For example, if LankaBangla has a paid-up capital of Tk 100 crore, it cannot form a subsidiary (merchant bank) for more than Tk 25 crore in paid-up capital.

"This is not feasible because a company of Tk 25 crore cannot handle hundreds of crores of taka," said Sarker, also the managing director of LankaBangla Finance.

An FI cannot take deposits for more than three months and isn't entitled to receive government deposits, which the industry players said is a barrier to growth of the sector.

"We have to go for multi-products to sustain," said Sarker.

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Chart a master plan for the way out

President of Bangladesh Leasing and Finance Companies Association says banks make the market risky

SAJJADUR RAHMAN

THE capital market is a non-bank product that has supported financial institutions (FI) to enter stockmarket trade, says Mafizuddin Sarker, president of Bangladesh Leasing and Finance Companies Association (BLFCA). "Some FIs, as investment bankers, can be specialised on the capital market," said Sarker who is also the managing director of LankaBangla Finance.

According to him, the exposure of the FIs to the capital market is not at risk. He blamed the banks for making the market risky.

"Banks' exposure to the capital market will be several times higher than the FIs," said the BLFCA chief. Sarker was asked to shed light on the ongoing situation in the stockmarket.

The merchant banking wing of LankaBangla Finance is believed to be one of the major players in the stockmarket. Now it has become a subsidiary organisation named 'LankaBangla Securities'.

Of the 29 FIs, six have merchant banking operations, while total investment portfolio of the FIs would stand at around Tk 2,500 crore, according to Sarker.

He urged the regulators -- Bangladesh Bank (BB) and the Securities and Exchange Commission (SEC) -- to undertake long-term plans (1-2 years) to address the situation.

"Both BB and the SEC should undertake master plans to stabilise the stockmarket," he said.

He said banks and FIs should be asked to limit their exposure to the capital market within a timeframe of 1-2 years, not in two months.

Citing an example, if all the FIs withdrew their investment, say Tk 50 crore each, or a total of Tk 1,500 crore, it would impact the market badly, he said. The situation would be worse if the banks also took away their investment, he added.

"But it cannot be flexible and without deadlines, as it is now," said the BLFCA president.

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Mafizuddin Sarker

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