The role of lease financing in bangladesh

Countries, Bangladesh

Introduction Lease financing is comparatively a new concept in the financial sector and has got recognition as aninnovative source offinancefor accelerating the pace of industrialization as well as economic growth of Bangladesh. Leasing companies have registered substantial growth in lease financing during the year 1985through 1994.

Since 1995 to date, growth in lease market has significantly slowed down because of sluggisheconomic activities, withdrawal of incentives by the government, imposition of cash resource requirementwith Bangladesh Bank as per Finance Act 1998, expansion of number of leasing institutions, lack of diversification of service and of awareness in business community about leasing etc. Researchers have alsofound that leasing companies need to develop their professionals and should come in the market with newmarketing strategy. Background

Bangladesh is a least developed country in the world with per capita GDP Tk. 11. 284 (USD 230). She suffersfrompoverty, imperfection in both, factor and product market, continuous in equilibrium in the economy, defective administrative structure in both financial and non-financial sector, inappropriate tax structure, heavy dependence on assistance from World Bank including other International Lending Agencies andDonor Countries, lack of capital stock, massive unemployment, political turmoil and unhealthy environmentfor investment.

With the emergence of Bangladesh as an independent country in 1971, the thenGovernment nationalized all commercial Banks with the hope of accelerating industrial growth throughfinancial, fiscal and other supports. Since the inception of independent Bangladesh, Commercial Banks, Development Financial Institutions and Investment Corporation of Bangladesh have been the major sourcesof industrial finance in the country. These Banks were predominately serving the public sector by extendingsupport in the form of long term loan, working capital finance, bridge finance etc. and had limited experiencein trade, commerce and industry.

Due to dearth of experience in investment decision, project financing, recovery of loan and recycle of loan, both entrepreneurs and Banking Financial Institutions coupled withdifficulties at every stage of development and accomplishment which ultimately led to the emergence of many sick industries. The Development Financial Institutions (DFI s) that depend largely on external assistance suffer fromfinancial constrains because of ineffective project appraisal. Imprudent investment decisions, poor recoveryand inability to recycle of loan which resulted in withdrawal of fund by international donors.

As a result of poor performance and withdrawal of external support, the liquidity position of DFI s have declined and abilityof sanctioning fresh loan and of refinancing sick industries reduced. Nationalized commercial Banks areusually reluctant to finance capital expenditure due to higher financial risk and poor recovery and designedto promote the nonproductive sectors. Besides, their loan operation was substantially diminished due toadditional cash reserve requirement imposed by Bangladesh Bank in order to curb inflation. Consequently, genuine industrial clients are affected by their limited access to the long-term local currency loan.

Thiscontention is evident from the fact that the private sector remains in massive default to the DFI s and NCB s, 90% of borrowers to DFI s are in defaulting and recovery rates are as low as 10% of the total recoverableamount. On the other hand, Dhaka Stock Exchange (DSE), the only stock market of Bangladesh is not wellorganized and therefore failed to mobilize sufficient fund to meet the demand of the capital market of thecountry. During 1972-84, public sector financial institutions were found totallyfailurein developing industrialsector and promoting first generation of industrial entrepreneurs