The Challenge of SME Financing:
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Can Leasing Fill the Finance Gap?
- General Principles and Experience from Pakistan

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Bismillah Engineering is a light engineering workshop in the Sohrab Goth area on the edge of Karachi, Pakistan's largest city. Its owner, Habib Ahmed, had always wanted to expand his business by getting more machine tools, but was scared of banks and other formal financial institutions, since he was uneducated and kept no proper accounts. Despite these weaknesses, NLC has enabled Habib to achieve his desire for growth with a $2000 lease of two second-hand lathes. The NLC marketing officer guided him through all the procedures and documentation and the whole process proved very simple. As a result of his new machines, Habib has taken on four new workers and increased his monthly profit by $40.

1. INTRODUCTION AND BACKGROUND

This paper reflects the experience of SDC in supporting leasing to the micro and small enterprise (MSE) sector in Pakistan over the last four years. It also draws on experiences from elsewhere in order to provide points of comparison, but it is essentially based on lessons learned in Pakistan.

In some ways, it is a considerable achievement that Pakistan continues to have a healthy leasing industry at all. Recent years have seen an almost relentless downward slide in the country's economic situation which has brought demand for industrial machinery and equipment down to previously unknown levels. Set this economic context alongside a history of failed government-backed credit interventions in the MSE sector and it is perhaps surprising that MSE leasing in Pakistan has not been stillborn. On the contrary, however, it continues to survive and even thrive.

SDC decided to work with the leasing industry in Pakistan in order to:

- test the potential for private sector financial institutions to contribute to the development process, but with a clear commercial perspective;
- test the viability of leasing as a source of finance for MSEs (to which end SDC funding is provided at market rates of interest).

SDC's first partner in the Pakistan leasing sector was Network Leasing Corporation (NLC), which was established in 1995 and first received SDC support shortly afterwards. NLC was formed to: *"provide lease financing and developmental support services to the small and micro enterprises and the small and cottage industries"*. The directors (who own 34% of the company's equity) and other investors believed that this sector would not only be a viable niche for their company, but would also *"strengthen the most productive and promising sector"* of the Pakistani economy.

NLC now has 1700 clients, a lease portfolio of $6.3m and has recently received an investment-quality credit rating from an internationally recognised rating agency. NLC has received both loan funds and modest technical assistance from SDC, originally for their mainstream operations and more recently to assist in the establishment of a new branch in North West Frontier Province (NWFP), a relatively underdeveloped part of Pakistan and a focus for Swiss aid. In addition, NLC have received significant loan funds from ADB and the World Bank. More importantly for the long term, the recent credit rating has enabled them to access substantial funds from the local market, with $3m in the process of being raised at the time of writing. Although quoted on the stock market, NLC remains a relatively small, if growing, operation.

By very stark contrast, SDC's other leasing company partner, Orix Leasing Pakistan (OLP) is a 57% subsidiary of a major Japanese corporation and enjoys the highest credit rating of any leasing company in Pakistan. It is a large and sophisticated corporate entity. At $100m, OLP's lease portfolio is 15 times bigger than NLC's. Although OLP describe their market niche as being small and micro enterprises, they have primarily operated at the small enterprise level up until now. SDC have provided OLP with a loan and a little technical assistance in order to help in the establishment of a pilot micro enterprise leasing programme in NWFP.

The final component of SDC's support to MSE leasing in Pakistan has been a technical assistance grant to the Leasing Association of Pakistan (LAP), the leasing industry's trade body. This support has comprised: training of leasing company staff in MSE leasing; a programme of seminars aimed at increasing awareness of leasing amongst MSEs; development of a database of potential MSE leasing clients; establishment of an MSE desk within LAP; and the establishment of an MSE leasing challenge fund open to proposals for micro-projects from all 32 leasing companies.

2. FINANCIAL NEEDS OF MSEs

SDC have focused their support to leasing in Pakistan on the development of MSE leasing in particular because they believe that neither the formal financial institutions nor the NGO microfinance providers are meeting the financial needs of MSEs.

There are two basic financial needs which are characteristic of MSEs. The first is the need to fund the basic cash inflows and outflows which make up the business's everyday transactions. Nearly all businesses require this type of finance and it is known as *Working Capital*. The working capital needs of most businesses are reflected in short and repeated cycles of borrowing and repaying. Rather like our more recent understanding of microfinance, the need is for funding to smoothe the peaks and troughs in the business's cash flow.

Since they merely buy stock and sell it on again, most trading businesses need primarily working capital to fund their activities. By contrast, manufacturers and most service providers (the enterprises which have most potential for contributing to local economic development) need working capital but also require significant fixed assets such as machinery, tools and equipment in order to carry on their business. As a result, they need a source of *Fixed Asset Finance* which enables them to buy equipment with a longer life and for which they can make repayments over an extended time period, based on the additional earnings generated by the equipment. This is where leasing comes in. As we shall see below, leasing is specifically for fixed asset finance.

Having said that, there are some grounds for believing that leasing is indirectly able to meet working capital needs. MSE owners typically use their own equity funds to purchase the equipment they need and then rely on supplier credit to fund their working capital requirements, believing it to be cheap. In fact, our informal studies of steel stockholder pricing policies in Pakistan indicated that small engineering workshops were typically paying 2% a week for taking items such as steel rods on credit. Using lease finance for their equipment should thus enable MSEs to use their own equity (which would previously have been invested in equipment but which is now freed up) to fund their working capital needs and thus improve their business performance.

In practice, of course, things are not so straightforward. For example, Pakistan's leasing companies quite often find that they have financed the purchase of a new piece of machinery which (say) doubles the business's technical capacity, but that the business owner has not secured the necessary increase in working capital to enable him to make use of that capacity. As a result, the business not only fails to fulfil its potential, but also runs into difficulty with its lease payments, because the anticipated increase in earnings has not happened.

Fahmida Qadri's husband had never allowed her to get involved in any income generation activity until a few years back when the deteriorating security situation in Karachi prevented him from even going to work. When he realised that their livelihood was threatened, he agreed that she could lease an industrial sewing machine and return to the skills she had learned from her mother. Things went so well that he consented to her continuing with the business, even once the law and order situation had improved. Fahmida now has four machines and employs as many as five people during busy periods. The main problem she has now is getting enough working capital. The Qadris must work very hard, since they have ten children, all of whom are still studying. However, they look to the future with optimism.

Overall, we can say that the leasing instrument does not directly meet working capital financing needs, except (in theory at least) by freeing up owner's equity for this purpose. However, it does meet the very important fixed asset financing needs of MSEs in the manufacturing and service sectors. As we shall see below, the experience from Pakistan is that the existence of a leasing industry can convert the <u>need</u> for fixed asset finance into a <u>demand</u> for leasing products.

3. WHAT IS LEASING?

3.1 General Principles

Leasing is a contractual arrangement between two parties, by which you (the *lessee*) have the use of an asset (normally a piece of equipment) belonging to me (the *lessor*) in exchange for regular payments by you to me for a fixed period of time. It is this separation of ownership (by me, the financial institution) and use (by you, the MSE) which is at the centre of leasing. Leasing is still hardly known in the majority of developing countries, although it is widely used in the richer nations. The International Finance Corporation describes three different types of lease:

Financial Leases - are a way in which businesses can finance the purchase of equipment. The total payments over the life of the lease should be designed to cover the cost of the asset, so that the lessee can buy the asset for a nominal fee at the end of the contract period. Full ownership remains with the lessor until all payments have been made.

Operating Leases - are not a way of financing equipment purchase. They are a way of paying for short-term use of an asset on an instalment basis. The lessor will retain ownership of the asset and seek to make a number of successive leases. It is a type of equipment hire.

Hire Purchase - is another way of financing the purchase of an asset, but is more commonly found in the retail sector and for small items such as sewing machines. A key difference from financial leasing is that as the periodic payments are made under the hire purchase contract, then so the ownership of the asset gradually transfers to the lessee. This can make repossession more complicated (see below).

3.2 The Pakistan Experience

Pakistan's leasing industry has historically been involved only in the provision of financial leases and it is financial leases which remain the core product of all the leasing companies and hence the focus of this paper. However, it is worth noting that recent years have seen an increasing involvement in operating leases. For example, OLP has responded to the continuing crisis in the country's electricity industry, by offering businesses what it terms a "total energy solution" by which they guarantee a client's electricity supply. This involves OLP not only in financing the required generators, but also in supplying the fuel, management and maintenance, which they subcontract out. Another operating lease package which they are currently looking at as a kind of franchise is the provision of a fully functioning business service centre, including computer (with internet access), printer, photocopier and fax . This obviously has interesting implications as an example of private sector BDS provision.

4. WHY SHOULD FINANCIAL INSTITUTIONS BE INTERESTED IN MSE LEASING? – Managing the risks and controlling the costs of MSE leasing

4.1 Managing the Risks: General Principles

Financial institutions will often claim that their unwillingness to provide MSE finance results from the high levels of perceived risk which are involved in financing the micro and small scale sector. Compared to making a conventional loan however, leasing has certain features which give it very specific advantages in terms of reducing the risk to the financial institution.

- Firstly, the money to pay for the leased asset never actually passes through the hands of the lessee. The lessor makes direct payment (generally by cheque) to the supplier of the equipment. This approach minimises the possibility of funds diversion or fraud. For example, when NLC are completing on a new lease, they generally go with the lessee to the equipment supplier. Both parties will inspect the equipment to ensure that it complies with what was ordered, NLC will hand over the cheque direct to the supplier and the lessee will take the equipment back to his business.

- Secondly, when a lessee defaults on payments, repossession of the asset should be quite straightforward, since ownership of the asset remains with the lessor. It is of course important that the law allows such repossessions to take place easily and cheaply. It should be noted that in Pakistan at least, things are not always so straightforward.

- Thirdly, lessees in Pakistan are typically required to put up a deposit of 10% of the value of the asset to be purchased and to provide two personal guarantors for the lease. In practice, the guarantees are rarely called, but they are an extremely effective way to put pressure on delinquent lessees.

- Fourthly, the higher rates charged by leasing companies (compared to banks) give them a greater cushion for absorbing any delinquency.

4.2 Managing the Risks: The Pakistan Experience

In addition to these standard leasing features, NLC makes extensive and innovative use of insurance to protect both itself and its clients. All NLC leases are covered by insurance on the life of the client, so that NLC does not have to repossess the asset when the client dies. This is both prudent for NLC and humane for the client's family. Equally, NLC take out insurance to cover all risks (fire, theft etc) on each leased asset as well as a residual value insurance in case a repossessed asset is worth less than the outstanding amount of the lease. All the costs of this insurance are included in the lease payments made by the client. NLC's use of insurance is described in greater detail in Brown and Churchill *"Insurance Provision in Low Income Communities"*, published by USAID's Microenterprise Best Practices Project (http://www.mip.org/pubs/mbp-res.htm).

Finally, NLC have also reduced their risk through the use of seasonal variation in instalment size. NLC's early experience showed them that many businesses have such great seasonal variation in income that it is unrealistic to expect uniform payments to be made by the lessee throughout the year. They have therefore devised different payment patterns for different sectors, with much larger payments being due at times of plenty and much smaller payments in the low season. Of course, the total payments over a whole year remain unchanged, but delinquency is significantly reduced.

In addition to the above factors, leasing companies in general in Pakistan are looking at the MSE market with increasing interest. This is due to the very weak investment climate which has significantly reduced their core business of leasing industrial machinery to medium and large enterprises. At the same time, small and micro manufacturing and service businesses have proved remarkably resilient and hence offer a more stable market for lease finance.

4.3 Controlling the Costs: General Principles

An undeniable feature of lending to MSEs is that the transaction costs are typically very high as a percentage of the amount borrowed. However, leasing is also able to help us out here.

<u>Appraisal and Documentation Costs</u>

The whole point of lease finance is that it is focused on the ability of the actual asset leased to generate the earnings which are required in order to meet the lease repayments. The asset must of course be viewed in the context of the business as a whole, but the appraisal process should not need to involve the kind of detailed and lengthy assessment of the enterprise which would be usual for a conventional bank loan. Appraisal costs should thus be reduced. Equally, since the lessor does not normally take additional collateral security (other than the relatively simple personal guarantees) from the lessee, documentation costs should also be reduced compared to standard commercial bank lending;

<u>Tax Relief</u>

As the owner of the asset, it is the lessor rather than the lessee who is able to claim tax relief on the depreciation of the asset. This feeds directly through into increased profit for the lessor.

<u>Compliance Costs</u>

Provided they do not take deposits, leasing companies should be subject to less regulation than banks, since depositor protection ceases to be a worry for the regulatory authorities. Unfortunately, the authorities in Pakistan have not been persuaded of this view and continue to regulate the whole leasing sector. This means that Pakistani leasing companies do not enjoy the reduced costs of regulatory compliance which their peers can enjoy elsewhere.

<u>Going to Scale</u>

Last but by no means least, the very clear and relatively straightforward systems and procedures involved in leasing also mean that increasing the scale of operations and hence outreach is highly feasible, since high levels of technical skills and decision-making discretion are not required at the level of operational staff. Increasing scale means that large central overheads can be shared among an increasing number of lessees, thus reducing costs.

4.4 Controlling the Costs: The Pakistan Experience

In addition to these general features of leasing which should automatically lead to reduced transaction costs, NLC is making innovative use of post-dated cheques to further reduce the costs they incur. Their calculations indicated that individual collection of monthly instalments would be too costly for them. On the other hand, while Pakistan does have a standing order system, it is not considered practicable for use in the small payments which NLC receives from its customers. Thus, when a client signs a lease with NLC, he or she must also complete and sign 36 post-dated cheques for the 36 monthly payments which will be due under the lease. NLC then bank these as they fall due. About 20% of the cheques bounce, thus incurring an additional administration fee for the errant lessee. In order to be able to provide the post-dated cheques, NLC clients must open a bank account if they do not already have one. NLC will assist them in this if necessary. This is considered to have the wider benefit of introducing clients to the banking system.

OLP are trying to reduce transaction costs through the development of innovative linkages with other organisations (NGOs and businesses) who have parallel interests. In the NGO sector for example, they have begun working with the Aga Khan Rural Support Programme (AKRSP), a major NGO working in the remote and mountainous Northern Areas of Pakistan. AKRSP has started introducing to OLP enterprises which have either graduated from their own microfinance programme, or which are too large to join in the first place. OLP make their own assessment and write the lease, but AKRSP facilitate collection of the lease repayments. This arrangement helps AKRSP achieve their own goals of promoting economic development in the Northern Areas, while at the same time reducing OLP's own transaction costs.

In the business sector, by contrast, OLP have developed a relationship with Voice Tel Tech (VTT). VTT provide a package of hardware and software which enables the buyer to set up as a Public Call Office (PCO) providing telephone services to the public. OLP are leasing significant numbers of these PCO sets. Compared to other leases, OLP can dramatically reduce the intensity and hence cost of appraisal when leasing these PCO sets because:

- they know that both the technology and the basic business model work;
- VTT are willing to cut off a lessee who fails to make their repayments;
- there is a ready market for repossessed sets, which VTT can use in the next PCO.

Zahid Hussein has for several years been a frozen food dealer in the Baragate area of Peshawar. However, just over a year ago he became increasingly aware of the potential for establishing a Public Call Office (PCO) providing a public telephone service, particularly since his shop is on the main road to the airport and many Afghans (who often want to call abroad) live nearby. He now has a Voice Tel Tech (VTT) telephone which he has leased from OLP. VTT provide all the repairs, maintenance etc and sell him the phone cards from which he sells the phone calls made by his clients. PCO competition is increasing, but he has built a loyal client base, especially of women who appreciate the quiet and privacy of his shop. Zahid still sells frozen food and finds that the two businesses run well together. The PCO business is contributing $100 a month to his profits.

While OLP and NLC work hard to find new ways of reducing the risks and transaction costs of MSE leasing, OLP do not believe that these are the main factors which will prevent other leasing companies from entering this market niche. OLP believe that the biggest challenge for the others is their existing corporate culture. They simply will not be able to get their staff to change the habits of a business lifetime spent working with medium and large enterprises.

5. CAN LEASING FILL THE FINANCING GAP?

5.1 Where is the Gap?

It seems to be generally agreed that there is a financing gap between the micro loans commonly provided to subsistence enterprises by aid-funded microfinance institutions and the commercial bank loans which are available to well established and capitalised small scale enterprises operating in the formal sector. However, the exact location and size of that gap is less clear and probably shows significant variation between different countries and even sectors. Thus, while the preparatory papers for this Discussion indicated that the financing gap was in the 10,000 to 100,000 Euro range, the Pakistan experience is that the gap is more to be found in the 1,000 to 10,000 Euro range. While this is probably characteristic of the whole of South Asia, it may not be the case elsewhere. In any event, I don't believe this difference is sufficient to distract us from the main points of our discussion, but it is worth noting.

If we talk about a gap, then we assume that there is something at either end of the gap, otherwise it is not a gap. In this particular case of SME finance, there may be weaknesses in the implicit assumption that there is substantial financial service provision at either end of the gap. In Pakistan the assumption certainly does not hold. The Microfinance Group-Pakistan (an association of leading microfinance institutions) estimates that just 2% of the potential clients for microfinance actually have access to microfinance services, while a recent survey for the ADB estimated that just 7% of rural loans in Pakistan are provided by the banking sector.

5.2 General Principles

Having made these points, it must be said that there is no doubt that a gap exists. Equally, leasing has a number of features which should make it sufficiently attractive to MSEs so as to help in the gap being filled.

<u>Availability</u>
In many developing countries, medium and long term bank finance is simply not available to MSEs. Leasing can fill that gap.

<u>Simplicity</u>
Leasing does not require the lessee to provide long and detailed financial records (which an MSE may not have) nor to get involved in the provision of complex collateral security such as mortgages over land and buildings (where, for example, the MSE may be unable to prove ownership).

<u>Cost</u>
Leasing is characterised by low transaction costs for the lessee resulting from the simple and quick procedures involved. These procedures compare very favourably both with the often time-consuming attendance at group meetings required by most microfinance institutions and with the accessibility (transport to town etc) and corruption costs characteristic of trying to borrow from a commercial bank. Although leasing interest rates are higher than those which are available from commercial banks, they tend to be rather lower than those which are available from moneylenders or from fully financially sustainable micro finance institutions (of which there are none in Pakistan). In any case, as we know from microfinance, it is availability rather than price which is of most importance to MSEs. Price only becomes an issue if you are lucky enough to have lots of availability.

Tax breaks

Tax advantages are probably of less interest to poorer country MSEs than they would be in wealthier countries. However, it will still be important for some that, as Gallardo points out, *"Lessees can offset their full lease payments against income before tax, compared to just the depreciation allowance or interest charges on bank loans"*. There are also VAT advantages in some countries.

5.3 The Pakistan Experience

As in other aspects of its operations, NLC has been prepared to go beyond the standard leasing product to come up with something that really meets the needs of MSEs. Throughout the world, most leasing companies have insisted on only leasing brand new items of equipment. However, NLC found that this was unduly restrictive for MSEs in Pakistan, where (for example) virtually all light engineering workshops would use secondhand machines and they thus decided to allow leases on used machinery. Clearly, this approach requires caution since it is open to abuse through inaccurate equipment valuation. However, Pakistan has a number of reputable independent machinery valuers whose valuations can be relied upon in determining resale values and consequent lease amounts.

Overall, it can be said that leasing in general, and particularly when it is adapted in the kind of innovative ways we have seen in Pakistan, can fill the financing gap. That is why NLC (who were established just a few years ago) now have 1700 clients entirely in the micro and small enterprise sector and OLP (rather longer established) now have 4000 clients, mostly in the small enterprise sector.

6. HOW MICRO CAN YOU GO?

6.1 The Pakistan Experience

In Pakistan, the best answer to this question is probably provided by looking at the lease portfolios which OLP and NLC have been developing in NWFP, where the relatively underdeveloped economy means smaller value leases. Drawing on the SDC loans for funding, both companies' average lease size in the Province has thus far been around the $1000 mark, which suggests that it is possible to go some way down into micro enterprise territory. This view is supported by NLC figures which indicate that 85% of their NWFP clients had total assets below $9000 and 91% had total assets below $18,000. On the other hand, it is early days, and not yet certain that the leasing companies can really build a viable business on this basis. One positive factor to report is NLC's experience that while microenterprise leasing does entail high transaction costs, this is greatly compensated for by their having less delinquency than small enterprises who have often been tainted by knowledge of (if not participation in) earlier government-backed credit schemes where repayment was not enforced.

When Jamila Muhammad's husband died, she urgently needed to find a source of income for herself and her three daughters. She opened a small grocer's shop in her local neighbourhood which she looks after all day, with her daughters taking turns when they come home from school. The shop has been a success, mainly because of the $300 deep freeze which Jamila leased through NLC. Jamila is not sure exactly how much profit she makes, but she is now saving $20 a month in a local RoSCA, something she could never have thought of doing before.

6.2 Experience from Elsewhere

The ability of the leasing instrument to reach some (if not all) of the way down the micro scale is supported by experiences reported from Bangladesh and Russia. Dowla tells us that the average lease size in the Grameen Bank leasing programme is $623, and that it is used primarily to finance individuals who are graduating from the Bank's group lending programme. According to Schmertz, the average size of leases provided by the Volkhov Business Incubator near Leningrad was a rather larger $10,000, some way below the maximum permitted lease of $60,000 and thus suggesting that most leases were below that figure.

Overall, and without getting too hung up on definitions, we can conclude that leasing is able to reach some way down into the micro enterprise sector, although probably not so far down as group lending schemes which (unlike leasing) are often aimed directly at poverty alleviation.

7. KEY SUCCESS FACTORS FROM PAKISTAN

OLP is a relatively new partner for SDC and it is as yet difficult to be completely confident as to where their strengths lie. There is no doubt that it is a top quality organisation which is able to attract substantial business simply through its excellent reputation and market profile, yet the partnership must go further before we can be precise on this. NLC is better known to SDC and we can thus be more confident in identifying what seem to be the roots of their success.

<u>Quality of Management</u>

Most microfinance institutions and other development organisations (especially NGOs) are run by individuals, often individuals whose professional training is in the social sciences. Not only does NLC have a highly professional management team whose particular talents complement each other very neatly, but they are all financially trained (albeit with personal motives which are both profit- and socially-oriented) and have serious management backgrounds.

<u>Being a for-Profit Business</u>

In addition to the management issues, NLC also believe that it is critical for their lessees to be dealing with a business which is run in order to make a profit. Lessees must feel that as valued clients and equals they are being treated with respect and courtesy and that is how they should deal with NLC and thus take their repayment responsibilities very seriously. Lessees should never feel that they are dealing with some generous benefactor who may indulge them (for instance by allowing them to avoid loan repayment) providing they are shown sufficient servility. As a result, NLC go to great lengths to avoid their lessees having any idea that aid funds may be involved. Staff are explicitly forbidden from mentioning it.

<u>Financial Prudence</u>

A characteristic of NLC's financial management to date has been considerable caution in the stewardship of their balance sheet. This has been reflected in the excellent credit ratings that they have recently received. For example, their key ratios for borrowing limits, exposure limits, capital adequacy, liquidity and asset/liability matching have all been within the norms suggested by the International Finance Corporation. Appropriate asset/liability matching is currently of great importance in Pakistan. NLC is one of only two or three leasing companies (out of more than 30) which have resisted the temptation to fund long term leases out of short term borrowings.

Islamic mode of finance

A significant advantage for NLC and the other leasing companies is the status of leasing in Pakistan as an officially recognised Islamic mode of finance. While this is probably of less relevance in an urban centre such as Karachi, it is undoubtedly of great importance in rural areas, which are characterised by strong and widely-held opposition towards the paying and receiving of interest. This has been a barrier to the development of banking in many areas of rural Pakistan, but is not a barrier to leasing.

8. OUTSTANDING CHALLENGES IN MSE LEASING

This paper has shown how, in Pakistan at least, leasing can fill the finance gap for MSEs. However, there are still a number of key challenges which need to be addressed if leasing is to achieve its full potential as a source of finance for growing enterprises.

i. Can we develop leasing for sparsely populated rural areas?

The great majority of NLC's leases have been in urban and peri-urban areas where people are located close together and operations staff can maintain contact with and move between lessees quickly and cheaply. Likewise, most of Grameen's clients live in densely populated rural Bangladesh. The challenge therefore is to devise ways of reducing (or transferring) the costs of reaching clients in more remote areas. OLP's experiments with AKRSP are beginning to test this, but this is only the beginning. There is certainly potential for wider experimentation with different mechanisms which seek to reduce transaction costs for the leasing company.

ii. Can we (do we want to?) find a way of leasing working capital as well as fixed assets?

Leases are a way of buying equipment which will stay on the lessee's premises throughout the life of the lease, they are not a way of funding working capital. However, there is a special leasing technique known as "sale and leaseback", by which the lessee sells an asset he already owned to the lessor, who in turn leases it back to him, thus releasing the sale proceeds for working capital finance. This sounds great in theory (and one observer estimated that sale and leaseback might account for more than half of all leasing in Pakistan), but unfortunately global experience is that an amazingly high proportion of sale and leasebacks end up in default. The challenge therefore is to find secure ways of doing sale and leaseback. NLC are making tentative experiments with doing sale and leaseback with clients who have fully and perfectly repaid their first lease, but even this is giving them some difficulties.

iii. What is the impact of MSE leasing on employment and incomes?

As yet, no comprehensive impact analysis has been done on MSE leasing clients in Pakistan. NLC keep very sound records of business performance and employment at the beginning and end of leases. It is probably time for a detailed assessment of that impact.

iv. Sustainable Mobilisation of Resources

Only a few leasing companies in Pakistan have reached the point where they can access the volume of funds they would like to have, be that through equity, loan finance or attracting savings from the public. There are often good reasons for this failure (not least, the quality of their business performance and balance sheets), but it is certainly a challenge that needs to be addressed in the medium term.

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