

**A Study of the Survival Of Specialized Leasing Companies in
Sri Lanka**

By

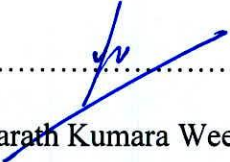
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(GS/ MC / 2377 /2004)

Thesis submitted to the University of Sri Jayewardenepura for
the Award of the Degree of Masters of Science in Management
on 31st December 2007

Declaration Statement

The work described in this thesis was carried out by me under the supervision of Dr. Sampath Amaratunge (Head of Business Economics, Faculty of Management Studies & Commerce, University of Sri Jayewardenepura) and a report on this has not been submitted in whole or in part to any university or any other institution for another Degree/ Diploma.


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Supervisors Declaration Statement

I certify that the statement made by the candidate is true and that this thesis has been accepted by the Faculty of Graduate Studies of University of Sri Jayawardenapura after the evaluation .

A handwritten signature in blue ink, appearing to read 'Sampath Amaratunge', is written over a horizontal dotted line. A solid blue line extends from the end of the signature to the right.

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Abbreviations

Abbreviation	Definition
SLC	Specialized Leasing Company
RFC	Registered Finance Company
LCB	Licensed Commercial Bank
LSB	Licensed Savings Bank
Facilitator	Lending Institution
ADB	Asian Development Bank
WB	World Bank
CB	Central Bank of Sri Lanka
Lessor	Lending Institution Granting Facility
Lessee	Customer Obtaining Facility
GDP	Gross Domestic Product
SME	Small and Medium Enterprises
COF	Cost of Funds
CEO	Chief Executive Officer
AWPLR	Average Prime Lending Rate
MFOS	Micro Financing Organizations
NPV	Net Present Value
IFC	International Financial Corporation
NPA / NPL	Non performing Asset
IMF	International Monetary Fund
NFP	Non Financial Performance
BFI	Bank Financial Institution
UK	United Kingdom
EPS	Earnings per Share
ROE	Return On Equity
ARB	Arbitration
D/C	District Courts
CHC	Commercial High Courts

Acknowledgement

This Study was a success due to the assistance of a large number of individuals who extend their unstinted support and encouragement .

I wish to place on record my sincere gratitude and thanks to Dr Sampath Amaratunge, Head of Department of Business Economics of University of Sri Jayawardenepura , the Supervisor of the Study for his words of wisdom, personal guidance and human inspiration extended to me during the study for which I have no verbal expressions.

I also extend my sincere gratitude and thanks to Mrs Sunethrani Amaratunge Lecturer of University of Kelaniya for her support and encouragement.

Furthermore, I take this opportunity to thank all my lecturers, staff of the Management Faculty, staff of the Library of University of Sri Jayawardenepura, for their assistance and cooperation given to me throughout my degree program .

I also thank the management and staff of Commercial Leasing Company Ltd for providing me the opportunity and every possible assistance for this Study.

Finally my deepest gratitude and sincerest thanks to my wife and family members for the encouragement given to me in this Study .

A Study of the Survival of Specialized Leasing Companies in Sri Lanka

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ABSTRACT

Leasing industry in Sri Lanka commenced its operation during 1977 under the open economic policy. Initially the industry consist of three specialized leasing companies. The demand for leasing as a medium term source of finance was increased with the economic development of the country. Today 76 lending institutions have registered with Central Bank to offer the same product to establish, medium and small scale customers.

The lending institutions in the leasing industry are belongs to four categories such as specialized leasing companies(SLC), registered finance companies(RFC), licensed commercial banks (LCB) and licensed saving banks (LSB). There are 20 SLC'S in the market on competition with finance companies, savings banks and commercial banks in the industry. These four types of institutions are having different levels of resources to carry out business. The competition is increasing in the leasing industry due to the demand for the product. The specialized leasing companies are lacking with the main resource of funding. These SLC are facing a problem of surviving in the industry and the objective of this study is to analyze the factors affecting the survival of SLC.

The leasing industry will depend on four pillars such as regulator, legal aspects, tax aspects and financial accounting & depreciation policy. The cost of funds of said 76 lending Institutions are at different levels and competing with each other to hold their market share. The demand for leasing product is increasing since the product reduce capital expenditure of any organization / individual and preserve credit lines available for other purposes. Leasing offer 100% finance without considering the asset value and also product reduce the effect of inflation because of fixed rentals. The methodology that used in the study are survey based study to gather information from customers and managers through questionnaires and interview based study to get the views of regulator of the industry, Director of non bank supervision of Central Bank of Sri Lanka and two Chief Executive Officers of SLC'S. The cross sectional study has been done on various layers of parties involved in the industry such as customers, managers, Chief Executive Officers, and Director of non bank supervision of Central Bank of Sri Lanka to find the factors such as depreciation policy of leasing product, amendment to the leasing act, cost of funds of SLC, NPA level, profitability, EPS and, ROE have an impact on survival of SLC'S.