The Effects of Leasing Finance to Create Income and Employment Opportunities by Advancement of Micro, Small and Medium Enterprises: An Analysis

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Received on: 26 -07-2024 Accepted on: 28- 08 -2024

Abstract:

In advanced and developing economies leasing finance is recognized as an alternative medium and long-term financing source for large to micro, small, and medium businesses, the agriculture sector, empowering women, setting up new business ventures, balancing, modernizing, and replacement activities. The analysis is carried out to find out the economic impact of leasing finance activity in the country from the angle of supply provider (i.e., the financial health of leasing Companies) and demand side (i.e., effects of leasing financing on SMEs). The regression method was adopted to analyze the relationship between input and output factors of the progress of the leasing business over the period 2010 to 2018, and 300 small and medium enterprises. Simultaneously, when it was examined through the significant financial ratio to ascertain the potential of leasing finance it was found that it can be utilized furthermore. The empirical result (P= 0.110) and borrowing and financial charges have a negative correlation with the profitability of the firms which indicates a decline in business activities. Thus, it doesn't stretch out a compelling advantage to the investors to grow business exercises. The test result P=<0.01 of the SMEs shows growth in business performance is due to the involvement of leasing finance activity on the other hand.

Keywords: Lease Finance, Financial Performance, Income, Employment, Economic Growth, and development

1. Introduction:

The term leasing finance refers to a medium and long-term financing source for capital assets like machinery, tools, equipment, vehicles, aircraft, ships, etc. on agreed rental payment between the lessor (i.e., financer) and lessee (i.e., borrower). Lessor only allows the lessee to use the services of the capital as per the agreement between them but doesn't transfer the title of that equipment or asset to the lessee or borrower before the maturity of the lease period. Leasing finance is classified into a finance lease and an operating lease. The financial lease is an exchange of finance in the legal form of a capital asset since the operating lease is the service of the asset. In the term of an operating lease, an asset is leased to different users during the useful life of an asset while a financial lease asset is a lease to only one particular party ***(International Accounting Standard, 2002).*** Leasing firms are categorized as Non-Banking Financial Institutions (NBFIs) and act as intermediaries in the financial infrastructure of an economy. The leasing companies mobilize funds for leasing businesses launching time deposit financial instruments such as the certificate of investment (COI) with fixed maturity period and borrow funds from the local financial market for short-term and long-term periods on different terms and conditions. These financial intermediaries facilitate both investors and borrowers as a source of saving and lending institutions.

Market Segmentation:

Leasing finance is acknowledged as the best alternative of the medium and long-term source of financing for large-scale industries, agriculture sectors, small and medium enterprises, women empowerment, individual and underserved market segments of the economy where the commercial banking incline is very low in the middle and low economies of the world.

Leasing Industry of Developed Economies:

The leasing industry is significantly contributing to the high, middle, and low-income countries in their economic growth and development. In the 19th century concept of leasing, financing became an important tool for financing manufacturing, agriculture, and service sectors in the United States of America and the United Kingdom. Later on, in the 20th century, the concept spread to other European nations like Germany, Italy, France, etc. During that period Japan established the world's largest leasing company and attained economic development, especially after the destruction of World War II to attain economic development **(Boobyer, 2003**). The leasing industry has made asset-based financing 5,294.4 billion *yen* which is approximately equal to US$ 49.2 billion in 2019 ***(Japan Leasing Association, 2019).*** Leasing finance is used as the second-largest option to get equipment for business or capital investment in the United States of America. The leasing sector has financed US$ 1.8 trillion for equipment and machinery in the private and public sector business and the size of equipment leasing finance reached US$ 900 billion in 2018-19 ***(Equipment Leasing & Finance Foundation, 2019)***. The British Business Bank has extended the funding line of 80 million pounds to a leading leasing finance company in the country who involves in financing SMEs. Being a governmental economic development institution of the British it had extended the credit lines to equipment leasing finance companies and other financial institutions to SME development. As a result, asset financing to SMEs increased by 6.5% in 2019 preceding the last year ***(British Business Investments, 2018-19)***. The lease finance contributed C$13.86 billion (42%) of the total C$33.4 billion spent on equipment, machinery, and commercial vehicles in 2018 in Canada ***(World Leasing Year Book, 2020)***. The world leasing industry has shown growth of 131% consistently during the last nine years from 2010 to 2018. Globally, North America, Europe, and Asia have always been market leaders in 2018, 35.8%, 33.2%, and 27.2% have contributed to total leasing business volume respectively ***(Gleeson, 2019)***.

Economic Environment and Leasing Industry of Pakistan:

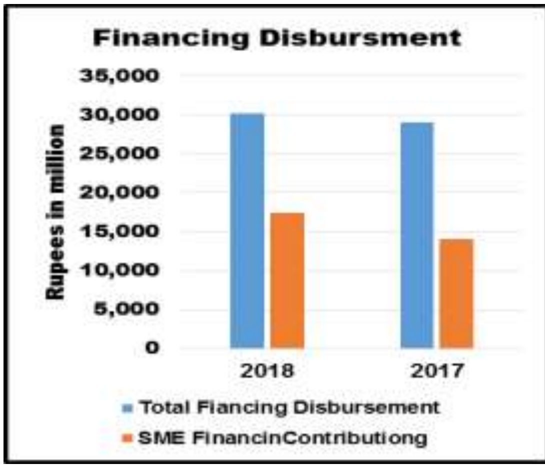
The leasing business has found acceptance among Islamic countries because the leasing business is perceived according to the Islamic law of Sharia. In Pakistan, the first organized leasing company was established in 1985. Leasing is recognized as the best mode of financing and the network of the leasing companies expand up to 40 in 2000. Thereafter the number of companies declined due to a change of regulator from the State Bank of Pakistan to the Security & Exchange Commission of Pakistan, cost of funds, taxation, funds mobilization, etc. but only 07 companies were maintaining their operations. Presently, 07 leasing companies as per NBFCs rule and regulations are contributing to the economy by making 70% asset-based financing ***(State Bank of Pakistan, 2018)***. The sector is serving the areas, particularly where the incline of a commercial bank is very less, and underserved segments of the economy such as SME, agriculture, individual, and women empowerment. At the end of the fiscal year 2019, the asset size of 10.16 billion was recorded the same as in comparison to the preceding year, and investment in lease finance recorded Rs.10.36 billion **(Securities & Exchange Commission of Pakistan*, 2019).*** Microfinance long-term loans are provided to women, individuals, and corporate customers on a markup basis. According to the financial record of a leading player in the sector had financed long-term loans of Rs.13.8 million provided to farmers while total exposure of microfinance long-term loans of Rs.116.168 million have been financed to the SME, corporate, and consumer customers till June 2019 ***(ORIX, 2019)***. ORIX Leasing is the only company in the leasing sector financing agricultural implements. Table no.1 & figure no .1&2, present the asset size, allocation, and net equity position.

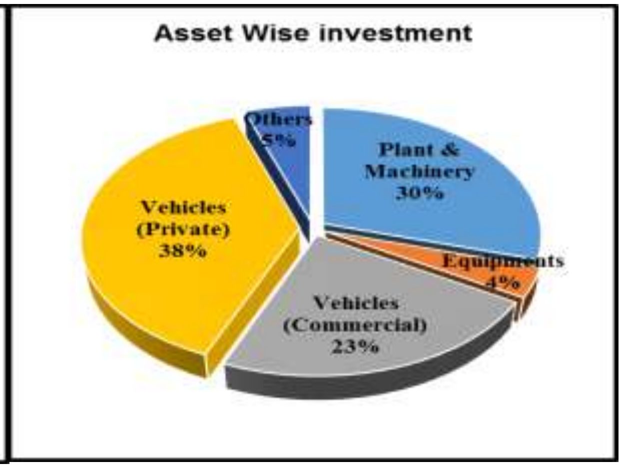
Table no. 1, Total Asset size of last ten years from Jun 2010 to June 2019 (Rs. in bln.)

Firms	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Leasing Companies	37.6	33.52	33.04	34.51	35.66	40.27	42.26	43.32	10.36	10.16

Source: Securities & Exchange Commission of Pakistan, 2019

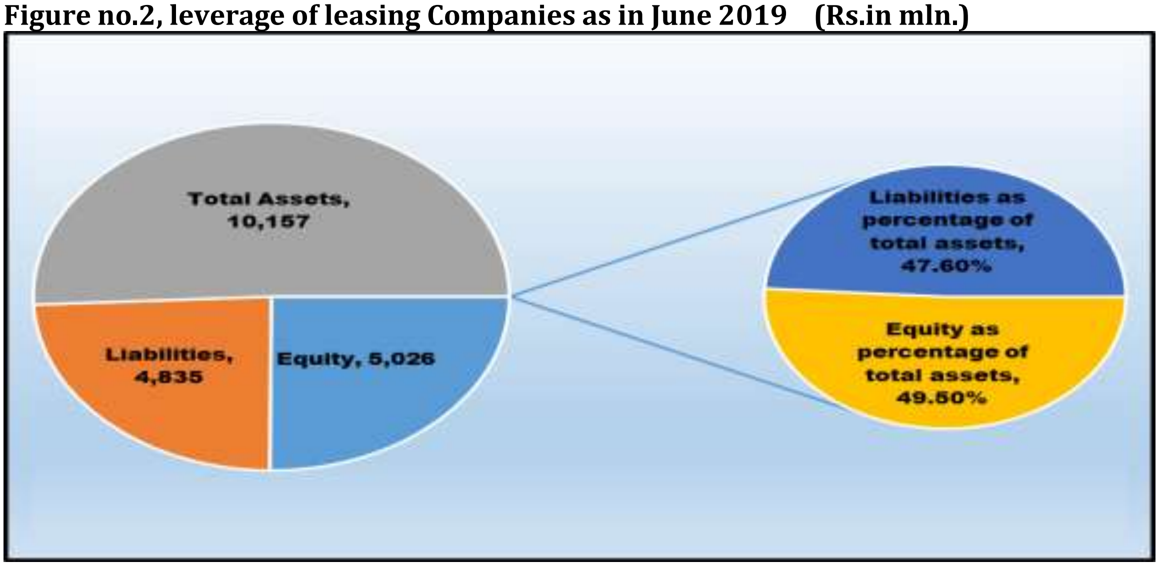
Figure no. 1, Asset Allocation of Leasing Sector as of June 30, 2018





Source: NBFI & Modaraba Association of Pakistan, 2018

Figure no.2, leverage of leasing Companies as in June 2019 (Rs.in mln.)



Source: Securities & Exchange Commission of Pakistan, 2019

The growth of the total assets during the period from 2013 to 2017 indicates the increasing business activities of leasing companies during the period. The reason for the decline of overall assets is the main player of leasing companies has changed business status from leasing company to investment finance service bank. As a result of that change, assets have declined from 76.08% to 0.84% ***(Securities & Exchange Commission of Pakistan*, 2019).**

In Pakistan at the end of the fiscal year 2019, the gross domestic product (GDP) growth rate was recorded 3.29 percent against the targeted 6.2 percent, and fiscal deficit as a percentage of GDP remained at 5.5% in Pakistan. Negative growth rates were recorded in agriculture (0.85%), and industrial (1.4%). A declining trend has also been recorded in export. The increasing population growth rate of 2.4% hampered the economic growth of the country. ***(Pakistan Economic Survey, 2019),*** Therefore, the major problem of macroeconomic instability is to fulfill the increasing trend of aggregate demand from insufficient corresponding resources while the economic policymakers of our country are of the idea that an increment in the growth rate of the agriculture sector would be a positive impact on the growth of the large manufacturing sector, small and medium enterprises sector and service sectors in the country in upcoming years. Macroeconomic stability in the country could be attained by resolving infrastructural issues and strengthening the institutions with an effective monetary and fiscal policy. Most of the developing countries including Pakistan are also facing macroeconomic issues of low capital inflow to fulfill the gap between demand and supply gap. The leasing companies participate in the economic progress of Pakistan by providing financing in the costume of capital assets. More than 80% of borrowers are consumer customers, women, and small-ticket corporates. The accounts and branch networks indicate that the business of these companies is limited to urban areas of Pakistan.

2. Literature Review:

The previous studies have been reviewed to explain the viewpoint of leasing finance and its practicality as an alternative source of financing for the economic growth and development of individuals, micro, small and medium business, and the agriculture sector of the rural and semi-urban areas of the country to ease neediness and to metropolitan relocation. While research studies on specific aspects of leasing have added to a more prominent enthusiasm for the subject, some of them are as under:

Verma, (1995) believes that the concept of leasing is found in 2000 BC that time agricultural tools were leased. The concept of leasing progressed and assets such as ships, and manufacturing equipment were leased for production upon the agreed terms and conditions of rental payments. In the 19th century concept of leasing, financing became an important tool for financing manufacturing, agriculture, and service sectors in the United States of America and the United Kingdom. Later on, in the 20th century, the concept spread to other European nations like Germany, Italy, France, etc. During that period Japan established the world's largest leasing company and attained economic development, especially after the destruction of World War II to attain economic growth and development.

Kamath, (1990) opines that the share of the leasing finance in the total capital expenditure of the Western countries accounted for 25%. It shows the role and importance of the leasing of finance in capital investment during the period of the eighties. In 1990, financial intermediaries had been established by the public sector banks of India to progress their socioeconomic system.

Asian Financial Services Limited (2019), the importance of leasing finance in the financial management system continuously upgraded and accepted as an alternative financing source. One of the largest public leasing institutions The Indian Railway Finance Corporation established in 1987, the company accounts for a 90% share of total lease finance volume. The corporation is among the top 20 leasing companies of the Association of five emerging national economies of the World (BRICS) extending leasing finance.

Porter, (2005) understands that a quantitative analysis was conducted to find out the relationship between equipment lease finance and job generation. The result of the test shows a correlation between equipment leasing finance and income and job opportunities. 30,000 jobs were created due to equipment financing of 1 billion US dollars to business entities in developed countries. Hence, it is reciprocal as job opportunities increased with the increment of equipment finance volume.

Gallardo (1999), has given a research report that examined the commercial bank's capability can extend leasing finance as an alternative financing source to support the progress of microenterprises and small businesses to reduce the poverty rate in the country. The major constraint of the financing of microenterprises and small businesses is a lack of credit history and collateral. Due to that reason, Commercial banks are reluctant financing to the MSBs either only in Pakistan or in other developing countries also. The research indicates that the banks can extend leasing finance as an alternative source of financing through the intermediary's sources. furthermore, a lesson can get from Indonesia, Srilanka, the Philippines, and Kenya using the existing financial institutions rather than establishing new institutional structures to support MSBs. in this regard, Pakistan has to restructure the particularly banking system to strengthen source the of leasing finance in the financial system to grow micro and small business enterprises.

Kraemer-Eis & Lang, (2012), have taken a study in which the project was analyzed in two aspects to identify the difference between access to debt capital (i.e. loan) and access to venture capital. It was aimed at the enhancement of credit techniques to increase SME leasing finance and mitigate the market weakness of SME lending. The report indicates that Germany, France, and Lithuania used different three credit techniques as a loan guarantee, securitization transactions, and a structured portfolio guarantee. In response to these efforts of the countries, leasing finance is utilized as the main source of medium and long-term financing for capital investment and enables the SME sector to access finance. The analysis shows that leasing finance is flexible and manageable to repay in comparison to the debt capital (i.e., loans from commercial banks) harms the cash flow statement of the SME.

Salam (2013), the regression analysis method has been adopted to find out the relationship between leasing finance activities and SME financial performance. For this purpose, 30 small and 23 medium enterprises, financial reports were selected by a multi-stage random sampling method. The result of the analysis of secondary data indicates that medium-size enterprises have a significant relationship between lease finance and return on equity/assets. While in the case of small-medium enterprises, the relationship is not significant. The further result shows the reciprocal relationship between lease finance and the financial performance of SMEs.

Wafula & et.al; (2016), research aimed to test Kenya's as well as the Trans Nzoia County government's idea to get the equipment on lease finance to balance costs and sources of income and improve the financial position of institutions. In this regard, some of the important hospitals and government agencies of the county government acquired equipment on lease finance. Financial performance is often among those government agencies and specialized hospitals examined through the statistical method. Research reflects that Kenya and its county governments acquired equipment for office use, computers, cars, trucks, and manufacturing plants through lease finance. That led to growth in the manufacturing and agricultural sectors. Furthermore, the regression test indicates a strong relationship between lease finance and the financial performance of those government institutions.

Zhang, et.al; (2020), the study examined the impact of traditional banking and modern leasing finance on the economic growth of the United States and China. For this purpose, the time-series data of both countries have been collected from 1982 to 2017 for analysis. They applied the continuous wavelet method to find the effect of both approaches on economic growth. This empirical result shows, in China long-term bank relations, support economic progress but the economic reforms in the short-term period of the real economy indicate bank growth. In the United States of America, traditional banking loans harm economic growth during economic crises. While leasing finance plays a role in the real economic growth during the economic reforms of both countries.

Alkhazaleh & Al-Dwiry (2018), the objective of their study was to ascertain at which level the leasing business has affected the performance of Jordanian Islamic banks. The regression method was adopted to measure the effect of leasing finance activity business from the annual financial statement data of Islamic banks engaged in the business of lease finance from 2010 to 2016. The results indicate that lease finance had a significant effect on the equity of Islamic banks.

Qarbi (2014), through this study, has ascertained the impact of the decision to lease finance procure on their financial performance and the production process of the industrial units. In this regard, this experimental research suggests that industrial enterprises should measure lease financing decisions by three indexes such as leasing activity, total, and fixed assets turnover. Otherwise, lease finance has a significant effect on return on equity, assets, and liquidity on industrial units that have access to leasing finance.

Islam, et al; (2016), research study evaluates the impact of lease financing on the financial performance, production process, income, and employment generation in small manufacturing enterprises in Bangladesh. The growth of 16 small manufacturing enterprises of different categories measured through the statistical tool standard deviation, correlation, and t-test indicates that lease finance has a positive impact on innovation, upgraded technology, productivity, income, and job creation. While the rise in SME's employment, profitability and the productivity was noticed in the later years of the lease finance agreement respectively 13.5%, 13% profitability 22%.

Akhitov & Zamaletdinov's (2015), research study identifies the prospective of leasing activity as a tool in the process of generation of wealth, cost of productivity, and its effect on economic progress. The direct correlation technique of the fixed assets turnover (i.e. capital productivity), material intensity (i.e. scale of production), and energy intensity of agriculture, manufacturing, and industries engaged in leasing activity was examined. The result of the test shows that the activity of leasing finance has economic effects on the production process of an enterprise, particularly in the cost of consumption of energy and material, etc. Furthermore indicates that leasing is an advanced way to upgrade technology in the economic sectors and production process. Furthermore, indicates that leasing activity is an advanced way to upgrade technology in the economic sectors and production process. Leasing is a tool at microeconomic and macroeconomic levels to advance.

3. Research Gap

The previous empirical studies (Gallardo, 1999, Nair et al; 2004, Salam 2013, Islam, et al; 2016 and Zhang, et.al; 2020) focused on the redressal of the influencing factors dearth of functional and internal development, lack of financial resources, government policies, market reforms, etc. in Pakistan in general to the SMEs Growth. These studies have examined the internal and external factors affecting the SME's and have highlighted the lack of real investment, while also recognizing the influence of lease financing on the development of SMEs. This study was conducted to investigate the structure conduct and performance of leasing finance companies to identify their potential opportunities for capital development in the SMEs in Pakistan. Whether the lease finance through the leasing companies can be effective in income and job creation opportunities in the industry, agriculture, commerce, manufacturing, and services to achieve economic growth in the rural areas of the country?

4. Objectives of the Study

The fundamental goal of this study is to assess the financial performance of leasing finance firms as financial service providers in Pakistan. That what extent the investment in leasing companies has affected to promote the capital investment in the country? Second, to ascertain the effects of lease finance to promote capital investment to micro small, and medium enterprises.

5. Hypotheses of the Study:

H_1**:** The yield boundaries (i.e., revenue, profits, financial charges, and investments) of leasing organizations stretch out a compelling advantage to the shareholders and financial backers to grow business exercises.

H_0**:** The yield boundaries (i.e. revenues, profits, financial charges, and investments) of leasing companies do not stretch out a compelling advantage to the shareholders and financial backers to grow business exercises.

H_2**:** There is an effect of the leasing finance decision of SME on improvement and reduction in production cost, an improvement on market intelligence, enhancement labor force as well profitability of the firm.

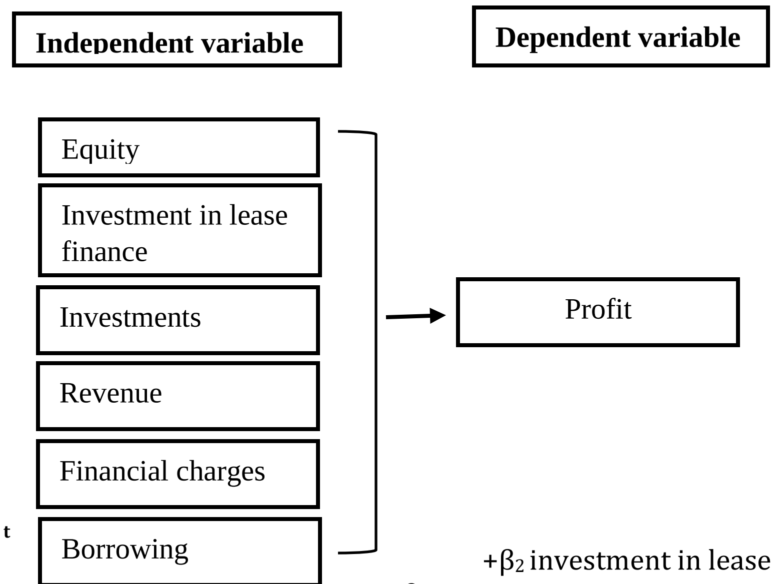
H_0**:** There is no effect of the leasing finance decision of SME on improvement and reduction in production cost, an improvement on market intelligence, enhancement labor force as well profitability of the firm.

6. Research Methodology:

The primary data of 300, micro, small, and medium enterprises borrowers of leasing finance companies from manufacturing, trading, and service sectors were collected by random sampling method from the capital cities of Punjab and Sindh. The secondary data has been gathered from annual financial reports of the Leasing firms from 2010 to 2018. The regression method was adopted to analyze the relationship between input and output factors of the progress of the leasing business during the period 2010 to 2018. Simultaneously, it was examined through the significant financial ratios to ascertain that the potential of leasing finance can be utilized furthermore. At the same time, it was also examined through the significant financial ratios to ascertain that the potential of leasing finance can be utilized furthermore.

To explore the relationship between the parameters (i.e., revenues, profits, financial charges, and investments) of leasing companies and to ascertain the outcome of the variables stretch out the powerful advantage to the investors and financial backers to grow business activities. The following regression model was adopted to test the hypothesis.

Fig. no. 03, Conceptual framework to test the financial performance of leasing Companies:



Model:

$$Y = \alpha + \beta_1 \text{ equity}_t + \beta_2 \text{ investment in lease finance}_t + \beta_3 \text{ investments}_t + \beta_4 \text{ borrowing}_t + \beta_5 \text{ financial charges}_t + \beta_6 \text{ Revenue}_t + \varepsilon t$$

Where;

Y= Profit, α= Constant, εt = error terms, and β_1, β_2 **....,** are co-efficient.

The effects of SMEs ' decision to access lease financing to acquire the latest production equipment were measured by the regression equation.

ISSN (ONLINE):2710-0308 www.irjmss.com ISSN (PRINT):2710-0316

Figure no. 04, Conceptual framework to perform the business entities engaged in leasing activity:

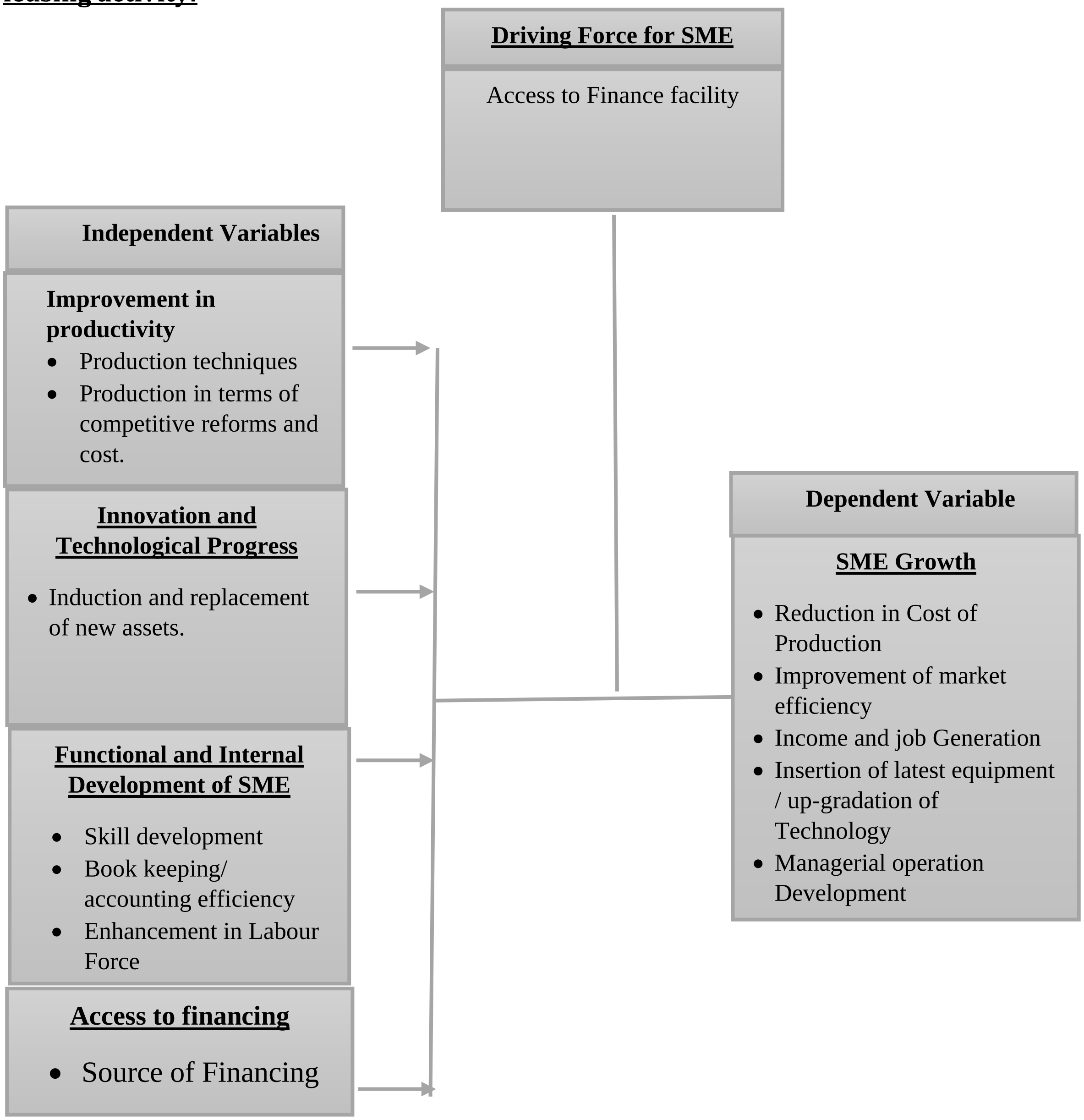


Figure no.04 indicates the model of the study and dependent variable profitability/growth of the micro, small and medium enterprises based on the up-gradation of technology and independent variables improvement in production capabilities, the economical scale of production, improvement market reforms, and job creation.

Model:

Y= $\alpha+\beta_1$ Technology up-gradation $_t+\beta_2$ improvement production capabilities $_t+\beta_3$ improvement in reduction in the cost of Production $_t+\beta_4$ improvement in Market Reforms $_t+\beta_5$

enhancement in the employment $_t$…….+εt
Where;
α= Constant, εt = error terms, while β_1, β_2 **….,** are co-efficient.

7. Result and Discussion:

The Size of Leasing Companies:

The number of specialized leasing companies decreased in the last twenty years from 40 to 07 companies at the end of 2018 due to over-regulation, taxation, liquidity problems, minimum capital requirement, level playing field, and a change of the regulatory body from state bank of Pakistan to Securities and Exchange Commission of Pakistan. The major reason was the level of the playing field which created the tight liquidity position of leasing companies aroused after the involvement of the commercial banks in the leasing business during 2000. Table no.02 shows the existing leasing companies

Table no. 02, Leasing Companies as of the financial year 2019

S. No.	**Leasing Companies**
1	Grays Leasing Limited
2	Company Limited
3	Primus Leasing Limited
4	Saudi Pak Leasing Company Limited
5	Security Leasing Company Limited
6	Sindh Leasing Company Limited
7	SME Leasing

Source: State Bank of Pakistan, 2018

Descriptive Analysis of Study dependent and independent variables of the Study
Table. No.03, Performance Indicators of Leasing Companies as of June 2018

		2010	2011	2012	2013	2014	2015	2016	2017	2018	**Avg.**
Assets Quality	Earning Assets to total assets (%)	70.86	83.42	74.93	72.73	70.86	71.76	73.82	74.61	73.05	**74.00**
Management	Expenses to total income (%)	85.65	115.7	88.64	88.28	88.73	76.92	71,21	73.37	66.42	**83.32**
Earning and Profitability	Return on Assets (%)	-3.20	0.34	-1.24	1.43	1.60	1.61	2.02	2.18	2.10	**0.76**
	Return on Equity (%)	-21.75	2.20	-8.57	9.57	8.95	9.46	10.23	0.05	4.10	**2.74**

Liquidity & Sensitivity Ratio	Current Ratio (X)	1.20	1.08	0.98	1.10	1.24	1.29	1.32	1.36	2.54	**1.35**
Other indicators	Earning per share (Rs.)	-2.36	0.26	-0.98	1.07	1.04	1.11	1.55	1.55	0.33	**0.40**
	Dividend per share (Rs.)	0.03	0.33	0.49	0.56	0.65	0.62	0.75	0.78	0.08	**0.48**
	Total Assets /Networth (x)	**7.69**	**7.45**	**10.00**	**6.83**	**5.60**	**5.86**	**5.07**	**2.95**	**1.63**	5.90
	Investment in Lease Finance (%)	32.36	30.78	65.85	31.76	71.02	72.43	75.06	62.57	73.43	**57.25**
Financial Leverage (X)	Debt to Asset ratio	0.83	0.72	0.67	0.66	0.42	0.52	0.28	0.34	0.12	**0.51**
	Debt to Equity ratio	5.65	4.63	4.63	4.42	2.35	3.04	1.43	1.64	0.23	**3.12**
	Debt to Capital ratio	0.85	0.82	0.82	0.82	0.70	0.75	0.59	0.62	0.19	**0.68**
	Assets to Equity ratio	6.79	6.45	6.89	6.68	5.60	5.86	5.07	4.79	1.95	**5.57**

Source: Annuals Accounts of leasing companies from 2010 to 2018

Table no.03 shows performance indicators of leasing companies that indicate that (1) Asset Quality: financing the trading and manufacturing assets and asset distribution/allocation in the various areas of the economy are a decent type of revenue (i.e., lease financing investment). (2). Management capability: The more than 80 percent average expenditures to total revenue including financial charges average 53 percent on borrowing during the period 2010 to 2018. (3). Earning and Profitability: the return on equity and return on assets are below 5% as the minimum criteria to increase earning and profitability (4). Liquidity & Sensitivity Ratio: The current ratio highlights that the companies have enough current assets to adjust their short-term debts. (5). The asset to the net worth averages of 5.6% of the last nine years indicates the companies have sufficient resources to pay and settle current liabilities against the assets. While financial leverage ratios are more than (0.5) which shows the dependence of companies on debts to operate the business.

Liquidity issues, significant expense upon borrowings, over regulations, and so forth have diminished the effectiveness of financial leasing organizations to endure and work in the predominant monetary arrangement. Furthermore, more than 30 companies have had to wind up their business and changed business status from leasing to investment during the last twenty years. Leasing Companies required more capital to enhance the efficiency of lease financing and enhance income.

Testing of Hypothesis No.1

Table no. 04, Correlations of the dependent variable with independent variable

		TOTAL EQUITY	INVESTMENT IN LEASE FINANCE	BORROWING	REVENUE	FINANCIAL CHARGES	TOTAL ASSETS	NET PROFIT
NET PROFIT	Pearson Correlation	**.931****	**.506**	**-.304**	**.284**	**-.130**	**.646**	**1**
	Sig. (2-tailed)	.000	.165	.427	.458	.739	.060	
	N	9	9	9	9	9	9	9

Table no. 04, indicates the relationship between the input and out parameter. The correlation test result indicates that dependent and independent variables are correlated. In the independent variables, there are stakes of shareholders since the inception of the company and others who invested in the shares of the company through the primary market (equity), earning assets and income-producing investment (investment in lease finance), debts, income generated from leasing finance companies (revenue), cost of borrowing, a sum of current and long-term assets (total assets) and dependent variable return (profit). The paid-up capital, total equity investment in lease finance, and total assets are strongly correlated with profit. Except borrowing and financial charges are negatively taken there is a weak correlation with profit.

Table no. 05, Regression Test of Leasing Companies financial data from 2010 to 2018

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.981[a]	.962	.847	148.04384

a. Predictors: (Constant), FINANCIAL CHARGES & OTHER EXPENSES, EQUITY, INVESTMENT, BORROWING, REVENUE, INVESTMENT IN LEASE FINANCE

Table no.05, the regression test result (r=0.981), highlights the positive and strong correlation ship between the dependent variable profitability and independent variables equity, investment in lease finance, investment in other securities, borrowing, financial charges, and revenue. The value of R^2 is estimated by 96% (R^2 =0.962) showing the variation in the dependent variable profit.

Table no. 05(a), Analysis of Variance (ANOVA[a])

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1101935.601	6	183655.934	8.380	.110[b]
	Residual	43833.954	2	21916.977		
	Total	1145769.556	8			

a. Dependent Variable: NET PROFIT
b. Predictors: (Constant), FINANCIAL CHARGES & OTHER EXPENSES, EQUITY, INVESTMENT, BORROWING, REVENUE, INVESTMENT IN LEASE FINANCE

While the value of (P= 0.110) is greater than the significant value 0.05, therefore we reject our alternative hypothesis and accept our null hypothesis; "The yield boundaries (i.e., revenues, profits, financial charges, and investments) of leasing companies do not stretch out a compelling advantage to the shareholders and financial backers to grow business exercises.

Testing of Hypothesis No.2

Table no. 06, Regression Test of SME Growth involves leasing activity of more than 5 years.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.878[a]	.772	.769	1.85618

Predictors: (Constant), Enhancement in Labour Force, Innovation and Technological up-gradation, Improvement in Production Capability in terms of Cost and Market reforms

Table no. 06, the correlation test result highlights the relationship between dependent variable profitability/growth of SME and independent variables enhancement in the labor force, innovation, technological up-gradation, improvement in production capability in terms of cost, and market reforms. The values r =0.878 or 88%. The regression result R2 =0.772 or 77% shows indicates the significant contribution of the independent in the model while the remaining 33% variables were not included in the study

Table no. 06(a), Analysis of Variance (ANOVA[a])

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3444.882	3	1148.294	333.284	.000[b]
	Residual	1019.838	296	3.445		
	Total	4464.720	299			

a. Dependent Variable: Profitability
b. Predictors: (Constant), Enhancement in Labour Force, Innovation and technological up-gradation, Improvement in Production Capability in terms of Cost and Market reforms

Table no. 6(a) shows the strong relationship between the dependent and independent variables, support to the hypothesis that the involvement of lease activity has positive effects on the SME's business development. and P=<0.01 are less than the specified level of significance that strongly supports rejecting our null hypothesis and accepting the alternative hypothesis.

8. Conclusion:

The result of the empirical test of the primary data collected from the SMEs who have availed of the lease finance facility indicates that the involvement of the leasing activity positively affected the SME's economic development. While, with the involvement of leasing finance, it had a significant effect to improve production capability, reduction in production cost, overcoming internal and functional barriers, innovation, and technological up-gradation.
On the other hand, it has been observed from the test result of the aggregate data of leasing institutions that they extend financing to the urban areas to the industrial and service sectors. Because of the weak and negative correlation between borrowing and financial charges with profit, therefore, the financial leasing institutions do not significantly contribute in the rural areas of Pakistan. However, the result shows that leasing activity influences directly at the microeconomic level and both indirectly and directly at the macroeconomic level.
To accomplish development policies of abundant labor economics and to attain sectoral progress in the country the economic managers of Pakistan, it is required to utilize the potential of the lease finance mode of financing to untapped and underserved markets in the semi-urban and rural areas by strengthening the leasing industry in the country. Particularly extending asset-based finance facilities to micro, small, and medium enterprises is very important in terms of achieving income and employment opportunities. Since the slope of business banks is exceptionally low to stretch out asset-based financing to the micro, small and medium ventures, and agriculture sectors.

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