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Financial Leasing in the Mena Region: Analysis of the Institutional and Legal Aspects

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Abstract

The aim of the research paper is to make an assessment of the industry of financial leasing and ascertain the role that it plays in the enhancement of financial intermediation in different MENA nations. The approach was known to have followed involvement of both comparative and critical analysis of the financial indicators and the review of institutional, regulatory, and legal frameworks in the chosen countries. This paper also identifies the various impediments and sets forth numerous policy recommendations on promotion of the role playing by the financial leasing sector in the enhancement of financial systems and the strengthening of enterprise access in order to finance firms and more so those on the small scale. It is quite apparent that numerous nations in MENA have indeed made significant strides in the most recent times towards the development of financial leasing. However, it is important to note that there are indeed numerous challenges ahead that need to be addressed.

Key words Financial leasing, Mena region

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1. Introduction

It is quite important for all and sundry to note that a diversified, efficient, and developed financial system is capable of not only spreading risk and also providing a sound base that can be used in the provision of funds for entrepreneurs which is quite important for spurring economic growth. Development of financial intermediation may result to an increase in the "real growth rates". There has been immense literature which is in support of positives relationships and linkages between the structure and functions of the financial sector and economic growth. Based on empirical sides, it is quite apparent that numerous financial indicators were actually ascertained to be correlated strongly and positively with the economic growth. Some of the empirical studies that emerged were of King and Levine (1993) who emerged with robust evidence which asserted that economies which have well endowed financial systems were actually capable of growing faster as opposed to similar economies which did have one. Other studies also asserted the fact that nations which were characterized or marked financial deepening highly tended to enjoy or experience faster growth. Development literature also depicted the fact nations which were marked with diversified financial systems and non bank financial organizations which were developed were actually more resilient towards economic shocks. However, it was further ascertained that the financial sectors in majority of the developing nations were not only underdeveloped by they were also dominated largely by banking systems which played limited roles in the financial intermediations. It was ascertained that in majority of the cases, such banks mostly provided for short term loans or credit and also only served a limited number of customers. It was further ascertained that the "non-bank financial institutions" were

normally underdeveloped in nations which suffered from poor standards of accounting, lax enforcement of contracts, and even insufficient credit information systems.

It can truly be ascertained that access towards financial services has continued to remain too low while the transaction costs have also continued to become higher in most of the developing countries. This has even made some of the segments within the economy to have almost no form of access towards funding. Access towards finance has actually been noted and identified by most of the developing nations as being the major impediments towards the development of the private sector and MENA is also no exception. It is important to note that apart from poor appetite or desire for investment which is actually associated with slowdowns in the economic growth or progress in MENA that has had a negative impact for demanding of credit, banks on the supply side are usually reluctant in extending loans to small scale enterprises which have been newly established. Most of the banks have a tendency of lending large or big firms or organizations which have balance sheets that are well established and also which have track records which are profitable. In addition to that, access by firms to both medium as well as long term loans has become extremely limited thus constraining development and initiation of numerous firms which need intensive capital tools and term funding. It is also important to note that some of the non-bank financial institutions which are underdeveloped as well as the role that they play in the financial intermediation is indeed shallow and low in the region of MENA.

The non banking financial institutions can indeed play a vital role in complementing other banks through provision of services which are not well matched or suited to the banks. The non financial banking organizations or institutions can fill in the gaps that exist in the financial services and thus enhancing competition in financial systems. That apart, the non bank financial institutions like financial leasing firms are capable of providing finance to the small scale companies which do not have enough collateral. This could be a better way of ensuring that collateral problems facing the small scale firms thus enabling them to effectively substitute leasing contracts with the actual equipments as collaterals thus necessarily avoiding borrowing in order to buy the asset. Financial leasing is also quite important since it aids in provision of long term funding and helps such firms to overcome a variety of both tax and legal impediments. In addition to that, financial leasing also have a comparative advantage in that they can be specialized in specific catering or sectors target groups.

It is important to note that financial leases indeed offer alternatives to the bank loan financing especially in the purchase of equipments. Lessors purchase equipment which has been selected by lessees which is ultimately used by such lessees for a chosen period of time that it will be of useful life. It is prudent for all and sundry to note that “financial leases” are normally known as the “full-payout” leases since lease payments during specified term leases actually amortize the total costs of purchase for the lessor while the residual values that are associated with the “original acquisition” price that covers interest costs as well as provision of some profits. It is prudent to note that the lessee normally bears the “risks of obsolescence” as well as the costs of both insuring and maintaining the assets.

Unlike banking institutions, leasing on it part does not need collateral but rather it is a “contractual arrangement” which allows the leasing companies who are Lessors in this case to retain ownership of the assets. Leasing presents “separation of ownership” from use ensuring that the lessee gets benefits associated from the use while the lessor gets the “lease payment flow” in addition to the “residual value” which is associated with the assets. Indeed, no costs are involved in the verification rights of lessees and if it occurs that the latter becomes negligence in the lease payments, then enforcement as well as repossession become automatic and normally do not need court actions. At most times, leasing companies usually focus on the ability of the lessee to generate the cash flow that is enough in servicing lease payments instead of relying on the capital base, assets, or credit history of their clients. Such an arrangement is quite convenient for the small scale firms that do not have a prolonged “history of financial statement” and which lacks collateral. Instead, the security of such a transaction is usually provided through the actual asset. In most circumstances, lessees have the right of buying the asset once the lease contract expires. A frequent clause in such leases is that lessees have the options of buying the asset after the term of the lease comes to an end for a price which has been predetermined.

Over the past fifty years, the leasing industry has significantly evolved. It was known to have started during the 1950s in the United States then extended to Japan and Europe during the 1960s before finally spreading through the developing countries since the start of the mid-1970. It is important to note that

during the past ten years, the total number of leasing firms or companies has been on the increase. However, it is also important to note that despite the significant emergence as well as the growing attention and significance associated with leasing in most of the developing nations, this has until in the most recent time remained to be unappreciated by the policy makers in many nations. The attention of policy makers has been highly focused on the wide and even more visible organizations in the financial sectors such as the banks.

Facilitation of access to finance using finance leasing sector or industry could indeed become economically rewarding for the region of MENA. It is prudent to note that even though significant efforts have been made by some of the MENA countries during the last few years to ensure that the leasing industry was developed, no tremendous progress has actually occurred. This is quite true since this sector is faced with numerous obstacles such as lack of enough "credit information infrastructures", deficiency in the enforcement of the creditor rights, and poor regulatory and institutional frameworks. A properly regulated and well developed financial leasing industry or sector should be a vital component of an efficient and broad financial system in majority of the MENA countries. This implies that the promotion of the financial institutions which have been underutilized in the MENA region is quite essential.

2. Methodology of research

There is indeed limited research on the issue of financial leasing in majority of the MENA nations or countries. Even though getting access to essential bank finance has emerged as great concern in the MENA countries, it is prudent for all and sundry to note that indeed, there has been limited research that has covered alternatives to the banks as being the major sources of finance. The major objective of the research paper herein is thus to make an assessment of the performance of this financial leasing sector and even analyze the impediments and constraints that have confronted or prevented its effective development in some of the chosen MENA countries which are Saudi Arabia, Jordan, Egypt, and Morocco, and derive policy implications which are relevant. This research paper will thus significantly contribute towards literature on the "non-bank financial institutions" and more specifically on the financial leasing that happens in some of the MENA countries.

The major goal of this report is thus to influence the regulatory frameworks, policies, and the institutional setups so as to improve the access of the enterprises to financial services and more so for the ones operating on small scale. This research paper will also highly contribute to the comprehension of the critical or vital role played by the financial sector in the development of financial markets in some of the MENA nations, and thus ultimately develop policy recommendations regarding how benefits can be reaped from such "underutilized non-bank financial institutions" that could greatly enhance development and growth in MENA region.

In that perspective, the research paper is categorized into 4 major sections in addition to both the methodology and introduction sections. The first part provides evidence regarding how the "financial leasing industry" can play a vital role in the financial intermediation especially for the developing economies through placing emphasis on the comparative advantages and the role that it plays in the enhancement of accessing economic and financial development. The second part analyzes the financial leasing industry as it is the MENA region and discusses the financial performance and structure, assess adequacy of the regulatory, legal, and institutional frameworks while the third section identifies the numerous challenges that are facing the "leasing industry" or sector in some of the chosen MENA countries. This paper will provide a conclusion that discusses the specific implications on policy through the identification of the relevant institutional, regulatory, legal, and financial frameworks for the development of the "financial leasing industry" in the MENA region, and how its potentials can be enhanced in improving the access of the firm towards finance.

The methodology that has been adopted in this research paper involved comparative and critical analyses. Critical analysis was tasked with reviewing the empirical and theoretical literature that was associated to the financial leasing especially in the emerging markets with a specific focus on "MENA". This research paper will then review and then ultimately assess the "effectiveness" of the institutional, legal, and macroeconomic framework and the prevailing incentive systems so as to effectively identify the major impediments which confront the leasing sector. That apart, a comparative analysis will be executed at cross

country levels, while taking into consideration the variations which occur in different developmental stages in terms of approaches and legislations in meeting the leasing requirements. This will greatly aid in the identification of policy recommendations on how best the "financial leasing sector" can be developed in the MENA region.

3. The Role Played by Financial Leasing in the Developing Countries

The "financial leasing industry" is capable of playing a very vital role in the development of financial markets and in the provision of finance towards enterprises and more specifically in the small scale ones which encounter problems in accessing credit or loans from banks. On the other hand, financial leasing forms have a double role since on one side, they are known to complement banking sectors with an increasing range of services and products but on the other side, they are also known to compete with banking sector thus forcing the sector to become more responsive and efficient to their customers' needs. Leasing of equipment and plant has been used extensively in various nations as a means of broadening the firms' access towards credit which also includes term finance.

The advantages associated with leasing in most emerging markets are known to lie in their "separation of ownership" from economic utilization. On the side of lessor, it is important to note that ownership actually presents stronger security. In nations where the collateral laws have not been developed well or even enforced through the courts, "secured lending" of the type presented by the banks and can also comprise of "considerable collateral risk". Leasing is known to present advantages of the "simpler procedures for repossession" since asset ownership is already determined with Lessors. Other significant advantages that the lessee gains include the fact that SMEs are allowed to have access towards investment capital and also enables one to easily leverage off "purchasing strengths" of lesser companies that are specialized.

It can basically be asserted without the presence of any leasing industry, then it becomes apparent that financing sources for the small scale firms, without the assets that can be used for pledging as collateral are actually the funds from suppliers' credits, relatives, friends, internal funds, and even money lenders. However, it is important to note that larger firms which have adequate collateral will serve as suppliers' credit, internal funds, capital markets, and bank loans. With the leasing industry, both the larger and smaller enterprises would actually seek for leasing of equipment purchase as being an option of financing in addition to other viable alternatives. Leasing is also regarded as being a substitute for debts for such of the firms which are too risky or even those which are not in position of accessing the traditional debt markets.

Financial leasing can indeed play a vital role in the enhancement of financial intermediation since it is capable of inducing competition in the financial sector and thus help in the promotion of economic and investment growth. The gains or benefits which are acquired or derived by lessees include:

- There are minimal strict requirements for the historical "balance sheets" thus presenting newly established as well as the small scale organizations access towards finance.
- Little or minimal cash is needed since leasing is capable of financing a higher percentage of the "capital costs of equipments" as opposed to bank borrowing.
- There are "lower transaction costs" despite of the leasing spreads which are relatively high.
- There is provision of both long term and medium financing for purchasing of such equipment and
- Tax incentives, as being lessees are capable of offsetting the total lease payments against the income tax before taxing as compared to the interest that is just charged on the bank loans. That apart, Lessors are capable of passing on the tax benefits which are linked with the depreciation to the lessees through a reduction in the financing costs. Indeed, financial leasing can be a transaction that is less risky. Being in a better position of retaining the ownership of the asset which has been leased, Lessors are more secure just in case they fail to repay more so when the procedure for repossession is quite simple.

It is important to note that the "specialized nature" of the leasing companies coupled with their scale is capable of resulting in high efficiency levels. They can thus present efficiencies especially when dealing with the state bureaucracies in order to negotiate as well as secure any investment incentives, government benefits that are investment related, and even import licenses. A leasing market which is strong is also capable of benefiting the financial development since typically; leasing companies are capable of raising

their own funding right from the wholesale sources like insurance companies, banks, and even the pension funds. This is because they are capable of developing in the sophistication and thus can thus directly issue papers in security markets. They are capable of tapping in to the equity markets through going public once they achieve enough credit history.

4. Financial Leasing in Chosen MENA nations

4.1. Financial Leasing as it is in Egypt

Despite the fact that Egypt as a country has full potential that can support the development of both the small and medium enterprises as well as other viable economic activities, it is quite unfortunate that the leasing industry has not been fully developed in the country. This is true since the "share of the leasing industry" of its sum gross fixed investments in the country (Egypt) is quite low as compared to that of similar developing countries while the total number of the leasing companies has always remained limited. Even though there is a total of 143 companies which have been registered in Egypt, there is only seven of them which are active and of which 1 is a captive company subsidiary of the non-financial firms, and thus are providing financing to the third parties. Most of the leasing country in this country is usually controlled by either banks or the bank affiliates. Of the remaining companies, only forty are essential the single contract companies while 96 of them have never even operated. The annual or yearly volume of leases in the country is quite small while the numbers of the leasing contracts are also quite limited.

In Egypt, this leasing industry was created by Law 95 (1995) and further amendments were also made during the late 2003. Amendments permitted leasing of all assets which include the cars that had not been permitted or allowed during previous laws and even land as long as it was attached to any productivity activity. Based on institutional set ups, it can truly be asserted that as from June 2004, leasing companies or firms have come under the "General Authority for Free Zones and Investment" (GAFI) that is also affiliated or linked to the Ministry of Investment in Egypt. While registration of leasing companies is normally done by Companies Authority or CA, the regulations are the responsibility of the GAFI.

It is important to note that most of the leasing companies which are created with an aim of "one-leasing deals" only aim at avoiding tax. This is because the law normally grants the leasing companies a "5 year tax holiday" on profits that emanate from their leasing endeavors. As a result, it seems that the tax concessions seem to become exploited as being the tax shelters for some of the large corporations through creation of "captive companies". Apart from the fact that Lessors are also exempted, they also manage in being granted tax exemptions which are equivalent or equal to their net savings from the rentals that were created on income statement thus leading to their inflation of expenses that have been use for the lease tenure. Such a concession should thus be withdrawn since any vigorous "leasing industry" can never grow without ensuring that the information and legal infrastructures are strengthened.

Regarding the administrative front, there is need to ensure that the requirements for each specific contracts is duly registered by Companies authority and even duly checked for relevant compliance based on the law since it is a very cumbersome process. This was exacerbated through the changes or alterations which were developed in the "standard format" of the "registration contract" that was made during July 2003 that led to an increase in time needed right from a total of one week to a 3 to 6 months timeframe or period. The delay is mostly attributed to 3 clauses which were added to the initial "standard leasing contract". The major objective of the three clauses was to ensure that Lessors became committed towards compliance with the "Egyptian Accounting Standards" or EAS, fully adhered to the Combating Terrorism Financing, and Anti Money Laundering (CTF/AML), and observed all the regulations which were GAFI especially in regard to credit and portfolio management, treasury and which include issues such as client risk exposure and lending limits. In addition to that, the process of registration is just simply a form of formality which provides no actual benefits towards the industry which are normally charged a total fee of "LE 50" for each contract thus preventing its growth. One of the significant advantages that could be provided by the CA is ensuring that no multiple leases are allowed to happen on similar equipment. It is however important to note that in its prevailing paper form, it is indeed difficult to attain. Another significant challenge is the rule that was in 2003 imposed on by GAFI that required a minimum of 25 percent of the total value of the assets that had to be financed from the company's leasing capita for each of the contracts.

One of the major reason as to why the leasing industry in Egypt has continued to remain even smaller is due to lack of comprehension of how the sector works. Indeed, there exists no single department that is tasked with the responsibility of regulating this sector. To add on that, it is also important to note that the unavailability of official statistics leads to a decrease in the visibility of the industry. Coupled with poor conditions in the Egyptian market, the fore going factors led to the reduction of the potential leasing ability by clients to reach its customers and especially the new ones which are starting because the leasing industry in the company have tended to highly depend most on banking as opposed to the leasing practices. It is also important to note that despite the leasing industry in Egypt has stagnated for the last few years, this is expected to improve, partly due to the reluctance of the banks to extend loans, more specifically both to the small as well as medium firms which has pushed most of the clients to search for other alternative means of accessing finance. Generally, as a result of numerous reasons, it can truly be ascertained that Egypt's financial leasing sector is actually underdeveloped.

4.2. Jordan's Financial Leasing

In Jordan, the banking sector highly dominates the financial system. On the other hand, the "non-bank financial institutions" are known to account for a little portion of the financial system in Jordan but however, they are growing significantly and potentially, they are bound to improve. Most recently, a legal framework was put in place for financial leasing and despite the fact that nine companies were registered as "leasing companies", only one is actually active in the Jordanian Market.

It can also be truly asserted that the "Financial Leasing Industry" in Jordan is still underdeveloped due to being hindered by numerous sectors. Some of the most dominant impediments that have hindered the development of this industry in Jordan are ambiguity that prevail between the law as well as the associated regulations which contradict each other especially based on the requirements of lease registration, with such regulations indicating that the registration is actually an option while on the other hand, the law clearly indicates that for ownership rights to become duly declared, there is need for leases to become registered. Moreover, lease registry is not duly operational and thus fee structures for the recording are expensive and irrelevant. There is need for systems which have been put in place to ensure that there is low cost and quick recordation of such lease contracts. In general, enhancement of non bank financial organizations and more specifically the leasing industry, would serve both small as well as medium enterprises in a manner which is quite positive. Presently, none of the financial leasing companies are engaged in micro-leasing despite the fact that there are no forms of legal restrictions on them.

Regarding the Jordanian Leasing industry institutional set-up, any entity, as opposed to banks which have been licensed that participates in the financial leasing activities must always be registered fully with the "Ministry of Industry and Trade" as being a "financial leasing company". The "minimum capital requirement" for any financial leasing company in Jordan is relatively high since it amounts to a total of JD 1 one million. Financial leasing companies in Jordan are thus regulated using a temporary law that was made in the year 2002. It is prudent to note that the temporary law in Jordan actually has the 'legal force of a law" and it was issued by the "Council of Ministers" while the regular or ordinary law in the country is issued and ultimately ratified by the country's Parliament. It is worth noting that while the temporary laws in Jordan are normally issued while the country's parliament is out of session, the parliament still has a right of reviewing such a law or even amend, reject, or even approve or pass it into law. However, it is important to note that leasing would indeed provide a good opportunity or chance for expansion of term financing especially for the capital investments towards both the small as well as medium enterprises. This is true since the lending environment in Jordan heavily relies or depends on collateral.

4.3. Morocco's Financial Leasing

Morocco's financial sector is usually dominated by the banking system and the country's financial leasing industry is still underdeveloped. In Morocco, the "Financial institutional infrastructure" is developed but the problem is that its financial practices are actually held behind. This is because despite the fact that it has all the vital elements which could allow or permit Morocco to be among some of the modern financial systems across the world, it has still continued to hold on to some specific characteristics of the centralized systems like government involvement which is extensive.

The major weaknesses associated with the financial system in Morocco are associated to not only the non bank organizations but also the supervision weaknesses. Regarding the industry of leasing, there are currently 12 leasing companies in Morocco of which eight of them are the banks' affiliates. The minimum capital requirements for the non-bank financial organizations is known to range between US $10980 to US $ 2,196,000 based on the company's activities. The Moroccan Central Bank and the Bank Al Maghrib are tasked with the responsibility of supervising credit institutions which include the leasing companies and the Ministry of Finance is tasked with the responsibility of approving the licenses after being approved by the "Credit Institutions Committee". Based on "Article 21 of the 1993 Banking Law", the Ministry of Finance in the country notifies the applicants as to whether they have been given the license or not within a period of 6 months of getting such applications. Law Number "1-93-147 of July 6th, 1993" which is also known as the "Banking Act" is actually the law that regulates the leasing industry since it is concerned with the activities of all the credit establishments as well as their control. "*Article 8 of the Banking Act"* defines leasing transactions as being transactions which involve the renting of the capital tools, equipment, goods, and even immovable property just for commercial use with possibilities of the lessee acquiring the same at a date which has been fixed with owners and which cannot be later than the lease expiry period, part or all of the goods that have been leased at an agreed price while putting into consideration at least part of "the rental payments".

In Morocco, the key impediment towards the development of the financial sector which also comprises of the leasing industry includes low efficiency in both the judicial and legal systems. The efforts that are made by the authority regarding the legal enhancements would actually only benefit the country's economy on a long term basis, such as creating of the commercial courts which is likely to bear benefits on a long term basis. Moreover, Moroccan legislations do not conform to the international set standards on the AML/CTF. Another significant impediment lies in the fact that leasing companies in the country must actually have a 51 percent of Moroccan ownership and thus this hinders any foreign opportunities that do not adhere to the requirement.

In order to ensure that the leasing industry in Morocco is strengthened, there is need to establish a supervisory independent body that will be tasked with the responsibility of detecting any vulnerability during an early age and ensure that there is healthy competition that can protect clients and secure maximum trust in the general financial system. The supervisory body that will be created should be capable of increasing its effectiveness through putting in place a more "risk-based approach" to the supervision. Strengthening the industry will require further judicial and legal development and the general financial system in the country would stand to benefit greatly if the distortions which have been created by price and tax restrictions are either reduced or removed.

4.4. Saudi Arabia's Financial Leasing

Most recently, Saudi Arabia took the initiative to develop its financial leasing sector. However, it is quite important to note that even though the registration of movable property as well as the execution arrangements for collateral in the lease transactions in Saudi Arabia are well articulated, issues to do with both enforcement as well as the repossesses of the residential collateral in circumstances of defaulting are "legally in controversy". The framework that governs the leasing industry in the country is further expected to become fortified with enactment of the "Leasing Law" that is at now being prepared.

It is important to note that the responsibilities for both the licensing as well as supervision of the non bank financial institutions in the country will become defined more clearly upon the enactment of the new "Capital Markets Law" which will be done in the nearest future. The non bank financial institutions in Saudi Arabia are highly dominated based on the asset size through quasi fiscal institutions. The largest of such institutions are the "Autonomous Government Institutions" or AGI that is known to dominate primary market for majority of the government securities as well as hold a variety of both foreign and domestic investments. There are a total of 5 "specialized credit institutions" and all of which extend the "interest free loans" for the public policy aims. Most of them actually report to the Boards of Directors (BOD) which are appointed or put in place by the Council of Ministers. The insurance companies, leasing companies, and even licensed money chargers in Saudi Arabia account for actually less than 0.3 percent of the total "financial system assets".

It is important to note that despite the fact that the development of a "healthy leasing industry" in Saudi Arabia is being enhanced further beyond the current stage, there are specific obstacles that still face the industry. For instance, leasing companies in the country indicated that the "central registry" for all the types of movable collateral was both effective and even availed in the traffic department as being an immovable collateral which was identified on registration through the unique identification numbers of the registrant. However, it is important to note that there exists no central registry that caters for the fixed collaterals. The current system in Saudi Arabia lacks a "commercial register" which regulates any financial contracts or even leases any property that has been secured like equipment. Further development of this industry must thus include:

- Enhancements in legal environment so as to guarantee easy access of Lessors to the asset which has been leased incase of any default.
- More transparency regarding accounting rules as well as the tax treatment of the leases, and
- Reduction of the administrative costs incurred in the leasing industry. This "proposed Financial Leasing Law" that is in the draft form is highly expected to handle such issues.

In an attempt that was aimed at developing Saudi Arabia's leasing industry, there was an establishment of a new "Credit Bureau Registry" so as to facilitate the easy access of information regarding the credit worthiness of customers which is quite crucial in expansion of leasing industry in the country. In addition to that, 2 specialized financial leasing firms or companies who were recently licensed are more likely to become joined by others. It would indeed be quite beneficial to most of the leasing companies incase "Article 117 of the Companies Law" was amended.

Based on Article 117, the "total amount of bonds" which a company can issue should never exceed the paid up capital. The "Saudi Arabian Market" has same technique to leasing that is called "*Ijara"* which refers to a secured technique of financing that is applied by the Islamic Banks and which is known to cover both short term hire purchase and long term leasing or lease financing. In the financing sector, the Islamic bank or even its leasing firm buys a piece of equipment that has been chosen by entrepreneurs and then leases it back to them. In the arrangement of hire purchase, entrepreneurs may partly buy, and even partly rent equipment. Even though the leasing concept is not totally new in the Saudi Arabian market, it is important to note that the leasing industry in the country is not yet well established and advanced. The situation can better be enhanced if the authorities in the country managed to reduce or minimize the impediments that are facing the industry.

Developing "non-bank financial institutions" in Saudi Arabia and more specifically the financial leasing firms or companies should enhance the companies' access towards credit and especially for the small and medium firms. There is thus need to have further improvements in the access to the legislative changes, regulatory changes, and credit information so as Saudi Arabia's financial system is enhanced. There is also need to ensure that the rights of the creditors are protected and this can be attained by ensuring that lease firms are given better access to the "long term funding sources" and also ensure that there is consistence and transparency of the accounting rules. It is also prudent to ensure that information dissemination in the leasing industry is improved. Enhancement in both the enforcement and repossession climate would be most advantageous to ensuring the scale leasing in the country is improved.

5. Challenges being experienced by MENA Countries in Financial Leasing

It is quite evident that the industry of financial leasing in some of the MENA countries or nations is experiencing numerous challenges which include among others lax foreclosure processes, institutional environments that are unfavorable, lack of long term funding, cumbersome repossession procedures, high transaction costs, poor enforcement of contracts, and insufficient credit information systems.

Development or enhancement of the leasing industry or sector in MENA nations has been greatly hampered or hindered by an institutional environment that is unsupportive. One of the significant hindrances are the difficulties experienced in repossession of the assets which is associated to insufficient enforcement of the ownership rights and even delays in collection of payments that are overdue. Even though the rights of ownership are well defined through law, it is important to note that Lessors have actually had great difficulty in the achievement of speedy repossession. Based on the estimates by the industry, it is quite apparent that the average time length taken by the court to issue a repossession order

is approximately one month. However, it is important to note that enforcement of such court orders is still a tall order. This is indeed striking for the assets which are immovable since the police departments usually find it difficult in not only tracking down such assets but also ensuring that they are ultimately transferred to Lessors. Legal and enforcement expenses or costs that are linked with such repossessions are also known to be high. As a result of the difficulties associated with such repossessions, there has been no development of significant "secondary market" for reselling of the used machineries.

It is important to note that poor enforcement of contracts matches with the financial systems which are underdeveloped. Despite the fact that laws are important, the enforcement of such laws is frequently more vital for the financial development of firms, enhanced enforcement of contracts is important because it lowers costs of transactions. Thus nations which have financial systems which are underdeveloped are more likely of having low contract enforcement levels. It was depicted that there was a "strong negative connection" which prevails between the efficiency in the enforcement of a contract and the degree or rate of the general development of the financial sector. In addition to that, it is also prudent to note that it is indeed difficult for one to sue clients who have defaulted because of breaching contracts while the time taken for collection of any check that has been dishonored is long since it ranges from one to 5 years. The lengthy discussions and resolution regarding the checks which have been dishonored is vital in the leasing industry due to two major reasons. First of all, it is usually much easier in suing default clients in the issue of dishonored checks as opposed to suing on the issue of breaching contracts. Secondly, the leasing industry and other finance providers use the post dated checks as alternatives for the promissory notes due to the stamp tax which has been imposed or levied on the notes. Due to matters to do with problematic repossessions as well as issues to do with resale options which are limited, the leasing sector has now moved to the client based leasing in which decision making of leasing contracts is highly dependent on the clients credit worthiness as opposed to the asset based leasing.

One of the significant impediments that is being faced by the leasing industry that is quite common in the financial systems of some of the developing countries in general is actually the "unavailability of credit information". This is attributed to the fact that the data which prevails in the central bank's Credit Registry Department in most of the developing countries can only be availed to the leasing companies which run as bank subsidiaries while the independent Lessors are not capable of accessing such information. Such data is both unreliable and inadequate because in some circumstances, the banks do not give reports on clients who have defaulted. In addition to that, the available data does not comprise of information on any potential clients thus making it problematic especially when dealing with firms which have been newly established. As a result, this leads to distortion of the leasing industry thus inhibiting the growth of the "non-bank" leasing companies. Some of the "non-bank leasing companies" normally resort to the bank references in order to ascertain their clients' credit worthiness especially after they have got the authorization from their respective clients. However, it is important to note that most of the banks are not often efficient and thus make prompts in provision of such references.

Another significant constraint is lack of "long-term funding" or even the relatively costs of it on availability. Most of the leasing companies normally get majority of their funding from their "sponsor banks" which are at most times on short term basis. However, it is important to note that the leasing companies in the country which are not affiliated or linked to banks normally have a bigger problem especially in terms of accessing finance. As opposed to institutions that deal with deposits which are tasked with the responsibility of transforming the short term deposits into the longer term loans, leasing companies on their side only require to widely match their liabilities and assets (leasing companies which borrow six month funds are not in position of writing three-year leases without incurring refinancing risks). Mismatches can also happen in numerous ways such as through the exchange rates, interest rates, or terms. Domestic financial markets usually provide the leasing companies with financing that is relatively short term and this implies that there is indeed a danger of leasing companies mismatching the "average term" of the assets or the outstanding leases as well as the liabilities or its borrowings. In addition, the "relatively limited development" of the capital markets as well as prevailing domestic status do not actually support issuing of bonds in order to provide long term funding as well as small sizes of the leasing firms may not also permit them to access the "primary bond market". Due to that, the period of leasing contracts is reducing to reach an average maturity of 3 years. Only in nations in which there is a "yield curve" which banks could utilize as being a "good benchmark" for extension of the long term loans.

6. Policy Implications and Conclusions

It is prudent to note that a well diversified, efficient, and developed financial system is capable of not only spreading the risk but also providing a sound base for the "sustainable economic development". Based on the empirical studies, it is depicted that nations which are marked by "financial deepening" usually tend to highly enjoy faster and enhanced economic growth. On the other hand, development literature has also shown that nations which are characterized by financial systems which are diversified and had "non bank financial institutions" which were well developed were actually more resilient towards shocks. In addition to that, it was also ascertained that financial sectors in majority of the developing nations were underdeveloped and that the "Middle East and North African" (MENA) nations were no exception. This is attributed to the fact that they were highly dominated by the banking systems which mainly catered for a "limited" number of customers and also provided short term credits while the responsibility of the "non financial institutions" in the financial intermediations was rather quite shallow.

Due to that, access towards financing has remaining quite low and the transactions costs are also relatively high especially in the MENA nations mainly as a result of poor regulatory and institutional frameworks in terms of enforcing the lax contract, poor standards of accounting, inadequate collaterals, and weak "credit information systems". In the "non bank financial institutions" and specifically the "financial leasing sector" could enhance access towards financing in MENA using provision of "long term" funding, overcoming of the collateral requirements and even other tax and legal impediments. This is quite important for small scale firms that have been newly established and those ones which do not have enough collateral and even a strong "historical financial statement" and of which the financial statements are usually non-compliant with the global standards of leasing. Unlike banks which are more highly concerned with the ability of the lessee to generate the cash flows to the service lease payments, leasing companies usually rely on the assets, the capital base, and the credit history. In addition to that, financial leasing could indeed play a vital role in the enhancement of financial intermediation since it is capable of inducing competition in the sector of finance and lower the costs of transactions thus leading to promotion of economic and investment growth.

Leasing companies can have numerous means for mobilization of finds and should therefore broaden their options for financing. In addition to the issue of bank borrowing, they can also resort to the pension funds as well as insurance companies since they are capable of providing longer term financing. Another significant option that can be used by leasing companies is issuing of bonds as well as other viable marketable instruments that could widen the liquidity and choice of the instruments to be used on the domestic or local capital markets. Most of the leasing companies are also known to improve the bond's security through giving buyers " a claim" to underlying baskets of the lease receivables. As a result, this makes such a bond to become attractive towards a broader range of possible or potential buyers. This will definitely aid in the broadening and deepening of the "domestic capital markets" in MENA countries. It is important to note that in order to effectively write the medium term leases, Lessors require medium term funding.

In MENA, the leasing industry is indeed underdeveloped despite the fact that it has great potential for ensuring that the development of both the small and medium enterprises as well as other viable economic activities is supported. This is due to the fact that a properly regulated and well developed financial leasing sector has a vital component of not only a broad but also an efficient and effective financial system that could become an economic reward for most of the MENA nations. It is quite apparent that developing the leasing industry in MENA could lead to facilitation of access to finances and even address any infrastructural deficiencies in the financial sector. It could also help to overcome any regulatory and legal shortcomings. It is important to note that financial leasing firms have a double role since apart from the fact that they are known to complement the banking industry with an increase in the range of services and products, they are also known to also compete with the banking industry thus making or forcing it to not only become response but also more efficient in addressing the needs of their clients. It is therefore important to improve the role played by financial leasing firms by addressing the numerous sectors facing it.

So as to effectively enhance the role played by the various leasing companies, there is need to reform the different institutional and legal frameworks. This is because a robust judicial system and a regulatory framework that is supportive are vital for assigning a "clear property rights, efficient repossession of any of the assets incase clients default, and enforcing of disclosures. Timely and effective enforcement and repossession procedures and protection of the rights of protectors in case there is a defaulting lessee is quite important for ensuring that the leasing sector becomes developed. This will quite ultimately comprise of "automatic rights of repossession" without necessarily using long court proceedings as well as having the right of claiming any due payments. It was observed that the streamlining of the asset repossession process tended to make leasing companies to take "riskier business" and even make the prices of their leases to have lower risk premiums. As a result, a lessee may become obliged in making lease payments in a timely manner. A strong and properly functioning judicial system is indeed an effective method for ensuring that the rights of creditors are protected. On the issue of supervision, it is prudent to ensure that a strong supervisory agency is put in place and clear guidelines are ser so that compliance with any prudential regulations that are associated to the "maximum debt-equity rations", the ability of raising the retail deposits, the minimum requirements for capital, and even the standardized and mandatory provision of financial statements are guaranteed.

Access to accurate, reliable, and timely information on the credit worthiness of clients is important for the enhancement and development of financial leasing activities in the MENA nations. It is thus important to ensure that relevant legal amendments are made to permit financial leasing companies to easily access "public credit registries" at central banks. Another alternative strategy that can be used in expanding the access to viable credit information should be allowing the creation of a "full scale private credit bureau" whose majority of ownership should be the banking sector. This is because there is no way a vigorous and vibrant leasing industry can develop without ensuring that there is strengthening of information structures. It is also important to ensure that accounting standards which are fully compliant with the "International Accounting Standards" (IAS) are enforced and that the AML and CTF are well adhered to. There is also great need of ensuring that consistence and transparency of the accounting rules are done and that dissemination of viable information regarding the leasing industry is done.

The accounting and tax regulations of a specific nation highly determine the user, the party, or the owner of such assets who may also depreciate it. Some of the countries are known to make use of the fiscal incentives such as tax exemptions in order to not only encourage the capital investments but also ensure there is provision of finance to both small scale and firms that have been newly established and even denied access towards financial institutions such as stock markets and banks. However, it is important to note that leasing firms ought to run in fiscal environments in which there is provision of equal treatments in the financial leasing industry as compared to other capital funding investment sources. In that aspect, it has been argued that "tax holiday" that is given to leasing firms or companies ought to be withdrawn. That apart, it is also argued that fiscal losses that emanate from such types of incentives is usually limited since the new leasing firms and even new enterprises as well as small scale companies do not normally have enough taxable income that can be used in offsetting depreciation or even in making deductions regarding the full lease payments which is quite useful.

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