



Role of Leasing on Employment in Jaffna District of Sri Lanka

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ABSTRACT

The leasing industry is booming. This study aims to examine the impact this industry has on employment in the Jaffna District which suffered badly due to the civil war which ranged from 1983 to 2009. Ever since the war ended financial institutions have made their presence felt in a large way in the district. Leasing is a major function of the 39 financial institutions which presently operate in the Jaffna District. A study was conducted on 331 leasing clients who were randomly selected and the data was collected using a pre tested questionnaire. Poisson regression models for employment was developed to study the effect of leasing on employment. The results show that leasing has positive impact on employment. The study has found that 72.8% of leasing facilities were offered to transport sector and out of the leased facilities 39.9% were seized. The findings of regression analysis show that on average if a lessee is self-employed and invested lease facility in own business will earn monthly around 40,000 rupees greater than those who are not self-employed and not invested lease facility in their own business. Increasing leasing amount alone will not create employment significantly, while holding other variables constant. If a lessee is self-employed and invested lease facility in own transport business will create employment two (2) times greater than those who are not self-employed and not invested lease facility in their own business. The study recommend the leasing companies to carefully study the initial income, asset and debt of the lessee and whether lessee is self-employed and willing to invest in own business before providing leasing facilities to the lessee and the leasing amount is sufficient for the lessee's own business to operate.

Keywords: Leasing, Poisson regression, Impact, Employment

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1. Introduction

Most of the Northern Jaffna Peninsula is occupied by the Jaffna District. Of the nine provinces in Sri Lanka Jaffna is in the Northern Province. This Province contributes only 3.5% to the national GDP, which constitutes the lowest among the nine provinces. However, according to statistics from the Central Bank, it is growing at a fast pace of 12.1% per annum. The Jaffna District saw some of the fiercest fighting during the civil war which lasted from 1983 to 2009. This kind of prolonged exposure to the war has greatly affected the socioeconomic status of the people living who live in the District. No sooner the war ended, financial institutions started to get a foothold in the District. The economy in North is made up of 65% services, 20% industry, 15% Agriculture and is worth Rs. 390,689 million. The economic contribution of Jaffna district is significantly higher when compared with the other Districts in the Northern Province. Agriculture and fisheries are the mainstay economic activities Main economic activities in the Jaffna District, where more than 60% of the families here are dependent on agriculture. During the recent past it has been noted that throughout the

Island, the numbers of finance and leasing companies are establishing more and more branches to concentrate on leasing activities. The Northern Province has not been left behind in this expansion, and the Jaffna District has seen a noteworthy rise too, with almost all the finance and leasing companies grabbing the opportunity at the end of the war, to open branches in all the main cities in Jaffna District. The bank density index for Jaffna District is 24 and population per branch is 4,152. This index is ranked second only to Colombo; which is the capital of the country. All four types of financial institutions have now established more than one branch in Jaffna district. There are 10 licensed commercial banks, 3 licensed specialized banks; 23 licensed finance companies and 3 specialized leasing companies who run their operations in the District (Central Bank Regional Office, 2017). This brings a total of 39 financial institutions which carry out their operations in the district through over 200 branches. This scenario has made the Jaffna District the record holder as the district with the highest density of banks and finance companies. It is no wonder then that there has been a significant of leasing activities in the Jaffna District.

The war stifled economy of the Jaffna District which was in a comatose state suddenly opened up after 30 years and this newfound freedom gave people the access new financial and leasing opportunities so as to fulfill their long deprived needs. At the same time, the stiff competition which arose among the leasing companies gave the customers the edge and a greater choice of options. As such investment through leasing has significantly increased in the District. This scenario has created opportunities for new entrepreneurs to merge, and due to the ease of leasing facilities many started to be self-employed. Stiff competition between the finance and leasing companies also moved to attract clients to better opportunities but in the process some companies would try shortcut methods and bypass certain regulations. This kind of laxity became a manipulative tool by itself for the clients in the Jaffna District. Since it became possible to easily bypass certain regulations when granting approval for loans, more and more clients approached these companies requesting loans for other varied needs which included many luxury items that would otherwise have been out of reach for them. This kind of borrowing started to have negative repercussions for both the lending companies as well as the clients who were the borrowers. Repayment of the stipulated monthly installments began to back up. The easing of economic restrictions and the ease of obtaining leasing loans, encourage clients to begin investing in all and sundry without proper evaluation of the risks involved, also the companies created a window whereby clients could have access to fairly large scale investments while holding a small or minimum initial capital; This turned out to be the bait and clients fell for it hook line and sinker. The end result was that while there was a glut in the supply of goods and services, the actual demand for these goods and services had not increased by as big a margin. The effect on the competing companies was that the profit margin had reduced. The flip side was that now the clients who opened their business practices with the aid of leasing and loans were struggling to pay back the stipulated monthly installments. Now the companies that provided the leasing or loans were forced to revert the asset that the client had leased, which caused the employment opportunities which were created by the lease or loan to struggle. This situation has created problems for both sides. On the one side, the companies providing leasing facilities could not provide the services that the client expected, and on the other side the client who obtained the lease facility was now faced with a loss of capital.

As with any commercial establishment, the motive of the leasing companies and their operations was to maximize profits. All their activities were created and geared with the aim of achieving that goal. While a side effect of this process is that the clients or lessees gain a good benefit of being able to obtain the financing for their intended ventures, The goal of the leasing companies of maximizing profits and the goal of the clients in gaining maximum benefits and satisfaction from the financial service provided are diametrically opposed and thus difficult to fulfill both goals at the same time. There is however a positive aspect that could be considered for both of these different intentions being achieved indirectly. It could create or produce positive impact on economic elements like employment. Since this has been identified as one of the major issues and causes for many socio-economic problems, it would be proactive to undertake a study to ascertain the

fundamental reasons behind this issue and to put forward by means of a proposal feasible means to overcome the issue. In fact it could be said that there is a pressing need for a formal research to be conducted in order to the impact of leasing activities are having on employment. The fact is that apart from the research which has been conducted by the Central Bank of Sri Lanka, very few independent studies on leasing and leasing companies have been conducted in Sri Lanka.

The numbers of finance and leasing companies and their activities have been significantly increased in Northern Province in the recent past, especially in the Jaffna District. Most of the financial institutions provides their financial services for vehicle leasing. Although leasing companies aim for high profit, they support the investors who need capital for their economic activities. There were very limited studies conducted in the field of leasing in Sri Lanka and abroad. In this particular study, the study population has a very special feature which is the impact of war. The socio-economic condition of the people in the study area has totally been affected by the war and its impact. The study area and the population has undergone a serious civil war for nearly 30 years. The population has started experiencing a different world in terms of functions of financial institutions and leasing companies. There were strong criticisms against the leasing activities in the region, many professionals have started to talk about the leasing activities and its impact. The need for a formal research to study the role of leasing on employment have arisen. The limitations on the scope of the previous studies have made me to select this particular area to study; find out the role of leasing companies on employment, identify the problems faced by the clients and leasing companies and to propose suitable solutions to mitigate the problems faced by both parties. Since this has been identified as one of the major issues and causes for many socio-economic problems, this study is undertaken to find out the exact reasons on this issue and to propose ways and means to overcome the issue.

Especially in the Jaffna District, there is a scarcity of Information on the impact of finance and leasing activities on people of the area. In a society that is resurging and re-structuring after a decades long war, such information will play a vital role in enabling to generate effective development guidelines. In light of these problems the study aims to understand the impact of leasing activity on employment in Jaffna District. The hypothesis set for the study was "Leasing positively influences on employment" and it has been proofed through the study results. This was tested through the poisson regression model estimated to study the impact of leasing on employment.

In general leasing has been considered as "the last financing resort" from a crisis (Krishnan and Moyer, 1994). Dragica Odzaklieska et al. (2015) studied on leasing as the key source to find finance the business entities in the Republic of Macedonia. The study has revealed that leasing as one of the new forms for the business actors to fulfil their needs over finance, but the level of presence is relatively at low level. Olatunji and Sarat (2014) studied on the equipment leasing as a source of finance for Small and Medium Scale Entrepreneurs (SMSE) in Nigeria. The study has focused into the fundraising initiative through the leasing activity to fulfill the needs of equipment and machineries. All the above mentioned studies have found the leasing as the best mechanism to purchase equipment and machineries. Further the studies found that the leasing has contributed not only to fulfill the financial needs of the business, but it has also contributed for new employment creations. The business entities were able to pay direct cash to carry out the operations as it has much effected over the working capital. The literature review on the related studies has really helped to clearly understand and propose suitable ideas on the concept, types and the regulations of the central bank on leasing for the SMSEs in the study area.

Marie Christine Filareto and Eric (2013) have conducted the following study: 'study on the determinations of leasing choice and bank loans: the evidences were brought from the French SME by KACM'. The study aimed to determine the features of the firms which are using the leasing credit and to understand the relationship between the leasing and credit rationing in a better way. The variables used in this study were probability of

bankruptcy, solvability, firm size, age and leverage. The study found that the SME use leasing when they are at a very younger stage. Further, the leasing thrusts back the boundaries of banking debt for the firms which do not have access to it. Based on the results the study has suggested a solid and substantial association between credit rationing and the use of leasing. Haradhan (2011) studied the lease financing in Bangladesh mainly focusing on the satisfied progress in business and industrialization. It was needed to develop leasing business in Bangladesh to ensure convenience and flexibility in financing. Winfred Wanjiru (2014) has studied on the outcome of lease financing on the financial performance among the companies which are listed at the Nairobi Securities Exchange (NSE). The overall findings of the study have shown that there is no influence from lease financing on the financial performance. Based on the findings the study has recommended that the firms should be more vigilant when they use lease financing to fulfill their financial needs as there are no value added to the firms through the use of lease financing.

Sule and Amuni (2014) studied equipment leasing as a source of finance for Small and Medium Scale Entrepreneurs (SMSE) in Nigeria. The research paper has looked into the fundraising initiative through the leasing activity to fulfill the needs of equipment and machineries. This mechanism was found to be the best one, purchasing the equipment and machineries by paying direct cash to carry out the operations will have much effect on the working capital. The literature review on the related studies has really helped to clearly understand and propose suitable ideas on the concept, types and the regulations of the central bank on leasing for the SMSEs in the study area.

The study has also found that the equipment leasing is supreme to the existence of organizations and the Central Bank of Nigeria gave the rules to encourage the SMSE through equipment leasing. The research has found the evidence of a replacement effect between the leases and the long-term debt among the samples of the study. Further, it was also found that around 40% of the Firms in the study area have exhibited the evidence of a corresponding relation by increasing their debt. The sample was divided into two groups to further explore the relation. Within the substitute subgroup, leasing is associated with more capital expenditures and financial constraints. There was a significant relationship found between the leasing and the firms' which have marginal tax rate.

Vindya (2018) studied to explore the impact of motivation on executive level employees' job performance of Listed Leasing Companies in Sri Lanka. It was found that there is an empirical and knowledge gap in the Sri Lankan context regarding the impact of motivation on job performance of executive employees. Apsara and Sulaiha Beevi (2020) have studied on the impact of work life balance of female employees on job satisfaction with the special reference to leasing sector in Colombo District. The findings show that work life balance is significantly and positively correlated with job satisfaction. The results further indicated that other variables that were considered in the study have not significant influence on job satisfaction. The importance of providing good work life balance arrangements within an organization is highlighted in the recommendations to improve employees' satisfaction, enhance their performance, and collaboration and hence increase organizational as well as employees' productivity.

Based on the findings of the study the following recommendations were made: organizations should have a single department or Strategic Business Unit in charge of this particular responsibility, the staff in such a department must be well trained, retrained and motivated adequately, and finally the banker of the organization should assist in the leasing of equipment and/or machineries as a source of finance.

2. Methodology

The clients were selected through "Snowball Sampling Method". The study was conducted with the 10% of the leasing clients from the sampled leasing companies. In total there were 331 leasing clients selected to study the situation. The detailed field survey was conducted with the pretested questionnaire. This was the

main tool to gather information from the sampled leasing clients from the district. Further, three (03) Focus Group Discussions (FGDs) and ten (10) Key Informant Interviews (KIIs) conducted to gather information from ten (10) leasing companies with the representations from all the four categories. Statistical analyses were conducted with the data to measure the impact of leasing on employment in Jaffna District. The descriptions of variables used in this analysis were given in Table 1. To study the impact of leasing on employment, multiple regression model (Poisson Regression) was developed using Ordinary Least Squares (OLS) technique.

Table 1: Description of variables

Variable	Description	Unit
Change in Employment	Change in employment due to engagement of leasing	Number
Default	1 if reverted leasing facility, 0 if not reverted leasing facility	Dummy value
Age	Age of lessee	Years
Gender	1 if lessee is male, 0 if lessee is female	Dummy value
Education	Formal education level of lessee	Years
Self-employment	1 if lessee is self-employed, 0 otherwise	Dummy value
Initial Income	Monthly income before obtained lease	LKR
Marital Status	1 if married, 0 if unmarried	Dummy value
Value of lease	Value of leasing facility	LKR
Period of lease	Period of leasing facility	Months
Leasing rate	leasing rate for leasing facility	Percentage
Type of Investment	1 if new engagement, 0 if existing engagement	Dummy value
Usage of Investment	1 if own use, 0 if income generation	Dummy value
Sector of Business	1 if Service sector, 0 if other sectors	Dummy value

Poisson Regression Model for Change in Employment:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + \beta_{11} X_{11} + \beta_{12} X_{12} + \epsilon_1$$

Where, Y – Change in Employment (Y is a count data such 0,1,2,3,4.... N), X1 – Age, X2 – Gender, X3 – Education, X4 – Self Employment, X5 – Initial Income, X6 – Marital Status, X7 – Value of Lease, X8 – Period of Lease, X9 – Leasing Rate, X10 – Type of Investment, X11 – Self-Employment * Type of Usage, X12 – Sector of Business, ϵ - random error.

3. Results and Discussion

Table 2: Poisson Model for Change in Employment

Variable	Coef.	Robust Std. Err.	z	P>z	[95% Conf. Interval]
Age	0.024304	0.004112	5.91	0	0.016244 0.032364
Gender	0.395555	0.193464	2.04	0.041	0.016373 0.774737
Education	-0.02652	0.03188	-0.83	0.405	-0.08901 0.035959
Self-employment	-0.29592	0.144466	-2.05	0.041	-0.57907 -0.01278
Initial Income	6.49E-07	4.19E-07	1.55	0.122	-1.73E-07 1.47E-06
Married	-0.85426	0.084858	-10.07	0	-1.02058 -0.68794
Value of leasing	2.80E-07	6.89E-08	4.06	0	1.45E-07 4.15E-07
Period	-0.01104	0.0039	-2.83	0.005	-0.01869 -0.0034
Leasing rate	-0.02481	0.008481	-2.93	0.003	-0.04143 -0.00818
Type of Investment	0.085817	0.115937	0.74	0.459	-0.14142 0.313049
Self emp. * Type of Usage	0.225558	0.115567	1.95	0.051	-0.00095 0.452065
Sector of Business	0.706159	0.082639	8.55	0	0.544189 0.868128
_cons	0.103657	0.470043	0.22	0.825	-0.81761 1.024925

Source: Field Survey Data, 2020

The model developed for the change in employment is presented in Table 2. There were twelve independent variables considered for the change in employment. The Maximum Likelihood Estimation (MLE) Method was used to estimate poisson regression model. The coefficient and incidence rate ratio of each independent variable are presented in Table 2 and 3 respectively. Robust standard error for each coefficient was estimated to test the hypothesis.

Table 3: Incidence Rate Ratios of Poisson Model for Change in Employment

Variable	IRR	Robust Std. Err.	z	P>z	[95% Conf.	Interval]
Age	1.024602	0.004214	5.91	0	1.016377	1.032894
Gender	1.485208	0.287334	2.04	0.041	1.016507	2.170022
Education	0.973825	0.031045	-0.83	0.405	0.914839	1.036614
Self-employment	0.743844	0.10746	-2.05	0.041	0.560418	0.987304
Initial Income	1.000001	4.19E-07	1.55	0.122	1	1.000001
Married	0.425599	0.036115	-10.1	0	0.360387	0.50261
Value of leasing	1	6.89E-08	4.06	0	1	1
Period	0.989016	0.003857	-2.83	0.005	0.981486	0.996604
Leasing rate	0.975499	0.008273	-2.93	0.003	0.959418	0.991849
Type of Investment	1.089606	0.126326	0.74	0.459	0.868128	1.367588
Self emp. * Type of Usage	1.253022	0.144808	1.95	0.051	0.999051	1.571554
Sector of Business	2.026193	0.167442	8.55	0	1.723211	2.382446
_cons	1.10922	0.521382	0.22	0.825	0.441485	2.786887

Source: Field Survey Data, 2020

The descriptive statistics of the variables show that ninety four percent (94%) of the lessees in this study are male. Ninety three percent (93%) of the lessees are self-employed. Around 40% of the lessees are self-employed and invest leasing facility in own business. The average value of leasing in this study is around 1.2 Million rupees. The minimum and maximum value of leasing are 320,000 rupees and 50 Million rupees respectively. The average leasing rate is around 28%. The minimum and maximum leasing rate is around 12.5% and 32% respectively. The seventy five percent of lessees invested the leasing facility in new business. Eighty five percent of lessees invested the leasing facility in the transport sector. Around forty percent of lessees had defaulted in leasing. The average change in the employment is one (1). The minimum and maximum change in employment is 0 and 6 respectively. The study has found that 72.8% of leasing facilities has been offered to transport sector and out of the leased facilities 39.9% were seized.

The coefficient (2.80E-07) and Incidence Rate Ratio (1) of value of leasing are significant at 5% level. The Incidence Rate Ratio (1) indicates that if value of leasing increases by one rupees, rate ratio for change in employment would be expected to be unchanged, while holding all other variables in this model constant.

The coefficient (-0.29592) and Incidence Rate Ratio (0.743844) of self-employed are significant at 5% level. The Incidence Rate Ratio (0.743844) indicates that Self-employed compared to others is expected to have a rate 0.74 times lower for change in employment, while holding all other variables in this model constant.

The coefficient (0.706159) and Incidence Rate Ratio (2.026193) of sector of business are significant at 5% level. The Incidence Rate Ratio (2.026193) indicates that lessees who invested in transport sector

compared to others invested in agriculture and other sectors are expected to have a rate 2 times greater for change in employment, while holding all other variables in this model constant.

The coefficient (0.225558) and Incidence Rate Ratio (1.253022) of interaction of self-employed and type of usage are significant at 5% level. The Incidence Rate Ratio (1.25) indicates that lessees who are self-employed and invested in own business compared to lessees who are self-employed and not used in own business are expected to have a rate 1.25 times greater for change in employment, while holding all other variables in this model constant.

The coefficient (0.395555) and Incidence Rate Ratio (1.485208) of gender are significant at 5% level. The Incidence Rate Ratio (1.485208) indicates that male compared to female is expected to have a rate 1.5 times greater for change in employment, while holding all other variables in this model constant.

The coefficient (-0.85426) and Incidence Rate Ratio (0.425599) of married are significant at 5% level. The Incidence Rate Ratio (0.425599) indicates that lessees who are married compared to unmarried lessees are expected to have a rate 0.43 times lower for change in employment, while holding all other variables in this model constant.

Incidence Rate Ratios of other variables considered in this model are close to one. It indicates that if value of other variables change, rate ratio for change in employment would be expected to be unchanged, while holding all other variables in this model constant.

The overall results of the study show that the leasing activity in Jaffna district has created positive impact over the employment. The results over the set hypothesis also positive and significant at 5% level on most of the variables. It has been proofed through the results on poisson regression model estimated to study the impact of leasing on employment. The theory on vehicle leasing stats that "Owning a higher value vehicle by paying a low monthly rental with a lump sum at the end of the lease period". But the results shows that a significant percentage of the leased facilities have been taken out as they were defaulted. Further, the study results shows that most of the facilities have been offered to transport sector. A finance lease is a type of equipment lease where the customer (or 'lessee') rents an asset for most of the item's useful life. Finance leases are sometimes also known as capital leases. "Leasing is an arrangement that provides a firm with the use control over assets without buying and owning the same, it is a form of renting assets. The lessees have approached the leasing companies to own the facility, according to the results there are still clients unsuccessful over the expectations to own the facility though the leasing has created positive impact over the employment.

4. Conclusion

The study concludes based on the findings that on average the leasing activities have positively contributed for employment of the leasing clients in Jaffna District. The hypothesis set for the study was "Leasing positively influences on employment" and it has been proofed through the study results. This was tested through the poisson regression model estimated to study the impact of leasing on employment.

The findings of regression analysis show that on average if a lessee is self-employed and invested lease facility in own business will earn monthly around 40,000 rupees greater than those who are not self-employed and not invested lease facility in their own business. The study propose a policy to be enforced by the leasing companies to offer the leasing facility for the clients who self-employed and invested on their own business. Increasing leasing amount alone will not create employment significantly, while holding other variables constant. Further, this study also recommends to have a policy over increasing the leasing amount for its

clients. The other factors needs to be considered for any clients to increase their leasing amount. If a lessee is self-employed and invested lease facility in own transport business will create employment two (2) times greater than those who are not self-employed and not invested lease facility in their own business. The leasing companies should have a policy over taking decisions. The creation of new employment through leasing must be considered as one of the key criteria to office leasing facilities to the clients.

Therefore, this study would recommend that leasing companies should carefully study the initial income, asset and debt of the lessee and whether lessee is self-employed and willing to invest in own business before providing leasing facilities to the lessee and the leasing amount is sufficient for the lessee's own business to operate. The leasing companies should monitor their investment and provide advice on their business and household expenditures. The leasing companies are recommended to limit the leasing facilities which are not linked with income generation initiatives.

The government authorities should monitor leasing companies, regulate leasing activities and leasing rate to over-exploit the lessees for making super normal profit and should provide a law enforcement mechanism to leasing companies to operate leasing activities in a conducive business environment.

There were also recommendations made to the leasing clients. The leasing clients should not go beyond their capacity and invite trouble. In most of the instances the leasing clients have invited trouble. They mostly go beyond their capacity and get the leasing facility. In the middle they find that they are in difficulties and stop paying the installments due to their inability. This will enable the leasing company to seize the leased facility and finally the lessee lost the leased asset as well as their own assets.

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