EQUIPMENT LEASE FINANCING NIGERIAN: A COMPARATIVE ANALYSIS OF SELECTED MERCHANT BANKS

BY

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DECARATION

I hereby declare that this project has been written by me and that it is a product of my own research work. All sources of information and where application, other writer's' views have duly acknowledge in form of references and bibliography.

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CERTIFICATION

This project Entitled Equipment Lease Financing in Nigeria: a Comparative Analysis of Selected Merchant Banks by Sani Yakubu Abba meets the regulation governing the award of Master of Business Administration (M.B.A.) of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

Supervisor	3/2/2000 Date
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Dean, Postgraduate School	12/03/03 Date

DEDICATION

This project is dedicated to my father Alhaji Sani Kankara and my mother Hajiya Rashida Sani.

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I thank Almighty Allah for his blessings and guidance through out the course of my study and research.

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ABSTRACT

Business not only require resourees (Debt and equity) but the right type of funds to acquire asset- current and fixed, for its day to day operations. Current assets or business asset that have useful value of less than one accounting period, usually one year, are funded with short- term funds- trade credits, current line facilities and overdrafts. Whereas fixed asset arc founded with long term loans. Thus, a mismatch has to be avoided here in funding the assets for effective and efficient management of resources.

I Iowever, the high cost of plants, equipment and machineries has denied most economic sectors and companies the traditional form of financing for acquisition of fixed asset. In Nigeria, this sector is affected by the unprecedented depreciation the naira as acquisition of llxed asset become too expensive to finances.

To overcome the problem of funding and shortage of capital, firms have resorted to EQUIPMENTS LEASING, Which was in the past associated with Real estate- Land and property. Nowadays, Lease financing encompasses virtually all kinds of fixed assets such as Gcncrat5orcs, aircraft's, ships, Computers, Trawlers, Specialized Equipment and furniture.

Leasing therefore provides a methods for financing new investment without the necessity for an immediate large capital outlay. In this respect, it is superior to other forms of international credit. At the expiration of the lease period, the asset so financed under the lease agreement will not pass on to the lessee, but to the lessor who may now exercise discretion whether to further lease it out or dispose it off completely.

Lease functions are carried out especially by Merchant Banks, Specialized Institutions and manufacturing companies Leasing therefore is without doubt the creative financing alternative.

In the light of the above, this paper will attempt to look at Equipment lease Financing in Nigeria, making a comparative analysis of some selected Merchant Banks

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CHAPTER ONE

1.1 INTRODUCTION

Business involves systematic combination of resources factors to produce goods and services with the ultimate objectives of making profit, or in some cases to satisfy identifiable social needs. One resource factor that is considered indispensable in business organizations and growth is the financial resource.

Business not only require resources - debt and equity, but the right type of funds to acquire assets - current and fixed, for its day-to-day operations. Current assets or business assets that have useful value of less than one accounting period, usually a year, are funded with short-term funds-trade credits, current line facility and overdrafts, whereas, fixed assets are funded with long-term funds-capital issues, ventures capital financing and term loans.

However, the high cost of plants, equipment and machinery has denied most economic sectors and companies the traditional form of financing for acquisition of fixed assets. In Nigeria, this sector is affected by the unprecedented depreciation of Naira as acquisition of fixed assets became too expensive to finance.

To overcome the problem of funding and shortage of capital, firms have resorted to equipment leasing, which was in the past associated with real estate-land and property. Now, lease financing embraces virtually all kinds of fixed assets such as generators, aircrafts, ships, computers, trawlers, specialised drilling equipment's and furniture.

Leasing provides a method for financing new investment without the necessity for an immediate large capital outlay. In this respect, it is superior to other forms of international credit. At the expiration of the lease period, the asset so financed under the lease agreement will not pass on to the lessee, but to the lessor who may now exercise discretion whether to further lease it out or dispose it off completely.

Lease functions are carried out specially by merchant banks. Some commercial banks, development banks, specialised institutions and manufacturing companies also engaged in the lease business. Leasing therefore, is without doubt the creative financing alternative.

1.2 Statement of the Problem

Leasing is a new concept to most practitioners in Nigeria. I is being practiced amongst limited financial institutions which are mostly merchant banks.

The introduction of Structural Adjustment Programme (SAP) in 1986 and concomitant proliferation of banks and other financial institutions however, boosted the number of practioners and volume of leases. Commercial banks were also allowed to engage in equipment leasing.

Despite the increase in number of participants and boost in the volume of businesses, this alternative method of financing is consideced to be relatively unpopular and still at its infancy state in Nigeria. This is true when compared to the level of development the financing method has attained in developing nations like Pakistan, Singapore and India.

Therefore, the main focus of this research is to find out:

1. The growth achieved in lease volume and rentals income compared to loan volume and interest income in the last ten years.
2. Find out the factors militating against the growth and awareness of leasing business in Nigeria.
3. What are the problems faced by the existing lessors in the past and present
4. What are the controllable actions that could be taken to curb the problem.

5. Lastly, what are the prospects of the leasing business in Nigeria?

1.3 Objectives of the Study

The practice of leasing plant and equipment rather than borrowing funds to finance the purchase of such assets has not been very popular with individuals, partnerships and corporate entities in Nigeria. Consequently, many enterprises with disturbing cash-flow positions in the past (and at present too) financed working capital requirements through overdrafts and advances. Funds which could otherwise have been used to finance increasing inventory levels and expanding operations, have been sunk in fixed assets.

Thus the objective of this study is to critically look into the significance of equipment leasing as an alternative financing to the acquisition and use of equipments. This study objectives can be summarised as follows:

1. To critically examine the practice of leasing as it exists today in Nigeria.
2. To enhance the level of wareness on the concept of equipment leasing in Nigeria.
3. To examine leasing as a means of financing as opposed to outright purchase of an equipment by considering the types of lease; lease agreement; the legal and the accounting aspect of leasing.
4. To analyse the benefits of lease financing
5. To examine the factors militating against the growth of leasing industry in Nigeria
6. To proffer solutions to the factors militating against the growth of leasing and also analyse the benefits of lease financing.

1.4 Significance of the Study

This study is going to be of significant importance to both existing as well as potential equipment lessors. Lessees will also find the immense usefulness of the study as it will educate them to know the advantages of leasing over outright purchase and conventional bank loan. The research will educate them on the achievements made in the industry, while pointing out of the problems affecting the practice with a view to guiding the participants to take remedial actions. Potential lessees will also know the readiness of the lessors to undertake financing of their lease proposals.

In addition, professionals, academicians, banks and their executives, government officials and other individuals will find this study useful in broadening their knowledge on the topic, a guide to future research and an influence on the implementation of policies on equipment leasing.

1.5 Scope of the Study

Equipment lessors in Nigeria are numerous. Both commercial and merchant banks engage in leasing. The prominent amongst the two group of lessors is the merchant banks, as leasing is one of their traditional functions.

This study therefore, limits its focus to two merchant banks in Nigeria. They are, International Merchant Bank PLC a pioneer institution distinguished for its bright performance record, and Nigerian Intercontinental Merchant Bank Limited, a new generation merchant bank. This study also intends to cover the Structural Adjustment Programme era.

1.6 Limitations of the Study

Research work of this nature must have its own limitations. The first limitation of the study was the cost and time involved, as all the data used for the study were obtained out of Zaria, as such involves a lot of travelling which is not an easy task these days. This was necessary because none of the merchant banks under study has a branch office in Kaduna or Zaria.

Human errors and sentiments were other limitations of the study because some information obtained through the discussion and interviews I had with people are sources of data used, as such there is possibility of human error or commission or omission. Lastly on the limitation is the reliability and validity of the data obtained from respondents. These respondents may exaggerate or hide some important information in order to portray a good image of their organisations.

1.7 Definition of Key Terms

Lease A contract between lessor and lessees for the hire of a specific asset selected from a manufacturer or vendor of such assets by the lessor.

Lessor person that leases the asset. In other words, he words, he is the owner of the asset on lease.

Lessee A person or firm to whom asset is leased.

Financial Lease A form of leasing whereby the lessor expects to recover the capital cost of the asset, money cost and his profits during the basic period of the lease.

Operating Lease A form of leasing which requires both the financing and maintenance services of the lessor. The lessor is mandated to take full cost of the maintenance in case of malfunction and breakdown.

Lease Period	The initial period of lease, commonly less than the normal working capital life of the asset, during which the lessor expects to recover the capital cost of the asset, his money cost and his profit.
Rentals	This is an amount paid to the lessor by the lessee for the use of the leased asset. Rental received is an income to the lessor, whereas rental payment is an expense to the lessor.
Rental Option	This is the option to renew the lease at the end of the initial lease term.
Use Life	This is the period of time during which an asset will have economic value and be usable. This is also called the economic life of the asset.
Residual Value	The value of equipment at the conclusion of the lease term.
Lease Term	The contractual manner in which the lease agreement is signed by both the lessor and the lessee.
Merchant Banks	A merchant bank is a whosesale bank as licensed under the Banking Act, 1969 (as amended) that engage in medium and long term activities such as acceptaccs, loans and advances, deposits, equipment leasing, foreign exchange services, issuing house services, project financing and so on.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 The Concept of Leasing

Leasing is one of the various forms of project financing. It is an agreement between a lessor and a lessee during a specific period to lend out equipment by the lessor to the lessee.

Van Horne (1998) defines leasing as "a contract whereby the owner of an asset (the lessor) grants to another party (the lessee) the exclusive right to use the asset in return for the payment of rent".

Leasing is also defined by Equipment Leasing Association of Britain as "a contract between lessor and lessee for the hire of specific asset selected from a manufacture or vendor of such asset on payment of specified rentals over a period".

For the purpose of this study, we shall define leasing as a contract between a lessor (owner) and a lease (user) giving the lessee possession and right to the use of specific capital asset owned by the lessor for an agreed rental payment over an agreed period of time. Contrasted with hire purchase or conditional sale in which the intention of both parties is that the equipment passes to the purchaser on the fulfilment of certain conditions stated on the agreement, the lease agreement creates merely a right to use the equipment for a certain period and at a specific rent. Leasing also does not require down payments as the case with hire purchase.

The fundamental characteristics is the differentiation of "use" and "from" "ownership" - this is to say that the lessee only has the right to use the equipment for a specified period of time but the lessor remains the legal owner of the goods at any point in time.

However, it should be noted that usage of leased assets is more important than ownership. Because, what creates goods and services is not the ownership but usage. This is the basis of leasing, which tremendously improves the productive capacities of developed world by enabling entrepreneur to engage in activities at a scale above what available funds can provide - Canon (1992).

2.2 History of Equipment Leasing

Although equipment leasing is as old as the history of man, nevertheless, the ancient history of leasing are those of transactions made around 2000 BC in the ancient Cymarine City of Ur. The ancient lease documents recorded transactions ranging from lease for agricultural tools, land, water rights and animals. Many early legal systems mentioned the financial tool called leasing. The most noteworthy document of laws relating to leasing dates back to around 17000 BC when the famous Babylonian King, Hamurbi, incorporated ancient Cymarin and Achaian customs on leasing into extensive collection of laws.

Other ancient civilizations notably those of Greeks, Roman and Egyptians exhibited the practice of leasing as an affordable, attractive and alternate means of financing equipment, land and livestock. Famous for their expertise in shipping and trade, ancient Phoenicians practiced ship charters which resembled pure form of equipment leasing. Ship Charter was made for short-term and long-term periods. Long term charter was structured for periods covering the sizeable proportion of the economic life of the ships so leased and required the beneficiary to assume benefits and obligations of ownership. Many of the current key negotiating issues on lease transactions were addressed in these ship charters.

In the United Kingdom, leasing became popular after the 19th century Industrial Revolution because of the increasing demands to acquire plants, machinery and equipment for production. The resultant expansion of the rail-roads used for conveyance also brought about major advances in development and use of leasing. Most early rail-road companies were supplying the tract to charge tools for use of their lines. This separated rail-road companies and those with toll locomotives and rail-cars.

Equipment leasing in the United States could be traced to 1700s when leasing involving horses, buggies and wagons were recorded. The real boost of leasing business in the United States was made by rail-road industry. There was also evidences on leases of telephone facilities by Bell Telephone Company in 1877, and those involving drilling facilities and shoe making equipment were made by Hughes Tool Company U.S. Shoe Machinery respectively. Vendor leasing also has its origin in the United States in 1900 when manufacturers started giving out their products for periodic payments. Lease involving vehicles also had its origin in the United States during the early 1940s.

Generally, technology revolution of the 1960s had positively affected the growth of modern-day lease financing, as firms recognised the competitive advantages of using equipments, such as computers and communication systems that incorporate most advanced technology in order to guard against obsolescence. Additionally, the cost of acquiring these technology were mostly prohibitive. Many firms that could not afford the down payment required by the bank, let alone the full purchase price, found leasing to be an affordable means of acquiring fixed assets. The significant amount of computers and other equipment leased in 1960s was very critical to the growth of leasing industry, as those leases represented many firms introduction to equipment leasing.

At present estimate, 15% to 20% of all capital equipment put into use are leased. Volume of equipment leased world-wide has also been estimated to be in excess of $50 billion.

2.3 Equipment Leasing in Nigeria

Leasing business in Nigeria had its root in the 1960s when some British companies started some forms of cross-border leasing. In early 1970s, Benworth Finance Limited and NAL Securities Limited commenced leasing practice but on a very limited scale. Late 1970s to present day, leasing practice has an unprecedented growth in terms of practitioners and volume of business. Within this period, there are two major developments that encouraged proliferation of business organisations and the resultant financing needs. They are the Oil Boom and the Structural Adjustment Programme (SAP).

Major developments in the practice of leasing in Nigeria are numerous. For instance, in 1982, Nigerian-American Merchant Bank Limited (NAMBL) leased an entire soft drink plant under an acquisition push by a major soft drink company. A year after, precisely June 20, 1983, six Nigerian Merchant Banks, namely NAL Merchant Bank PLC, ICON Limited (Merchant Bankers), International Merchant Bank PLC, Nigerian-American Merchant Bank Limited and Nigerian Merchant Bank Limited, reached a consensus to form a body that would be the focal point for the promotion of leasing in Nigeria. That was the formation of Equipment Leasing Association of Nigeria (ELAN).

The broad aims of ELAN includes:

i) Promotion and protection of the interest of the association in the exercise of their business as equipment lessor.

ii) Promotion of honourable practice in the conduct of members business.

iii) Dissemination of relevant information and data to industry players as well as representing members of the association in all or any, of their relationship with government departments, either public or trade associations and professional bodies.

iv) To also affiliate with the financial and related institution both within and outside Nigeria.

In 1988, International Merchant Bank PLC leased a fishing trailer for the first time in the industry. It has become a regular feature in the industry to finance leasing of trawlers. During the same period, Continental Merchant Bank Limited leased 5 Brazilian made passenger aircraft at the cost of about₦ 20 million.

Textile industry also benefited immensely from lease financing. In 1987, for example, Spintex acquired a modern spinning mill through a lease financing in consortium of four banks. The cost involved was about ₦20 million. Same year, International Merchant Bank PLC raised₦ 37 million in the market through a lease syndication for United Spinners. Amount raised was used to acquire the most modern spinning mill in the country. Between 1986 and 1989, investments in the textile industry through equipment leasing was ₦800 million. Companies like Aswani, Five Start, President Bhojsons Group, Lucky Fibre, Sunflag and United Textiles all benefited from the boom in leasing industry.

Apart from the leasing by NAMBL of an entire soft drink plant for Cocoa-Cola in 1986, soft drink industry continued to benefit from leasing business over the years. seven-up, a major Soft Drink Company, acquired the use of ₦30 million worth of trucks through a lease financing package put together by Merchant Bank of Africa Limited. Today, 50% of the trucks of major soft drink companies in Nigeria are leased. There is hardly any industry in Nigeria that has not benefited from equipment leasing, directly or indirectly. More often, vehicle leasing has been getting patronage in the industry due to increasing cost of vehicles coupled with poor liquidity positions of most Nigerian companies because they could not afford down payment required for outright purchases. Most companies today provide transportation to their workers - managerial and junior, through vehicle leasing, plastic, printing, paper converters, publishing and many other small and medium size companies have also benefited from the phenomenal growth in equipment leasing industry.

The membership of Equipment Leasing Association of Nigeria (ELAN) has also grown up to embrace all the merchant banks, Leventis Technical Limited, Holt Leasing Limited, Benworth Finance Limited, Leasing Company of Nigeria (subsidiary of NIDB) and Nigerian Bank for Commerce and Industry (BCI).

With the statutory permission granted to commercial banks in 1990 to engage in equipment leasing, hitherto an exclusive preserve of merchant banks, some commercial banks are now playing significant role in boosting leasing business and are also members of ELAN. Chief amongst them are Zenith International Bank Limited and All States Trust Bank Limited.

Table 1:

GRWOTH AND TOTAL BUSINESS OF LEASING BY ELAN MEMBERS

(₦' MILLION)

YEAR	1985	1986	1987	1988	1989
New Assets Acquired	63.9	56.7	198	296	424
Total Leases Value	39.3	16.6	302	578	1,288
Net Book Value	24.3	82.4	253	485	926
Rental Income	18.6	18.9	21.1	126	294

SOURCE: ELAN, Leasing, The Creative Financing alternative: March 23-25, 1992

Expansion in the number of practitioners had led to increase in volume of equipment leasing in Nigeria. Between 1985 and 1989, the period for which statistics is available, equipment on lease at cost increased from ₦39.3 million to₦1,238 billion, that is a growth of 31.5 times. Total net book value of assets on lease was ₦926 million in 1989 compared to the 1985 figure of ₦24.3 million. The increase was 38 times. Rentals received on equipment on lease in 1985 was ₦18.6, whereas similar revenue in 1989 was 294 million. Comparatively, 1989 figure was 16 times higher than the one recorded for 1985. While the total assets leased at cost was growing at an annual average of 240 percent, net book value of leased assets and rentals received were growing at an annual average of 257 percent and 261 percent respectively. Impressive as the other indices, assets acquired at cost in 1985 was ₦63.9 million, while 1989 figure was ₦424 million. The 1989 figure was 6.64 times the amount recorded for 1985. The statistics also shows that annual acquisition of new equipments for leasing was growing at an average of 183 percent.

Table 2:

Total Assets on Lease as at Year end at Original Cost Analysis byt Type of Industries

(₦' Million)

YEAR	1985	1986	1987	1988	1989
Manufacturing	18.4	12.3	57.3	105	192
Transport	1.4	0.25	15.0	11.6	43.6
Agriculture/Quarry	-	1.30	1.30	1.85	43.1
Distributive	0.70	-	0.32	1.00	1.40
Service	0.95	-	2.17	6.61	4.61
Construction	-	-	-	38.0	44.1
Others	1.17	-	0.098	2.74	4.0

SOURCE: ELAN, Leasing, The Creative Financing Alternative: March 23-25, 1992.

The above table shows equipment on lease granted to various industries from 1985 to 1989. Total equipment lease exposure to manufacturing industry was₦ 18.4 million in 1985. This experienced remarkable increase in 1989 to₦ 192 million. Agriculture/Quarry and construction with no exposure in 1985 but acquired leased equipments in the subsequent years had₦ 43.5 million and₦ 44.1 million respectively in 1989. Whilst the total assets leased to manufacturing industry was growing at an average of 225 percent annually between 1985 to 1989, total assets leased to agriculture/quarry industry had an average annual growth of 1,618 percent within the same period.

Total assets leased to construction industry also experienced 643 percent annual average growth between 1985 to 1989. Lamentable progress achieved in the equipment leasing industry over the years was encouraged by many factors. These are:

i) Unprecedented depreciation of Naira

ii) Escalating cost of equipments

iii) Liquidity squeeze

iv) Foreign exchange scarcity

v) Handsome capital allowance available to lessors

vi) CBN permission to commercial banks to engage in equipment leasing.

2.4 Forms of Leasing

There are basically two broad types of leases. Financial (or full pay-out), lease and operating lease. All other variations belong to either one or the other of these two types.

2.4.1 Financial Lease

This is a situation where the lessor provides an equipment to a lessee who is asked to pay back over a specific period during which the lessor recoup all the cost of the item over the period of lease. Financial lease does not require the lessor to take on repair cost. The lessee chooses the equipment and the lessor pays for the equipment. Once the contract is entered, it cannot be cancelled and the lessor expects to recover, in full his outlay on the asset, and, additionally, a reasonable return on such outlay. In other words, the lessor is simply a provider of finance on which he expects a return.

Under a finance lease, the legal title to the asset under lease is retained by the lessor. However, all the risks and rewards of ownership are substantially passed on to the lessee in return for a stream of rentals over a specified period of time. Normally under this type of contract possession of the equipment passed to the lessee, and, along with it, the responsibility for maintenance and insurance.

2.4.2 Operating Lease

This requires both the financing and maintenance services of the lessor. The lessor is mandated to take full cost of the maintenance in case of malfunction and breakdown. As a result, operating lease costs more than financial lease. In operating lease, the lessee actually pays for the use of the equipment. Under it, the lessor retains both the legal title and the risk and rewards of ownership of the leased asset. Risk of obsolescence is inherent for certain equipment, and the lessor may be required to change and replace them.

In operating, the lessor will give out the equipment to the lessee and the lessee goes ahead to use it for a certain period after which he returns the equipment to the lessor. Here the lessor recoup the cost of the equipment by calling in several lessees or one lessee who is willing to go on and pay as he uses the equipment. Leases under this classification constitute essentially trading by the lessor with the equipment, and are, therefore, very susceptible to the vagaries in the economy of the lessors environments. Operating leases are usually for short periods. In operating leases, the terms are usually spelt out in the original contract to avert litigations which can be foot-dragging in most cases. Also, the service lease is not fully amoritised at the end of the lease period.

2.5 Variations of Lease Arrangement

Leasing developed and continus to develop at a fast pace, venturing into many areas, and giving birth to many "brands". Principally, the various types of lease arrangements are; Sale and Leaseback, Syndicated leasing, Leverage Leasing, Sales-aid-leasing and Cross Border Leasing.

i) Sale-and-Leaseback

Awelewa (1991) defines the sale-and-leaseback "as an arrangement in which an owner-user of an equipment sells the equipment to a financier for an agreed amount. The equipment is simultaneously leased back to the user, who has now assumed the status of a lessee, by the new owner (the lessor, financier or the purchaser) of the equipment for periodic rentals".

Sales-and-lease back is a flexible and creative method of leasing as it provides values to business entities facing different situation. This arrangement is becoming common in the country especially now that the current cash squeeze affects more and more companies. Thus this arrangement is of tremendous benefits to businesses needing working capital.

ii) Syndicated or Consortium Leasing

This involves the coming together of two or more lessors who finance assets/equipment usually with high capital outlay that couldn't have been financed by only one of them, or where the lessor wishes to share the risk with others. In the cases where the lessors have joint interest in the same assets as opposed to discrete assets, permission has to be sought from the Federal Ministry of Industries to recognise the joint ownership for the purpose of capital allowance.

According to Lapite (1983), under a syndicated lease arrangement, the party or institution that brought all the other financiers or co-lessors together to agree on terms and conditions of the lease is called Lead-lessor or Head-manager. Apart from bringing them together, the lead-lessor coordinates the lease syndication process by liaising between the member lessors of the syndicate and the lessee throughout the contractual period.

iii) **Leveraged Leasing**

This is a special form of lease involving three parties i.e. a lender, a lessor and a lessee. The lender provides a substantial portion of the amount required while the lessor comes up with the balance. Usually the lessor has no obligation to the lender other than transferring the portion of the receipts from the lessee to cover principal and interest due.

The lessor in a leveraged lease is the owner of the equipment. He becomes the owner by providing a portion of the financing required to purchase the equipment. In the United States and Japan, where leveraged leasing has become very popular, usually the lessor provides between 15% to 20% of the required funding, while the remaining funds come from institutional investors on a non-recourse basis. The loan from the investors secured by a charge on the equipment, the lease and the lease rentals are also assigned to the lenders.

According to Akinfemiwa (1991), the lessor in a leveraged lease enjoys all of the tax benefits as the true owner, even though the contribution of the lessor to the purchase of the equipment is characteristically about 20 percent of the cost. This ability to claim all the tax benefits on the equipment while providing only a portion of the cost of the leased equipment is the leverage in the leveraged leasing.

iv) **Sales-Aid-Leasing**

This is an arrangement between the manufacturer or vendor of an equipment whereby the lessor offers a leasing package as an alternative form of finance to assist the manufacturer or vendor in selling its products to buyers who do not want outright purchase.

In practice, vendor leasing is very common to products like photocopies, typewriters and other forms of office equipments. An organisation that is reknown for this practice worldwide is Rank Xerox.

(v) <u>Cross-Bordering Leasing</u>

Ibrahim (1991) defines cross-border leasing as an arrangement whereby "the lessor and the lessee operate in different countries". In other words, it is a method in which the owner-lessor of equipment in one country lease out the equipment to the user-lease in another country. Essentially, transaction under cross-border leasing is affected by both tax and foreign exchange laws of the countries of the lessor and the lessee.

2.6 Difference Between Leasing and Hire purchase

In many countries, leasing is similar to hire purchase while in others, the two concept are very different.

In equipment lease, the lessee is entitled to the possession and use of the leased asset while ownership remain vested in the lessor through the period of the lease. This is the major legal distinction between an equipment lease and hire purchase which Hicks (1980) describe as "a contract of hire paid for by installments under which the hirer may become the owner of goods if he completes payments of the hire purchase price".

From the above definition, it is clear that the ultimate objective of the hirer or bailee in such transactions is the ownership of the subject matter or the agreement, whereas in an equipment lease the ownership of the leased asset must necessarily remain vested in the lessor if the transaction is to remain a lease.

In Nigeria, there is a ranging controversy among legal experts, financial analyst, students and the like as to whether if a lease has an option to purchase, the transaction then falls within the category of hire purchase agreement or not. In my opinion, I feel that a lease agreement does not necessarily become a hire purchase simply because the agreement contains an option for the lessee to buy the equipment at the end of the lease. This is because since most merchant banks in Nigeria derive their root from United States where there is explicit distinction between leasing and hire purchase.

2.7 Leasing Vs Purchase Of Fixed Asset

At times, analsysis of investment proposal may reveal more attractive opportunities than can be observed by a company's normal financial structure. In this case long term leasing should be considered instead of buying the fixed asset. There are other things other than financial structure which might make leasing more attractive, for instance the overall business may be so uncertain that it may not be prudent to embark on any substantial investment in fixed asset such as heavy industrial machines.

It appears however as if the primary aim of leasing is to avoid the need for tied up capital in fixed assets.

A lot of people will not recommend leasing because of its inherent cost such as insurance, maintenance and repairs as well as interest on the tired up capital, they forget that most of these expenses would still be incurred if the company buy the asset. The fundamental different between owing and leasing is what with a lease neither the equipment leased as asset nor the source of funds as a liability appears in the balance sheet in Nigeria.

It should be made clear that leasing must not be used indiscriminately because it creates a continuing financial burden in various ways in contrast to owing fixed assets. The company's general policy regarding its investment in fixed assets and capital budgeting principal should normally apply to property lease for a long term as well as property that is purchased.

2.8 Legal Aspect of Lease Financing

The important legal aspects of lease financing are as follows:

a) Legal Documentation for Leases

The main legal document required in a lease transaction is the lease agreement. The following are standard clauses which every agreement should contain whether it be an operating, financial or leverage lease.

i) **Tenor**: Every lease must be for a definite period, the option to renew the term will depend on the type of lease.

ii) **Rental**: May be fixed or floating. The prompt payment of rentals is of the essence of a lease agreement and failure to payment of rentals on the stipulated date would usually determine the lease.

iii) **Insurance**: Lease equipment must always be insured either by the lessor or the lessee. In an operating lease, the lessor insured whereas in a finance lease, the lessee will insure the equipment but have the lessor's name enclosed on the policy as the loss payee.

iv) **Covenants**: Both parties to a lease agreement have covenants which each party must observe, a breach of which by either party could lead to a termination of the lease where there is failure to remedy the breach within the stipulated or a reasonable time. A breach of covenant could also give rise to the payment of damage.

v) **Events of Default**: Under this charge the circumstances under which a lease may be terminated by the lessor are stated. These include the breach of any of the covenants or the liquidation or bankruptcy of the lessee.

vi) **Capital Allowance**: At the moment the practice in Nigeria is that the lessor in both the finance or operating, lease claims the capital allowance on lease equipment. In other jurisdictions, such as American and Britain, the tendency is to allow the lessee in a finance lease to claim the capital allowance.

vii) **Termination of the lease**: The lease must come down to an end either by effusion of time or determination on the branch of any of the terms of the agreement.

viii) **Warranties and Guarantees**: Whatever a lessor will give depend on type of lease.

In operating lease, the lessor is responsible for the satisfactory working of the equipment and his warranting is essential whereas in finance lease, the lessor is the legal owner and financier of the equipment, the full weight of the maintenance and warranties falls on the lessee.

ix) **Schedule**: It is fundamental that the equipment which form the subject matter of the agreement must be clearly stated and identified and this may be done either in the main body of the agreement or in the schedule.

b) **Legal Position of Equipment Leases in Nigeria**

In Nigeria there is no enacted law on equipment leasing. Leasing transactions are therefore mostly governed by the rules of common law and to some extent company law. An equipment lease as earlier stated is distinguished from hire purchase and conditional sale in that the lessee has neither the option nor the obligation to purchase the equipment but is required to return them to the lessor. It therefore follows that if a lease agreement in Nigeria contains the option to buy, the transaction would be treated as a hire purchase agreement which is governed by the 1965 Hire purchase Act. If the lease contains an obligation to purchase, it would be treated as a conditional sale and it would fall on the sale of Goods Act, 1893. The Common Laws rules of contract would also apply to lease agreement in giving effects to the terms and conditions therein agreed to by the parties. The Companies Decree of 1968 as it affects the establishment and running of companies is also relevant.

Finally, the Nigeria Tax Law as it affects leasing can be found in schedule II paragraph 18(3) of the Income Tax Act 1979. In this schedules, a company is allowed to claim capital allowance in respect of any asset on which it has incurred capital outlay and which it has leased out to another person for the whole exclusive set of the lessees business. Equipment lessors in Nigeria caom that these are too small and that an increase in these allowances would serve as an "incentive for the industry".

Because there is no modified law on leasing in Nigeria, many aspects of the leasing transactions are still grey areas. The position of the law being uncertain because of the lack of litigation in those areas or the paucity of the decision from courts of bidning or superior authority.

2.9 Accounting Aspect of Equipment Leasing

One of the biggest challenges faced by the entire leasing industry in Nigeria, as was observed by Akighola (1990) in a paper presentation, are the twin issues of accounting for leases and the existing laws on taxation which affect lease transactions. Said he "with no harm intended, you will agree with me that there is no love lost between the tax man and the tax payer and the latter will continue to sing his redemption song "Born Free Tax to Death". There is at the oment confusion on the accounting treatment of leases by both lessors and lessees".

The International Accounting Standards Committee (IASC) of which the Institute of Chartered Accountants of Nigeria (ICAN) is a member issued IAS 17 - Accounting for leases in 1983, and it becomes operative in January, 1984. Paragraph 44 of this standard states as follows:

> "A finance lease should be reflected in the balance sheet of a lessee by recording an asset and a liability at amounts equal at the inception of the lease to the fair value of the leased property net of grants and tax credits receivable by the lessor... thus, under a finance lease it is being recommended that the lessee show in his balance sheet the leased assets while the capital allowances will be claimed by the lessor".

Leasing has been a controversial issue ever since it came into prominence as a financing device. The controversies centre around the determination of the proper method of accounting and reporting leasing transactions especially the finance leases. Leasing in both an investment and a debt both having future orientation. The common characteristics of these two related transactions is the time value of money. An accountant must make a thorough analysis of the timing factor in both the cash inflows (investments) and cash outflow (debt) of the transaction before appropriate accounting method is employed.

The greatest problem the accounting faces is with the disclosure of leasing arrangements. There is presently a disagreement about what information is to be disclosed, how it should be disclosed and where it should be disclosed. While some accountants favour the recognition of assets, and liabilities under a finance lease, some feel this information is adequate disclosure. Other favour non-recognition of leases in the balance sheet but would recommend extensive footnote disclosure of relevant information pertaining to them. Yet there are some accountants who would not like to see leases reported either in the balance sheet or as footnotes. To them leasing should be a legitimate "off-balance sheet" financing.

2.10 Advantages of Leasing

Without tangible benefits resulting from leasing as an alternative finance vehicle, the product would not have been able to generate so much market acceptance in Nigeria within so short a period of time. The benefits of leasing can be described from the lessor's perspective and the lessee's perspective.

2.10.1 Benefits to the Lessor

From the lessor's perspective, the following are the benefits they will derive by investing their funds in equipment leasing trade:

i) Simplified security management for lessor. The returns on the money invested in equipment leasing trade by lessors are guaranteed. The lessor or owner of the equipment can take it back in case of any default or financial problem on the part of the lessee. Since the equipment is still legally the bona-fide property of the lessor.

ii) When a lessor do business with a large number of lessees, he is more likely to buy a larger quantity of equipment than individual lessees. For a lessor, it will be financially prudent, therefore to buy in bulk and take advantage of the trade and/or cash discount available. And thus reduce the unit capital outlay on each piece of equipment. In order to remain competitive some of the financial benefits are usually passed on the lessee in the form of lower charges.

iii) Leasing is one of the ways in which a lessor can invest idle capital in order for his capital to grow.

iv) The lessor is entitled to capital allowance and this capital allowance offers tremendous tax relief to the lessor, in other words, higher yield realised by lessors through tax shield, as compared to loans and advances.

2.10.2 <u>Benefits to the Lessee</u>

From a lessee perspective, these are the benefits to be derived from leasing.

i) From the cash management position, leasing makes cash flow forecasting much easier. Lease payment may be structured within limits to correspond to expected cash flow from operations or project.

ii) Leasing provides a natural hedge against technologies obsolescence of the equipment on lease. The flexibility inherent in leasing could allow the lessee upgrade, at minimal cost, in case of equipment that belong to rapidly changing technologies.

iii) Leasing is more convenient than most alternative sources of financing. Credit processing, collateral requirements and documentation, in most cases have proved to be quicker and less stringent for lease transactions than for traditional financing vehicles.

iv) Diversification of financing sources. Leasing offers an additional source of financing and avoids any over dependence on single source of funds.

v) A lease permits reduction of capital that can be used elsewhere in the lessee's business. In the face of raging inflation and rising costs of capital, business are obtaining the use of productive assets without necessarily undertaking the affordable cash outlay required to purchase the assets.

vi) There is flexibility in a leasing arrangement which most financing lack or do not offer adequately. A lessee has considerable leeway in selecting his equipment in terms of its type and the source of supply. This might not be the case even where loans are given to finance a capital equipments. The services to be provided by the lessor (such as insurance and maintenance) the rentals and the periods of lease contracts can be arranged flexibly to suit the particular needs individual companies and heir situations - Adewumi (1991).

vii) Leasing offers tax benefits. Leasing offers lessors the attraction of high capital allowances for significant tax deferrals. Likewise lessees obtain equally significant tax savings by being able to expense both the principal and interest components of lease rentals payable - Lapite (1992).

viii) The flexible nature of lease contracs also provides another advantage as it offers a good hedge against inflation. Leasing is the only form of credit that improves value added without necessarily distorting the price level stability. This is because, flexible rental payments can be organised in such a way that early installments are small, whilst later installments are large. In this way, cheaper money will be used in paying off future debts. Most order loan arrangements require regular repayments over the loan period - Adewumi (1991).

ix) Leasing avoids the dilution of ownership which is the case with sale of securities to raise capital. leases therefore, provide 100 percent financing without affecting the capital structure or the ownership equity - Lapite (1992).

2.11 Disadvantages of Leasing

Like any economic activity, leasing has it own disadvantages. The popular disadvantage of leasing is that a lessee does not ownf the equipment it possesses under a lease agreement - Adewumi (1991). Because of this, the residual value of the equipment at the end of the contractual period belongs to the lessor, who may have collected or recouped the capital and interest costs of the equipment.

In most cases, the lessee cannot use the asset as he pleases because of certain operational restrictions imposed by the lessor. The restrictions to which the lessee is subjected when leasing may, in some cases, be more annoying than those found in debt contracts for instance, a lessee may be required to obtain permission from the lessor before needed improvements are made to a property.

If the contract is non-cancelable, the lessee may find himself with a rotten "apple" which he is helpless to change. With an owned property, the owner can do whatever he pleases with the property, he can sell it or pledge it for another debt or even write it off.

In a rapidly changing technological environment, the lessor may find it difficult to obtain payments from lessees who find their equipment suddenly obsolete.

During period of economic boom, leasing may be profitable as there will be very few defaulters. However, during economic depression many companies my be unable to meet their obligation in their agreement resulting in mass defaulters with consequent reduction of income.

It is also argued that in real terms the cost of lease financing is higher than that of ordinary borrowing except where the other discussed economic advantages proved substantial - Canon (1992).

Finally, leasing does not necessarily work for every company. This is because leasing is "not a good medicine for a sick company. But it would attempt to build the best out of a good environment and not meant to make good out of a bad situation - Publication on Leasing (1985).

12.12 Federal Government Policies Towards lease Financing in Nigeria

Since the introduction of Structural Adjustment Programme (SAP) by the Federal Government of Nigeria, it was apparent that the government was determined to put a squeeze on credit expansion. As such the so-called "Free Funds" are no more available, therefore many enterprises opted for various alternative sources of funding projects which require huge capital outlays.

Lease financing became the available and indeed easiest alternative form of financing equipments. This is because it requires little or no collateral securities before making funds available to lessee.

Apart from guidelines issued by the government to lessors (mostly merchant and commercial banks) on the conduct of both medium and long term loan to a quite number of lessees, similar guidelines are also issued to take care of small and medium scale industries/enterprises (SME).

In view of that, the National Economic Reconstruction Fund (NERFUND) Decree No 2 of 1989 was signed into law, with the view to observe inadequacies in the provision of medium to long term financing to small and medium scale industries enterprises, especially manufacturing and agro-allied enterprises - ELAN (1990).

In line with NERFUND, the Central Bank of Nigeria (CBN) issued a circular on the small and medium scale enterprises (SME) loan scheme.

The primary objective of this scheme is to support existing enterprises to restructure and modernise their operations in maintaining their comparative advantage and to regain competitiveness. And thus help establish a new generation of viable investments in the private sector and service industries.

The sum of $30 million was set aside in 1989 to provide an alternative source of long term financing for SME's that are under capitalised and generally have less collaterals by wall of Equipment Leasing.

These SME scheme is contributing to the development of rural areas where the industries are located. It is living up to its objective of being designed to be a grassroots funding mechanism. Leasing is therefore likely to move from the large industrial projects in the urban areas to grassroots small and medium scale industries in the rural areas with substantial local raw materials. The scheme has triggered off a boom in small ticket leases and new players to meet the ever increasing demand for equipment leasing facilities. Lessors are now dealing with more sophisticated lessees who understand the art of the game more than ever before.

Export Simulation Lon (ESL) is another policy embarked upon by Federal Government, so that industries can expand their production capacity to engage in export especially to non oil sector. This programme is to increase export of commodities such as cocoa, rubber and their bye-products.

With the addition of Investment Tax Credit (ITC) currently being enjoyed by lessors of agricultural plant and machinery, both parties can work together to generate the much desired export proceeds.

The small scale farmers can now afford to lease simple farm instruments to boost their production. While lessors will structure the leases such that the rental will fall due only in harvest seasons when cash flow is mostly likely to be generated. Lease is known for its flexibility and our farmers and exporters of non-oil products may do well to take advantage of this development.

CHAPTER THREE

3. RESEARCH METHODOLOGY AND HISTORICAL BACKGROUND OF THE SELECTED BANK

3.1 Background information on selected merchant Bank

I would make an attempt to discuss the history of international merchant Bank PLC and Nigeria inter-Continental Merchant Bank Limited. Joined in the historical background are performance trend of the banks within available data.

3.1.1 **International Merchant Bank PLC**

International Merchant Bank PLC was incorporated on 24^{th} may 1974. It was then known as first National Bank of Chicago Limited, a private limited liability company. The Bank was issued a Merchant Bank License in July, 1974, and commence operation in August of the same year. The issued and fully paid-up capital at incorporation, the whole of which was held by fist National bank of Chicago ("FNBC"), USA, FNBC was then among the top ten wholesale banks in the USA with offices located in major international financial centres.

In September 1976, the federal government acquired 60% of the shares of the banks, in pursuance of its indigenisation programme. The Bank's name was subsequently changed to international merchant Bank Nigeria Limited, with technical management services provided by FNBC under the terms of an agreement which expired in 1982.

In 1991, FNBC divested remaining 40% shareholding in the Bank as part of it strategy to rationalize its investment and operations globally. Of this percentage, 10% was bought by staff and the remaining 30% was warehouse by IMB securities PLC. This was later sold on the floor of the Nigerian stock exchange to the general investing public.

In 1992, following the privatizing of government-controlled companies the federal government of Nigeria sold its 60% shareholding in the Bank to the Nigerian public. IMB thereby became a publicly-quoted company listed on the Nigerian stock exchange all key indices of measuring banks competitiveness. From a staff strength of 15 in 1974 when it opened its former corporate headquarter in Lagos, the bank now has more than 190 employees in its pay roll in offices distributed across the country- Lagos, Abuja, Kano and Port-Harcourt.

With its Head office located in Lagos, the bank's business is coordinated through it network of branches, And through which it provides a wide range of merchant banking services investment banking, credit trade finance, general registrar and local and international fund management services. International merchant bank has been keenly involved in the development of skilled manpower in the banking industry and pioneered the provision of local technical management agreement with lion banks and intercity bank which began in 1987 and 1991 respectively. Experience, expertise and wide skills of the management teams provided by the bank were being felt positively in the performance of the two banks over the year.

Movement of the bank's financial indicators had also been impressive since inception. Gross earnings, for instance, leaped from ₦ 10.65 million in 1980 to ₦ 852.91 million in 1993. This represent about 83 percents time growth. The bank experienced the highest gross earning s growth of 142.53 percent in 1982, from ₦ 16.39 million in 1994 to ₦ 39.75 million that year. The most significant contribution to gross earnings was interest income which almost tripped from ₦ 9.39 Million to ₦ 29.01 million. This was occasioned by an equally rapid growth in loans and advances for the period from N95.0 million to ₦242.07 million. Other years in which the bank experienced high gross earnings are 1981, 1987, 1988 and 1989.

The 1981 figure of ₦ 16.39 million reflected a growth of 53.9 percent on the 1980 figure of ₦10.65 million. In that year too, interest income sharply. In 1982, 1988, and 1989, gross earnings grew at 67.83 percent, 51.66 percent and 52.8 percent respectively. Increase was mainly from interest income, letters of credit and rentals from equipped on lease.

Impressive as the gross earnings, profit before tax profile of international merchant bank PLC experienced increasing trend. From ₦3. 86 million in 1080, The figure jumped to a high ₦77.31 million in 1993 and ₦79.53 million in 1997, representing more than 20 times growth respectively. Other outstanding years of growth in profit before tax were 1982, and 1992. In 1982, profit before tax grew by 127 percent. This was caused mainly by 53.90 percent in gross earning. While 1987 was marked with a growth rate of 79.23 percent, the 1992 profit before tax figure (₦55.55 million) shows a growth of 82.28 percent on 1991 figure. However, in the early 1990s, the bank's operations suffered a decline a result of the adverse effect of the country's political and economic environment. This resulted in a sharp decline in profit before tax of ₦77.31 million in 1993 to ₦6.85 million in 1995. This represented 91.14 percent decline in profit. In October 1994, a new Board for the Bank was appointed. This has since repositioned the bank for profitable growth. For instance, the profit before tax grew by 431.13 percent from 1995. In 1997, profit before tax was ₦79.53 million, representing about 116.47 percent increase over 1995 figure of ₦ 36.74 million.

Loans and advances portfolio of the Bank grew slowly but steadily in 1981, 1984, 1985, 1986,1987, 1989, 1990 and 1993. However, loans grew rapidly in 1982, 1996 and 1997 by 155 percent, 152.20 percent and 77.55 percent respectively. It also dropped for four year, 1983, 1988, 1991, and 1995. This marks international Merchant Bank PLC out as a bank with conservative approach to credit management.

Since inception, movement in total deposit liability had also been encouraging as the other indices. In 1980, the Bank had a deposit portfolio of ₦ 106.73. This jumped up in 1981 to ₦ 176.08 million, growth of 65 percent. The upward trend continued till 1988 when the bank achieved the highest deposit volume ever recorded in its history to performance the amount was ₦1.6 billion. This however, dropped to ₦9000 million in 1989. Remaining year, 1990, 1991,1992 and 1993, the bank experienced consistent upsurge in total deposit liability. It however, decline in 1995 by 23.56 percent, increased in 1996 by 25. 16 percent and further declined to ₦1.25 billion in 1997, representing a drop of 32.20 percent over 1996 figure of ₦ 1.466 billion.

Equity shareholders have equally had attracted return on investment. For instance earning per share moved up from 36.5 kobo in 1980 to 45.2 kobo in 1981, positive growth of 19 percent. This trend continued to 1983. However, in 1984, the earnings per share declined to 83.50 kobo from 90.30 kobo, that 8.14 percent decrease in 1985, the positive on the 1984 figure was 3 percent, while similar scenario could not continue in 1986 as earning or share dropped to 84.54 kobo from 1985 figure of 86.00 kobo, 1.73 percent drop. The earning per share however, reached its peak, 167.76 kobo in 1987. The growth was 98 percent. Subsequently years, 1988, 1989, `1991 and 1992 movement in earning per share continued along similar upward and downward swings to 1995 when the figure dropped to its lowest, 1 kobo. The figure however, rose again in 1986 to 16 kobo and 19.00 kobo 1997.

Dividend per share was 9.10 kobo in 1980 a against 1981's 10.90 kobo. Growth was 16.5 percent. While the 1982 figure was 21.50 kobo, 49 percent increases on the 1981 figure, 1983 figure dropped to 18.5 kobo. This further dropped to 14.29 kobo in 1984 and rose up to 28. 57 kobo in 1985. In 1986, dividend per share declined to 23.00 to and however, reached it highest point growth of 113 percent at 49.00 percent in 1987. This fat dividend paid out coincided with the highest growth in earning per share ever recorded in the history of the bank. The dividend per share slopped during subsequent year. In 1995 and 1996, no dividend was paid.

Other ratios had been moderate too. Profit before tax ass a percentage of gross earnings dropped consistently from 36 percent in 1980 to an all time low figure of 0.93 percent in 1995, but rose in the last two year to11.13 percent and 25.87 percent respectively. The return on shareholders fund also showed a similar t4rend from 71.39 percent in 1982 to 20.61 percent in 1991, before rising to 35.51 percent in 1993.

Indeed the International Merchant Bank PLC has come a long way and has achieved success in the Nigerian banking industry. The restructuring programme of the bank has further enhances the operation of the bank and which has resulted in the steady growth of bank's income and profitability position. It has been forecasted that with the increased capitalization of the bank by the first quarter of 1998, the income profitability position of the bank will further improve.

3.1.2 Nigerian Inter-Continental Merchant Bank Limited

Nigerian Inter-Continentals Merchant Bank Limited established in 1989 with an initial share capital of ₦7 million. The bank commenced business same year and it wholly owned by Nigerians. 97.71 percent equity interest in the bank is owned by 47 individuals, while the remaining 2.29 percent is owned by 220 individuals.

Since inception, the Bank had fared well in all activities of measuring competitiveness for example, with a Corporate Headquarter in Lagos when it started operation in 1989, NIMBL had over years, established 5 branches located in Kano, Onitisha, Ikeja, Abuja and Port Harcourt to reach out to all area of the Nigeria Society. In addition, the Bank owns two subsidiaries –

International securities Limited and Equity Bank of Nigeria Limited, to satisfy the needs of its investing public.

Movement of the Bank's financial indicator had been very encouraging. Gross earning, for instance, leaped from ₦ 148 million 1990 to ₦ 226 million in 1991. This represents an improvement of 53 percent. Gross earning for 1992 was ₦ 538 million, 1993 figure was ₦1.95 billion. Percentage increase for 1992 were 38 and 63 percent respectively. This gross earnings for 1994 to ₦1.60 billion and subsequently to ₦ 1,42 billion in 1995. The percentage decrease were, 17.95 percent and 11.25 percent respectively. However, the gross earnings increased to ₦1.87 billion in 1996, representing an increase of 31. 70 percent.

In 1990, the Bank recorded ₦385 million total liabilities. This increased to ₦526 million and ₦ 581 million in 1991 and 1992 respectively. In 1993, 1994, 1995 and 996, the bank had ₦ 2.29 billion, 2.79 billion, ₦ 3.30 billion and ₦4.62 billion as total depositability respectively. The growth achieved were, 37 percent (1991), 10 percent (1992), 294 percent (1993), 22 percent (1994), 22 percent (1995), and 40 percent (1996).

The bank's total assets also experienced increasing trends. From ₦653 million in 1990, it jumped to ₦964 million and ₦1.60 billion in 1991 and 1992 respectively. The growth were 48 percent (1991) and 66 percent (1992). Total assets also grew up to ₦4.25 billion in 1993,₦4.99 billion in 1994, ₦5.61 billion 1995 and ₦7.38 billion in 1996. The positive changes were 166 percent (1993), 17.41 percent (1996).

Impressive as the total assets, loans and advances also experienced similar trends. At ₦41 million in 1990, total loans, and advances rose to ₦ 81 million in 1991 and ₦347 millions in 1992. This subsequently increased to ₦879 million in 1993, ₦932 million in 1994, ₦2.45 billion in 1995 and ₦3.63 billion in 1996. The positive growth achieved were, 31 percent in 1995 and 48 percent in 1996.

Performance trend of the shareholder's fund was not different from other indices as positives growth recorded every year. From ₦41 million in 1991, ₦157 millions in 1992, ₦413 million in 1993, ₦593 million in 1994, ₦850 million in 1995 and ₦1.25 billion in 1996. Growth achieved were, 73 percent (1993), 44 percent (1994), 43 percent 91995), and 47 percent (1996).

Profit before tax had also been encouraging since inception. From ₦33 million in 1990, the Bank had ₦45 million 36 percent increase in 1991, ₦137 million 36 in 1992, ₦593 percent in 1993, ₦735 million- 24 percent in 1994. The profit before tax however, dropped to ₦518 million and increased to ₦560 million in 1995 1996 respectively. This represented a decrease of 29 percent in 1995 and increase of 8 percent in 1996.

From 1990 to 1993, the Bank made annual bonus issues to shareholders. In 1990 the bank allotted ₦40 million bonus share to existing shareholders, whereas ₦20 million bonus share and 1000 percent greater than 1990 figure was allotted to existing shareholders in 1991. In 1992, ₦40 million bonus share was issued, whereas ₦101 million bonus share was allotted in 1993. Percentage growth 2343 1000 in 1992 and 153 in 1993. However, there was no bonus issues for subsequent year- 1994, 1995 and 1996.

TABLE1

PERFORMANCE FOR NIGERIAMN INTER-CONTINENTAL MERCHANT BANK LIMITED (N MILLION)

Year	1990	1991	1992	1993	1994	1995	1996
Gross Earnings	148	226	538	1,951	1,595	1,419	1,870
Total Deposit	385	526	581	2,281	2,794	3,295	4,527
Total Assets	653	964	1,599	4,248	4,991	5,610	8,372
Loans and Advances	62	81	347	879	932	2,455	3,534
Profit and Advances	33	45	137	593	735	518	560
Bonus Shares	10	20	40	101	--	--	--
Shareholders' Fund	41	71	157	413	493	580	1,248

SOURCE: Annual Reports of NIMBL 1990 TO 1996.

Earning per share was 97 kobo in 1990. This moved up to 142 kobo, 46 percent from 1991, in 1991. The figures recorded for 1992 and 1993 were 176 kobo and 454 kobo respectively. Increases were, 24 percent (1992) and 158 percent (1993).

Earnings per share decreased to 269 kobo in 1994, 227 kobo in 1995 and 188 kobo in 1996. The decreases were; 48 percent (1994), 16 percent (1995), and 17 percent (1996).

Dividend per share was also encouraging. From 21 kobo in 1990, the bank declared 30 kobo, 100 kobo and 200 kobo, in the subsequent year- 1990, 1992 and 1993. The dividend however decreased in 1994 and 1995 and rose again in 1996. The figures recorded were, 150 kobo, 100 kobo and 110 kobo respectively.

Profit before tax expressed as a percentage of gross earnings was 22.3 in 1990, indicating that the bank spent a lot on overhead and administration. The ratio however dropped to 19.9

percent in 1991 and rose to 25. Percent, 30.4 percent and 46.1 percent in 1992, 1993 and 1994 respectively. The figures dropped again to 36.49 percent in 1995 and further declined to 29.93 percent in 1996.

In 1990, total loan expressed as a percentage of total assets was 9.49. This however, fell to 8.40 percent in 1991. This was due to rapid increase in other asset component without an equal increase in loan portfolio. For example, increase recorded in experienced only ₦19 million increase within the same period. The ratio for 1992, 1993, 1994, 1994 and 1996 were, 21 percent, 20.7 percent, 18.67 percent, 43.76 percent and 43.41 percent respectively.

TABLE 2

FINANCIAL RATIOS ON NIGERIAN INTER-CONTINENTTAL MERCHANT BANK LIMITED'S PERFORMANCE

Year	1990	1991	1992	1993	1994	1995	1996
EPS (Kobo)	97	142	176	454	269	227	188
DPS (Kobo)	21	30	100	200	180	100	110
PBT/GE (%)	23.3	19.9	25.5	30.4	46.1	36.49	29.93
L/TA (5)	9.49	8.40	21.7	20.71 88	18.67	43.76	43.41

SOURES: Annual Accounts of NIMBL 1990 To 1996.

3.2 Research Methodology

This research covers a period of 10 years, 1988 to 1997, which was characterized by the proliferation of banks and other financial institutions. Consequently, there was increased competition which led to innovation of new products and improvement in the service delivery of the existing products.

Equipment leasing , hat used to be an exclusive preserve of some few institutions also experienced growth. The number of practitioner also increased. As a result, the volume of business also rose up.

The research analysed the development of equipment leasing industry in Nigeria in doing this, comparative analysis of two merchant banks- international Merchant Bank PLC and Nigerian Inter- Continental Merchant Bank Limited was made. The research also attempted to analyse the problems and prospects of leasing in Nigeria.

3.3 Methods of Research procedures

The methods adopted in collecting data and information for the study were both primary and secondary

3.3.1 Primary Sources

Questionnaire and interview was used o gather the primary data. The 2 page questionnaire (copy attached in the appendix), was basically structures to find out he problems militating against the practice of leasing industry in Nigeria . The questionnaire has two sets of questions. These are questions that are preamble to the required information such as " Does your bank undertake equipment leasing "? The other set of questions are those directed at getting the specific information such as "What problems does your bank encounter in equipment lease financing"/ The questionnaire also addressed both close- ended and structure and open ended structure questions.

A total of 100 questionnaire, which was to be completed by senior bank officials were produced. Out of this , 48 copies was distributed to respondent in Abuja and the remaining 52 copies was distributed to respondents in Kano.

The other source of primary data used in this research was the use of interviews and discussions. This was used in two stages of the research. First was the interview granted the researcher by senior officials of the Credit Department of International Merchant Bank PLC and Nigerian Inter-Continental Merchant Bank Limited. They were conducted to the interviews and discussions granted by lessees and potential lessees and some banks officials on the growth of the leasing industry.

3.3.2 Secondary Data

Secondary data formed the major source of information in carrying out this research. The sources under this category are textbooks, journals on leasing and annual reports and account of the selected merchant banks. Other sources one seminars and symposia presentations organized by the Equipment leasing Association of Nigeria (ELAN) on leasing newspaper and magazines, unpublished MBA Thesis on equipment leasing and so on .

These materials were accessed in Ahmadu Bello University Library, Bayaro University Kano Library and the National Library Kaduna. Relevant materials and annual reports on the selected merchant banks were obtained in their Branch Offices in Abuja and Kano. Whilst some of the secondary research materials were borrowed from colleagues.

3.4 Sample selection

Due to resources and time constraint, the research was limited to two merchant banks. International Merchant Bank PLC represent the pioneer merchant banks whereas the Nigerian inter-continental Merchant Bank Limited represent the new generation merchant banks who joined the league of leasing practitioner not long ago.

In administering the questionnaire research, two cities were selected, kano and Abuja, were all banks in Nigeria are fairly represented. 100 copies of the questionnaire the respondents across sections of the Nigerian society. According, 48 copies of the questionnaires was distributed in Abuja and the remaining copies were distributed in Kano in all 73 questionnaire were returned.

3.5 Methods of Data Analysis

The document and data collected for this study was analyzed through Tabulation Ratio Analysis, and Trends Analysis which can be seen in the data analysis table in the proceeding chapter.

CHAPTER FOUR

4. DATA ANALYSIS AND PRESENTATION

4.1 Equipment Leasing in International Merchant Bank PLC

International Merchant Bank PLC started equipment lease financing in 1976, two years after its establishment . The initial volume was ₦2.5 million. This amount continued to growth up over the years because of substantial increment leases. In 1988, for instance, the total lease volume at cost had jumped to ₦160 million. Additional leases within the year was ₦74.5 million, while the net book value of leased equipment's at year end was ₦119 million. The bank also had ₦25.38 million rental income in 1988. Compared to 1976 volume, the equipment leased at cost was 64 times in 1988.

In 1989, the equipment leased at cost and additional rose to ₦196 million and ₦57 million respectively, while net books value of he leased assets was ₦128 million. The rentals received was ₦ 60.3 million, 20.6 percent of he total rental (₦284 million/) recorded by all lessors in the industry, With this, the Equipment Leasing Association of Nigeria (ELAN) declared the Bank as the most leading lessor for the year. Compared with asset and rental income grew at 21.9 percent, 22.9 percent, 7.76 percent and 51.1 percent respectively.

In 1990, leases at cost was ₦ 32.3 million, incremental leases was ₦ 132 million, net book value of the leased equipment was ₦ 189 million, and rental income was ₦ 98.5 million. Increases were tremendous as the equipment leases at cost grew at 65.4 percent, additional leases grew at 130 percent, net book value of leased equipment grew at 48.0 percent, and rentals grew at 63.3 percent.

However, nearly all the indices zoomed down in 1991 except rental income which stood at ₦123 million recording 25.3 percent positive growth against the 1990 figure. The indices that experienced down fall were, equipment leased at cost that had ₦323 million with 0.13 percent decreases; additional leases that had ₦80.4 million with 39.2 percent decreases, net book value of the leased assets that experienced ₦175 million volume and 7.81 percent decrease against the previous year's level /. These falling trend caused by disposal of leased equipment amounting to ₦ 80.9 million.

The equipment's leased at cost remained unchanged in 1992, while the incremental leases net book value further nose dived by 35.5 percent and 21.3 percent respectively. The volumes were; ₦ 323 million, equipment leased at cost; ₦ 51.9 million, net book value of leased equipment's. Within the year, rental income also declined to N108 million. The percentage decrease was equipment amounting to ₦ 117 million.

Incremental leases in 1993 was ₦ 147 million, 184 percent higher than 1992 volume. This led to the growth of net book volume of leased equipment by 60.3 percent; and rental income by 7.89 percent. However, the equipment leased at cost dropped by 31.89 percent. This was as a result of the disposal of some leased equipment in 1992. The volume were ₦ 258 million, ₦ 220 million and ₦ 116 million for equipment leased at cost net book volume of leased equipment and rental income respectively.

The indices for 1995 were mixed, while some were growing experienced down fall. The equipment leased at cost increased to ₦ 77 million with 20.20 percent decrease, net value of he leased assets had ₦11.27 million with 80.91 percent decreases; and income that experienced ₦50.40 million and 62.81 percent decrease against the previous year's level. These falling trends was as result of the adverse effect of the country's political and economic environment in 1993 but subsequently dropped to 4.50 percent in 1996. This was attributable to the downturn in the country.

The ratio of rental income to gross income equally indicated favourable trends with annual rentals forming fairly good percentage of the gross earnings. For 1988, the figure is 18.3, gross earning rose to 23.7 percent in 1991. This, however, dropped to13.7 percent in 193 and subsequently rose to 18. 56 percent in 1995. In 1996 and 1997 the percentage were 15.27 and 8.18 percent respectively.

TABLE 3

RATIOS

Year	1988	1989	1990	1991	1992	1993	1994	1995	1996
Net Book Value/ Total Loan (0%)	22.1	22.9	33.6	50.5	55. 9	86.0	59.05	4.47	2.80
Rental Income / Total Income (%)	18.3	18.1	20.8		17.2	13.7	18.56	15.27	8.18

SOURCE: Annual Accounts and Reports on IMB from 1988 to 1997

Distribution of the Bank's Leasing Portfolio indicated that numerous industries have benefited from the scheme. In 1986, for instance, ocean Fisheries Limited acquired the use of fishing trawlers through a lease financing package arranged by he Bank. John West packaging Limited also acquired the use of ₦ 1.5 million printing machine within the period.

In 1987, the Bank advanced and million lease for finance of an aircraft for use by are Contractors. During the same year, the Bank raise ₦ 37.0 million in the market through a lease syndication it led for acquisition of the most modern spinning mill in the country for United

Spinners. The bank's contribution to this syndication was ₦15.0 million. SCOA Nigerian Limited also acquired the use of ₦ 11.4 million vehicles through leasing packaged by the bank.

From 1988 to 1997, the growing list of beneficiaries were, Nigerian. Bottling Company Limited, got the use of ₦ 5.79 million vehicles, msandilas Limited got ₦.30 million vehicles leasing , and Tayasa Dredging Limited, acquired the use of 6.60 million dredger.

The historical lease portfolio of the Bank revealed that lease period for equipment leased out ranged between 2 to 6 years and the rental income from equipment on lease is accrued evenly over the respective periods of the leases.

4.2 Equipment Leasing in Nigerian Inter-Continental Merchant Bank Limited

Nigerian Inter- Continental Merchant Bank Limited commenced leased financing in 1989, the year is started operation, with initial volume of ₦ 19.5 million. The net book value at year end was ₦ 14. 3 million. In the same year, the Bank recorded ₦ 8.92 million as rental income.

In 1990 through 1991 to 1992, leases at cost remained constant at the initial level of ₦ 19.5 million, because there was no additional leases recorded within the period. The equipment leased at cost, however, dropped to ₦ 11.8million in 1993. This was caused by disposal of leased equipment amounting to ₦ 7.75 million.

In 1990 to 1993, both net book value of the leased assets and rental income experienced falling trends, with ₦ 13. 0 million, ₦ 6.53 million and ₦ 0.74 in 1990, 1991, and 1992 respectively. Net book value of the leased equipment declined to an all time low figure, ₦ 0.18 million in 1993. The negative changes were, 9.04 percent (1990), 49. 88 percent (1991), 88.69 percent (1992) and 75.39 percent (1993).

While the rental income in 1990, 1991 and 1992 was ₦ 8.08 million, ₦ 7.05 million and ₦ 2.05 million respectively, it sloped down to ₦ 1.18 million in 1993. The negative changes were, 9.35 percent (1990), 12.75 percent (1991), 71.10 percent (1992) and 42.0 percent (1993). Yearly decline in rentals was caused by non-booking of new leases coupled with the absorption of depreciation expenses of the existing leased assets.

However, the indices improved in 1995 as compared to the performance in 1993. Although no equipment was on lease at the beginning of the year (1995), within the year, equipment valued at ₦ 11.30 million was leased. The net book value stood at ₦10.05 million, representing an increase of 54.83 percent over 1993. The rental income also increased by 91.05 percent to ₦ 13.19 million. The increase were recorded as a result of additional leases within the year.

In 1996, there was no additional leases and the net book value stood at ₦ 5.39 million . Equipment leased at cost was ₦ 11, 30 million and the rental income had ₦ 40. 57 million. The percentage increasing for rental income was 208.36 percent. The net book value however, decreased by 46. 32 percent .

TABLE 3
LEASING VAOLUME OF NIGERIAN INTER-CONTINENTAL MERCHANT BANK LIMITED N MILLION) AND THRE HISTORICAL GROWTH.

Year	1989	1990	1991	1992	1993	1995	1996
Lease at cost	19.5	19.5	19.5	19.5	11.8	-	11.30
Net book value	14.3	13.0	6.53	0.74	0.18	10.05	4.30
Additions	-	-	-	-	-	11.30	-
Rental Income	8.92	8.08	7.05	2.04	1.18	13.19	40.57
Lease at cost (%)	-	-	-	-	-	-	-
Net Book Value	-	(9.04)	49.88)	(88.69)	(75.39)	54.83	(46.32)
Additions (%)	-	-	-	-	-	100	-
Rental Income (%)	-	(9.35)	(12.75)	71.10)	(42.0)	91.05	208.36

SOURCE: Annual Accounts for NIMBL for 1989 to 1996.'

Net book value of the leased assets compared to total loan volume indicated rapidly declining trends. With an encouraging 33.02 percent when it started operation in 1989, the Bank had 21.07 percent, 8.09 percent, 021 percent 0.02 percent, 041 percent 0.15 percent as net book value of leased assets to loan ratio in 1990, 1991, 1992, 1993, 1995 and 1996 respectively.

Declining as the net book value of leased equipment to loan ration, rentals favoured fairly good proportion of the total income at initial stage but become inconsequential in the subsequent year. Rental expressed as a percentage of total income was 18.39 percent in 1989. The was 0.38 percent in 1992, and 0.06 percent in 1993. This further rose to 0.92 percent in 1995 and 2.17 percent in 1996.

TABLE 4

RATIOS

Year	1989	1990	1991	1992	1993	1995	1996
Net Book Value /Total Loan(%)	33.02	21.07	8.09	0.21	0.02	0.41	0.1
Rental Total Income (%)	18.39	5.47	3.12	0.38	0.06	0.92	2.17

SOURCE; Annual A count for NIMBL for 1989 to 1996.

Companies that enjoyed leasing facility from the Bank are: Nigerian Bottling Company, N7.75 million Vehicles, Tofa Paper Mills, N6.5 million paper manufacturing plant, and Tower Aluminum Limited, N5.25 million plant.

4.3 **Credit Issues in the Analysis of Lease Proposal**

When a merchant bank obtain an enquiry for leasing policy facility from a potential lessees, the credit officer in charge will ensure that the lessee meets the general credit policy of the Bank, included in such basic criteria are the lessee is reason for wanting to lease the asset. It could be a start- up project, expansion proposal or as a means of raising working capital etc. An estimate of the capital outlay, lease ability to make rental payment as and when due and most importantly the other options available in financing the project to know that leasing is in the best interest of the lessee etc. It is after lessee has satisfied such basic criteria that the credit officer concerned goes on to request for additional information to enable him fully assess the whole proposal . These additional information may includes:

i) Formal letters of application for the lease facility stating the estimated total capital outlay.

ii) Copy of certificate of incorporation of the lessee in order to verify the length of time the lessee has been in operation.

iii) Copy of Memorandum and Articles of Association in order to ascertain that the use to which the asset is to be pout is permitted by rules governing the objectives of the company.

iv) Cash flow projections to cover the tenure of the lease. This is very important to the Bank, it is from the expected cash flows that the lessee meets his rental payment .

v) Audited account for at least three years that the credit officer concerned must satisfied with the external auditors of that company.

vi) Brief description of the nature of business to include the industry trend and the company's market shares sources of raw materials (locally sourced or import dependent), manufacturing process, major suppliers customers, etc.

vii) Detailed technical specification of the equipment . This include year of manufacture, make and mode, serial number etc.

viii) Information on any previous or outstanding lease relationship with other lessors. This is so because some companies treat leasing transactions as " of balance sheet" item in the audit account and reports. This kind of information is mostly obtained by way of credit officer to know the lessee, ability to services his previous rental payment obligation if there has been any.

ix) A visit to the site of the factory gives the credit officer a first hand information on the lessee's operation, staff and general surrounding . This also, enables the credit officer to satisfy his feelings as to the real capability of the lessee to qualify for the size and the cost of he equipment he (lessee) intends to lease.

x) It is of great importance for the credit officer to analyze the risks involved in the whole transactions. For there is no business without its inherent however beautiful the cash flow projection are there risks include foreeeable and unforeseeable. He is therefore expected to analyze there risk and how they can be care of in view of the prevailing circumstance.

If the lessee meet all the bank requirement for leasing , the bank and the lessee will sign he lease contract. A typical ;leasing transaction would see the user lessee first deciding on the equipment needed. The lessee then decides on the manufacturer, the make and the model. The lessee will then specify any special features desired, the terms of warranties guarantees, delivery, installation and services.

The lessee also negotiates the price at which point, the sales contract is negotiated and lease agreement is entered into with he lessor. The lessee negotiates with the lessor on the tenor of the lease, the rental, delivery and installation charges to be included (or not) and other optional considerations.

After the lease has been signed, the lessee assigns its purchase right to the merchant bank, who then by the equipment as specified by the lessee. When the equipment is delivered, the lessee finally inspect the equipment to make sure it get exactly what was ordered. The bank then pays for the equipment and the lease goes into effect.

At the end of the lease term, the lessee usually has the option to renew the lease, to dispose off the equipment to an unrelated third party on behalf of he bank, or to terminate the agreement and return the equipment .

4.4 Problem Affecting Leasing Business in Nigeria

Factor militating against the rapid growth of equipment leasing business in Nigeria are numerous. To ascertain the problems, a questionnaire- copy attached in the appendix, was administered, and interview and discussion were conducted to gather relevant information.

The outcome of the research indicated low level of awareness as one of the greatest problem affecting the growth of the equipment leasing industry. Most respondent that elaborated on low level of awareness as one of the problem affecting the leasing industry linked it to low banking habit and lack of understanding of the lease financing operations Most entrepreneur, especially those in the rural area, are yet to appreciate the benefits of associating themselves with banks , let alone initiating proposal to acquire properly via leasing . And for those in the urban area they do not recognize the benefits that they may accrue to their business by financing their capital project through leasing.

Unfavourable government policies also militate against the performance of growth of the leasing industry. Most respondent that selected this alternative cite the Babangida era's ban on the importation of wheat as example. This resulted in the collapse of numerous companies to the which are yet to recover even after lifting of the bank. Consequently, capital committed to the sector was made idle. Lessors suffered non payment of rental charges. Further commitment of capital to this sector was made highly vulnerable to political risk thereby discouraging capital investors to venture into companies that are dependents on wheat.

Although not much was written by the respondent that elaborated on death of skilled manpower, unviable lease proposal and poor analysis of lease proposal as problems affecting leasing business, most of them joined the three together. The respondent observed that the industry suffers from shortage of skilled manpower to present through and viable lease proposals. They attributed this to lack of training .

The respondent also viewed that a times the Director or the Manager do not follow laid down procedure to work. The use undue influence to ensure that certain lease request are granted because " they have interest" However, their certain lease request are granted because " they have interest". However their interest may not necessarily tally with the objectives of the lessor organizations. Most often than not, such lease package would turn out to be low quality or non-performing asset to the lessor. Consequently, rental would not be paid as and when due. This rather than helping would compound the situation.

On the general economic down turn, the respondents observed that it has affected nearly all economic activities leasing not exceptional. Booking of new leases has been made difficult by the increasing cost of fixed assets. Foreign exchange needed for importation of equipment and raw materials abroad is becoming dearer. Consequently, most companies produce below installed capacity. Most respondent recognize this factor as another major problem inhibiting the growth of the leasing industry in Nigeria. In addition, organization also experience low sales volume due to falling demand resulting in low disposable income. Given this scenario, lessees encountered difficulties in even serving the existing lease agreement , let alone affording the cost of expansion.

To have a balance of the numerous views expressed by the lessors, the researcher also interviewed some lessee-organisations and some potential lessees. Their responses however was not difficult from that of the lessors, but few of the people the researcher discussed with see the lessprs as the major problem affecting the growth of equipment leasing in Nigeria.

Some of the lessees view that the rents charged by lessors are too outrageous. And the system where lessees are made to pay 10 to 20 percent of the equipment at cost as security deposit at zero rate before the usage of the equipment would be allowed, is not only expressive, but also exploitative and therefore, requires a review for better.

In a more critical view, Abdulrazaq Jiddah of Aminat Enterprises observed that "Leasing does not encourage small and medium scale enterprises like ours to growth in these hard times. The lessee are under obligation to surrender the leased asset after making payments for rents, maintenance cost and security deposit. Ownership does not pass on to the lessee. Thus, it is high time" the law relating to the practice of leasing be changed to allow ownership to pass to the lessee at expiration of the contract. Unless this is put in place, potential lessees will be discouraged to approach their banks for lease financing ".

4.5 Prospect of Leasing in Nigeria

The future of leasing in Nigeria is bright. All that is needed is to provide a conducive atmosphere necessary for its development .

The prospect of leasing in Nigeria are analysed below:-

i) Revenue from petroleum presently account for more than 90 percent of our foreign exchange resources. In view of the contribution of this sector to foreign earnings, the ability of government to execute the projects envisaged in any budget plan will largely be determined by an inflow of resources from the petroleum sector. However, the crude oil output in the country has reduced over the years, from 1974 level of 2.3 million bpd to 1.5millionbpd, in direct response to demand and supply, prices have also nose-dived thereby dwinding government revenue. All of these development and private sector.

   Given this scenrio would finance their plants and equipment need by the use of equipment lessors abroad. In Nigeria, an example is the lease of aircraft abroad by most private airlines. This will make them to conserve foreign exchange resources that would be expended if the option to purchase the capital goods outrightly is chosen. Effective use of this financing method will consequently conserve foreign exchange resources and also bridge the gap created by excess demand over supply of foreign exchange.

ii) The inflationary trend in the economy has affected all the industries and the country. Cost of capital equipments and raw materials are outrageously high. Instead of making outright purchases to meet their equipments need, organisation will opt for the leasing alternative. It conserve capital resources. This will give a boost to leasing business in the industry.

iii) As part of 1995 budget policy, the federal Government of Nigeria slated some of her viable parastatal for leasing to indigenous and foreign lessors under the terms of an agreement called Contract Leasing. The contract affords the Federal Government the rights to retain ownership and claim periodic rentals, while the possession and management of the parastatals lie with the lessee. The major objective of this policy is to enhance productivity and profitability of the parastatals thereby improving government revenue. Federal Government parastatals affected by the contract leasing are all refineries, sugar companies, petrol-chemical enterprises, steel mills, paper and newsprint manufacturing companies and fertilizer manufacturing companies.

Just like the Federal Government, some State Government have adopted the policy to lease State owned companies to enhance the dual objectives of productivity and profitability. For example, Cross River State Government slated its numerous companies for contract leasing in line with the policy. The state owned companies like Calabar Cement Company, Metropolitan Hotel Calabar, Calabar Veneer and Plywood Limited and Polurub Factory, Akamkpa are already leased out to private investors. Lease contract for more are already in the pipeline.

iv) With the permission granted to commercial banks to engage in lease financing, which was hitherto an exclusive function of merchant banks, many commercial banks have ventured into the leasing business thereby boosting the volume of business in the industry. Many more bans are expected to join the league of equipment lessors, in the industry, in the years ahead.

4.6 Summary of Research Findings

Below are some findings of the researcher on equipment leasing in Nigeria:

i) The merchant bank are still the dominant lessors in Nigeria to day, through the commercial banks are coming up strongly likewise the finance houses and " leasing companies.

ii) Manufacturing industries are the dominant lessees among the various sectors of the economy. They accounted for over 65% of the total leased assets. The reason for this is that general manufacturing equipment provide lessors with good tax yields.

iii) The escalation in the prices of machineries, plants and equipment, tools computers and office automation devices materials brought about by the general economic condition has contributed significantly to the growth of equipment leasing during the structural Adjustment Programme era.

iv) The explosion in the banking and finance industry has contributed significantly to the increase in the number of lessors and the boom in the industry.

v) The volume of equipment leased has dropped significantly in the five years. This has also affected the income accrued to the financial institutions engaging in the.

vi) The increasing competition, in the industry will create the need for a lot more flexibility and invasiveness both in the packaging and pricing of leasing deals to corporate clients. One of the first usual conditions to be abandoned will be trying of lease arrangement to deposit with the lessor by he lessee. It will also reduce lessor's ability to dictate terms freely.

vii) With time and competition lessees will gain new concession like automatic renewal terms and purchases options will become standard features in lease contracts, just as security deposit clauses will vanish.

viii) While merchant bank can expand their lease porfolio without the inhibitions of authorities' credit ceiling own lease on lending, the commercial bank on the other hand have to include their own lease portfolio within their credit ceilings. In theory, the commercial bank can lease actively but in practice they can hardly participate satisfactorily. This is why the contribution of commercial banks to leasing is very poor.

ix) Short-term money market sources constitute the main avenue for lease financing and become of this, most lease have tenures of between two and three years.

x) The prospect for the equipment leasing industry is very high and bright and with time the industry will become more sophisticated.

xi) The political turmoil of the last five years had affected the general economic condition, and which had also resulted in the volume of equipment leased in the country.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 **Summary.**

In chapter one, equipment lease financing was described as an alternative from of financing asset acquisition through contractual agreement between lessor and lessee. It was defined as an agreement whereby owner of an asset (lessor) agrees to transfer the possession and usage of such an asset to another party (lessee) in exchange for periodic rental payment over a given period of time.

The research [problem, objectives of the study and significant ans scope of the study were clearly stated in this chapter. This was done to provide a guide and focus for the research.

As it is normal for any research of this nature, some limitations that were encountered in the study were analysed. These include time and financial constraint, available data and their reliability.

Because of the importance of certain key terms as they continued to appear in our data analysis, the researcher provided definition to them to enable readers to easily grasp the content of the research. Some of the key terms were lease financing, operating lease, lessor, lessee, rental renewal option, residual value, incremental lease, useful-life and merchant banks.

Chapter two of the research analysed the literature review of the study, which was a reflection of the ideas expressed by scholars and organisation. The chapter attempted to trace the early history of leasing to 2000 BC. In the ancient Sumerian City of Ur, while its modern history was linked to the activities of some U.S business in the 1950s. The history of leasing business in Nigeria data back to 1960s, and since then the practice of leasing continued to experience tremendous growth.

The chapter attempted to give definition of leasing and cited the various forms leasing which included financial and operating lerase. The variations of lease agreements were also discussed. These are sale and lease back, syndicated lease, leveraged leasing sales-aid leasing and cross border leasing .

The difference between leasing and hire purchase was also highlighted. The issue of ownership of an equipment after the competition of payment (rentals) was upheld as the major distinction between leasing and hire purchase. The choice of leasing as opposed to outright purchase of an asset regarding to its analysis was also discussed.

The legal document require in a lease agreement were also attempted. The included tenor., rental, insurance, covenants, event of default, capacity allowance, termination of the lease in Nigeria was also discussed. The chapter also reviewed the accounting aspect of equipment leasing .

As a methods of financing, leasing provides some advantages . This was treated under the benefits to the lessors and to the lessee. Among others, the advantages to the lessor were simplified security arrangement , take advantage of discount by buying in bulk, a means of investing surplus capital, entitled to capital allowance and flexibility. Among the benefits to the lessee were easy means of managing cash provides hedge against technology obsolescence, more convenient, provide multiple sources of financing and avoid dilution of ownership.

However, the opponents of leasing of leasing described it as costly compared with other types of financing, ownership does not go to the lessee at the expiration of the lease contract, a lessee can not conceal the contract, there may be rental default from lessee especially when the asset become obsolete due to technology changes, economic depression may also result in rental default and finally, leasing does not work for every organisation.

APPENDIX III

Department of Business Administration

Ahmadu Bello University,

Zaria

August, 1998

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A Questionnaire in View of a Research Study

Dear Respondents

I am undertaking a study titled **"EQUIPMENT LEASE FINANCING IN NIGERIA: A COMPARATIVE ANALYSIS OF SELECTED MERCHANT BANKS"**. And this is based on purely academic exercise. As such, all respondents will be treated with utmost confidence.

Thanks you for your anticipated cooperation.

Lastly in the chapter, a review of government policies towards leasing was made. This includes guidelines to the merchant banks and commercial banks development institutions such as NERFUNDM SME and ESL.

Chapter three attempted to trace the historical evolution of International Merchant Banks PLC to 1974 and Nigerian Inter- Continental Merchant Bank Limited to 1989. The study also equally analysed their financial trends as the main focus of the study was leasing business in the two banks.

This research used both primary and secondary data. The primary data used include administering of questionnaire and interviews conducted. While the secondary data was sieved from textbooks, journals paper presentation, annual financial reports and newspaper. These were also part of chapter there.

Chapter four discussed data analysis. Attempts were made to analyse the trend of leasing volume of International Merchant Bank PLC and Nigerian Intercontinental Merchant Bank Limited by he use of tables and ratios. Credit issues in the analysis of lease proposal was also discussed.

This chapter also analyses the factors militating against the growth of leasing business in Nigeria, which were product of the questionnaire and interview researches carried out . The chapter also analysed the prospect of leasing in Nigeria. The chapter ended with a summary of the research findings .

Lastly, chapter five discussed the summary of the study, the conclusion and recommendation suggested by the researcher in order to improve lease financing in he country.

5.2 Conclusion

leasing as a financing device has made a tremendous impact in the industrilised countries and in some developing countries too. The experiences in Nigeria in he last few years since the arrival on the financial scene are enough of a pointer to the potential impact this method of financing can make in our economy.

As an alternative method of capital asset financing, leasing has evolved and survived over thirty years in Nigeria. Total leasing volume of the industry experienced increasing trends with the exception of the last five years.

The leases at cost, net book value, incremental leases and rental income of International Merchant Bank PLC indicated favourable trend uptill 1993, but dropped sharply afterwards; whilst those of Nigerian Intercountinental Merchant Bank Limited showed decreasing trends. Also the net book value of leased asset as a percentage of total loan and rental income as a percentage of gross earnings followed increasing pattern and later decreasing pattern in International Merchant Bank PLC. Similar indices on Nigerian Intercountinental Merchant Bank Limited however, indicated substantial declining trend. The implication was that the equipment leasing industry had suffered a decline as result of the adverse effect of the country's political and economic environment in he early and mid 1990s. Thus the leasing of most banks suffered declining in the 1009s.

However, despite the problem affecting the growth of leasing business, he prospect for increase in lease volume in the years ahead are very high. Indeed the continued positive growth, development and sophistication of the Nigerian economy, means that there is no doubt that leasing is a financing option that more and more companies will embrace in the future. What is required are painstaking commitment from both lessors and lessees and the authorities to develop the industry to the level attained by the developed countries .

5.3 Recommendations

Promotion and development of leasing in Nigeria requires that an ideal atmosphere for both lessors and lessees must be created. The prospect for equipment leasing in Nigeria is tremendous. But the ability to realize it is possible only to the extent that the operators themselves and government through their policies encourages its growth. In order to realizes all the benefits that leasing offers as a financing option in Nigeria, some recommendations are therefore advanced under three headings namely:

1. Regulating Authorities

Regulating authorities are the government and it agencies that are responsible directing or giving guidelines on factors affecting the leasing industry.

i) The Federal Government should deregulate the leasing market to enable the country's small, medium and large scale industries developed through the creative finance alternative offered by equipment leasing. The government could grant special concessions to the leasing industry by exempting leasing from the aggregate credit ceilings of bank. The exemption of leasing from credit ceiling would enable commercial bank use their numerous branch network to package small ticket leases for the nation's cottage industry.

ii) In order to boost and encourage more participant in equipment leasing, Federal Government should increase he capital allowance and tax incentives available to the lessors. This will result in lessors charging less rentals on leased equipment s.

iii) Regulatory authorities should encourage establishment of lease constancy firm to guide, design and write good proposal to lessees and potential lessees. The authorities are also to encourage universities and other tertiary institutions to incorporate leasing course into their school curricular in order to enhance professionalism.

iv) The authorities, that is the government, should treat the business of equipment leasing just with the kind of favour it has extended to finance instrument such as small and medium scale enterprises (SMEs) and the family Economic Advancement Programme (FEAP) LOAN SCHEMES. Both of which currently enjoy special confessional interest rate. The extension of such lower interest rate favours to the leasing industry will boost investment in production assets

v) The Equipment Leasing Association of Nigerian (ELAN),the umbrella body of leasing organization (Lessors) in the country should be given legislative recognition. The body should be given exclusive power to register new lessors and their staff and promote increased awareness and technical knowledge of the produce.

1. The Lessors and Lessees

i) The lessors should liberalize their policy of receiving compulsory deposit immediately a leasing agreement is signed.

the industry has developed and enjoyed good concession from governments, the association of equipment lessors have invariably worked for them.

ii) The lessors should not discriminate among the lessees so that small scale business enterprises could also benefit from leasing trade. Virtually all the companies for which leases have been structured are multinational and tripe A's companies operating in Nigeria

iii) There is the high need by he lessors to create awareness through some marketing activities on the important benefit of equipment leasing . The idea and the practice of leasing must be sold to un-informed Nigerian businessmen and industrialist by the lessors for the advantage of both, as well as the economy as a whole.

2. Equipment Leasing Association of Nigeria

The Equipment Leasing Association of Nigeria was established in order to protect the interest of members of the association as well as to educate lessors as well as lessees on lease financing . In view of these, I wish to make the following recommendations:

i) The association should establish cordial relationship with he public and government by making establish cordial relationship with the public and government buy making relevant information available on leasing business which the government may require in making appropriate laws.

ii) The association should also try analyse information and give statistics to all the members and the public through print-out publication, periodicals seminars, symposia and workshops.

iii) Concessions are not likely to flow unsolicited from the Government . For this reason, equipment lessors must join forces. In other countries where

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APPRNDIX 1

FINANCIAL MSANAGEMENT PERFORMANCE FOR INTERNATIONAL

MERCHANT BANK PLC (N

Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Gross Earnings	10.65	-18.38	39.75	56.94	68.95	82.88	85.81	144.02	128.43	333.75	473.84
Total Deposit	106.7	176.1	407.17	463.6	614.85	665..69	597.48	1161.15	1631.38	900.34	1008.3
Total Asset	116.7	191.3	440.09	501.9	667.49	738.73	947.15	2800.23	1888.05	1953.39	2212.2
Loan & Advances	83.08	95.00	242.07	241.07	265.13	274.77	17.89	538.19	538.19	558.28	563.31
Profit Before Tax	3.86	4.66	2-58	12.6	14.94	17.89	21.67	38.34	38.37	50.77	33.39
Shareholders Funds	5.89	8.68	25.83	19.07	26.93	33.45	44.86	66.30	85.74	112.65	127.06
Dividends	0.50	0.60	1.18	1.35	1.85	3.35	4.72	9.66	8.10	8.10	3.65
Bonus Shares	1.5	1.0	1.50	3.00	6.50	4.00	8.50	9.50	-	-	-

APPENDIX II

FINANCIAL PERFORMANCE INTERNATIONAL MERCHANT BANK PLC

(N' MILLION)

Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
E.SP.(Kobo)	3.65	45.2	89.5	90.30	85.50	86.00	84.54	167.76	82.42	106.10	60.20
D.S.P. (Kobo)	9.10	10.90	21.50	18.50	14.29	28.57	23.00	49.00	23.50	23.50	15.50
PBT/GE (%)	36.24	28.43	28.61	22.13	23.19	21.64	25.25	26.97	17.75	15.21	7.05
Loan/Total Assets (%)	44.72	49.66	55.00	48.12	39.72	37.19	40.68	29.94	28.81	28.57	25.48