AN APPRAISAL OF THE IMPACT OF STRUCTURAL. ADJUSTMENT PROGRAMME (SAP) ON EQUIPMENT LEASING IN NIGERIA: A CASE STUDY OF INTERNATIONAL MERCHANT BANK (NIGERIA) LIMITED

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TABLE OF CONTENTS

		PAGES
LIST OF TABLES	.. .. ..	iv
LIST OF FIGURES	.. .. ..	v
DEDICATION	.. .. ..	vi
DECLARATION	.. .. ..	vii
CERTIFICATION	.. .. ..	viii
ACKNOWLEDGEMENT	.. .. ..	ix-x
ABSTRACT	.. .. ..	xi-xii
CHAPTER ONE - INTRODUCTION		1-12
1.1 Preamble	.. .. ..	1-3
1.2. Statement of the problem	.. ..	3-4
1.3 Objectives of the study	.. ..	4-5
1.4 The scope and justification of the study	.. .. ..	5-7
1.5 Research Methodology	.. ..	7-8
1.6 Limitation of the study	.. ..	8
1.7 Definition of Special Terms	..	9-11
References	.. .. ..	12
CHAPTER TWO - LITERATURE REVIEW		13-44
2.1 An overview of the Nigerian Economy prior to the introduction of Structural Adjustment Programme (SAP)		13-17
2.2 The Structural Adjustment Programme and its objectives	.. ..	17-20

		PAGES
2.2.1	The impact of Structural Adjustment Programme on Nigerian enterprises and Equipment leasing	20-22
2.3	Nature, Evolution and Growth of Equipment Leasing in Nigeria ..	22-27
2.4	Types and Benefits of leasing as a financing option	28-35
2.5	Legal Aspects of Lease financing ..	35-39
2.6	The Role of the Equipment Leasing Association of Nigeria (ELAN) ..	39-40
2.7	Federal Government Policies towards lease financing	41-43
	References	44
CHAPTER THREE	- INTERNATIONAL MERCHANT BANK AND EQUIPMENT LEASING	45-51
3.1	Introduction	45
3.2	Background information about International Merchant Bank Limited	46-47
3.3	International Merchant Bank and Lease financing	47
3.4	Credit issues in the Analysis of lease proposal at International Merchant Bank	47-51
CHAPTER FOUR	- DATA ANALYSIS AND PRESENTATION	52-78
4.1	Analysis of the data on the growth of lease financing at International Merchant Bank (IMB) and Nigeria from 1986 to 1991	52-68
4.2.	Issues and Trends in Lease financing in Nigeria	68-72

		PAGES
4.3	Summary of Research findings ..	73-77
	References	78
CHAPTER FIVE	- SUMMARY, CONCLUSION AND RECOMMENDATIONS	79
5.1	Summary	79-82
5.2	Conclusion	82-84
5.3	Recommendations	84-88
5.4	Bibliography	89-91
	Appendix	92-93

LIST OF TABLES

		PAGES
TABLE 1	Growth of leasing at International Merchant Bank Limited between 1987 and 1991	52
TABLE 2	Contribution of Leasing to International Merchant Bank Total Income in 1990 and 1991	57
TABLE 3	Growth of Leasing in Nigeria between 1986 and 1990	59
TABLE 4	Value of Assets Acquired for leasing by ELAN members during the years 1986 to 1990	60
TABLE 5	ELAN members Total Assets on lease and Rentals Received from 1986 to 1990	61
TABLE 6	Assets Acquired during the years (1986 to 1990) and leased to the different sectors of the Economy by ELAN members	66

LIST OF FIGURES

		PAGES
FIGURE 1	The % yearly increase or Decrease in the value of leased assets at International Merchant Bank between 1987 - 1991.	54
FIGURE II	The % yearly increase of leased Assets to Total Assets at IMB between 1987 and 1991.	56
FIGURE III	The contribution of Leasing to IMB Total Income in 1990 and 1991.	58
FIGURE IV	ELAN members % yearly increase in the value of Total Assets on lease from 1986 to 1990	64
FIGURE V	ELAN members % yearly increase in the value of rentals received between 1986 and 1990.	65

DEDICATION

This project is dedicated to my parents, brothers, sisters, cousins and friends.

CERTIFICATION

This project entitled: AN APPRAISAL OF THE IMPACT OF STRUCTURAL ADJUSTMENT PROGRAMME ON EQUIPMENT LEASING IN NIGERIA: A CASE STUDY OF INTERNATIONAL MERCHANT BANK (NIGERIA) LIMITED, by TAJUDEEN ADEMOLA OYEWOLE meets the regulations governing the award of the degree of Master of Business Administration (M.B.A.) of Ahmadu Bello University, Zaria, and is approved for its contribution to knowledge and literary presentation.

Name of Supervisor	Signature	Date
Head of Department	Signature	17/7/94 Date
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Dean, Postgraduate School	Signature	Date

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ABSTRACT

Equipment Leasing is a recent development in Nigeria. However, its rate of growth and acceptance as an alternative form of business financing under the Structural Adjustment Programme is great. This is so, due to rapid economic changes in the country, which results to high cost of machinery and equipment and liquidity squeeze. With the recent explosion in the banking and finance industry in the country, equipment leasing has began to catch on especially with the multinational companies and some indigenous growing ones.

The fundamental changes in the economy brought about by the introduction of Strutural Adjustment Programme created a lot of opportunities and constraints to equipment lease financing in the country. Lease financing has now become an attractive means of acquisition and use of fixed assets such as land, buildings, plants and equipment. The attraction of leasing is heightened by the very high cost of fixed assets and the scarcity of foreign exchange to pay for imports.

As a non-conventional way of creating funds for capital acquisition, equipment lease financing spreads across to different sectors of the economy, mainly manufacturing, agricultural, construction, distributive and service industries. Therefore, equipment lease

financing tends to analyse the lessor - lessee relationship in respect to the type of contractual agreement they entered.

The equipment leasing industry under the harsh economic environment created by the Structural Adjustment Programme has a lot of prospects in the future and with time it will play a vital role in financing key projects in the country.

CHAPTER ONE

INTRODUCTION

1.1 PREAMBLE

Leasing is a form of provision of finance for capital acquisition. The Structural Adjustment Programme (SAP) is a catalyst in the rapid expansion of the equipment leasing market in Nigeria[1]. The introduction of the second-tier foreign exchange market (SFEM) now known as foreign Exchange Market (FEM) on September 26, 1986 as one of the instruments for achieving the objectives of SAP led to the devaluation of the naira. And this consequently literally pushed prices of machinery plants, equipment, tools, computers and office automation devices and materials to their all-time high beyond the reach of individuals and business organisations.

With the Structural Adjustment Programme came high interest, exchange rates and inflation. These economic indicators pushed up prices of plants and machinery thus forcing many business enterprises to consider alternative form of finance which equipment leasing offers. With the Structural Adjustment Programme, it was apparent that the Federal Government was determined to put a squeeze on credit expansion. With SAP, most of the companies had problems funding their second-tier foreign market purchases. Hence the need for more flexible alternative sources of funding projects with huge capital

outlays. It also became very difficult for companies to modernise or acquire the latest technology at the unpredicatable exchange rate ruling at that time. Even in cases where such funds could be easily obtained, acceptable collateral securities posed a problem in view of the astronomical cost of some of these projects.

The cost offoreign capital has gone up. The bottom line is that the second-tier foreign exchange market has led to an overdevaluation of the naira, And it is making the Structural Adjustment Programme a very painful exercise. The short term effect of the Structural Adjustment Programme and the liquidity crunch is that most of the industries are dying as they try to restructure. With no working capital, the industrialist cannot engage in production. If he engages in production he must sell at a high price to be able to earn income with which to service his loans. But there is market resistance here, as buyers incomes remains static and cannot meet high prices. So there is nothing the industrialist will do now except close down until he can begin to look inwards.

For new business to take off and for the existing ones to keep going, many business enterprises are now opting for the alternative form of finance which equipment leasing offers. Nigerian enterprises are now making use of the cost-saving equipment leasing scheme in order to minimize or eliminate problem of

cash flow. From lessors records, the past decade has witnessed a rather rapid growth of the leasing industry in all its ramifications. To such an extent that a number of cynics have wondered if this has not been a precocious one.

1.2 STATEMENT OF THE PROBLEM

One of the main objectives of the Structural Adjustment Programme (SAP) that was introduced by the Federal Government on June 27, 1986 was to restructure and diversify the productive base of the economy, in order to reduce the over-dependence on the oil sector and on imports. Hence, the government encourages the setting up of large and medium scale business enterprises in the country.

The introduction of SAP created problems for many industries because many of them could not afford to buy and maintain their existing equipment and machineries.

With SAP the value of the naira vis-a-vis other currencies depreciated greatly. This makes the cost of imported equipment and machineries to escalate, which invariably compelled many companies to use "Leasing"as a veritable alternative in acquiring their equipment.

The series of economic reforms and other government policies under the programme brought a number of constraints to lease financing operation. The research

questions that this research aim to analyse are:

a) What are the problems peculiar to leasing operations in Nigeria?

b) What are the factors in the economy that are likely to favour further development of leasing in the country?

c) What development and/or innovations are to be expected in the near future?

d) What has been the achievements of the Equipment Leasing Association of Nigeria (ELAN) so far?

1.3 OBJECTIVES OF THE STUDY

The central theme of this study is to assess the prospects of lease financing under economic environment created by the Structural Adjustment Programme. In the light of the foregoing some of the objectives of this study are:

1) To examine the level of development, awareness and opportunities associated with the leasing industry presently and in the foreseable future.

2) To examine the impact of SAP on Leasing at International Merchant Bank (IMB) and to identify the constraints faced by the Bank in lease financing and the possible solutions.

3) To examine the impact of SAP on the leasing industry in Nigeria and also identify the general problems facing the leasing industry in the country

presently.

4) To find out the sectors of the economy benefiting from leasing operations.

5) To examine leasing as a sophisticated financial tool and alternative to buying.

6) To explore if there has been any significant relationship between the level of inflation and the volume of transactions in leasing so far in the country.

7) To evaluate leasing as a non-conventional means of asset acquisition, bearing in mind lessee-lessor relationship in terms of attractiveness of the transaction.

1.4 THE SCOPE AND JUSTIFICATION OF THE STUDY

This study covers the effects of equipment leasing operations in Nigeria under Structural Adjustment Programme, from the time the programme was introduced in 1986 to 1991. The study also covers the concept of leasing which reveals different forms of lease financing between lessor and lessee. This transaction is undertaken in respect of the following units:

a) Financial leasing

b) Operating leasing

c) Syndicated leasing

In addition, the different problems and opportunities that avail themselves to the practice of leasing in Nigeria will be discussed close to detail bearing the

objectives in mind. For the purpose of this study, the International Merchant Bank (IMB) is selected.

The study further covers the total value of the equipment acquired through lease financing by various sectors of the economy and the rental payments received during the reporting period i.e 1986 to 1990.

With Nigeria's economy and financial sectors undergoing reforms, banks and other non-banking institutions must develop their product skills to meet current challenges and those ahead. Therefore, it will be of immense benefits to the economy if leasing which represents a growth products is studied for its latent benefits and possible solutions of its prevailing problems.

Leasing being one of the options of asset acquisition through contractual agreement between lessors and lessees has a significant role to play. The desire to undertake this research work is therefore borne out of the fact that, the study will assist in improving the understanding of contractual relationship within the legal and financial capacity of lessors and lessees.

Equipment lease financing is relatively new in Nigeria, therefore fundamentally this study will improve the awarness to both lessors and lessees on lease financing. This research work is also important, because it exposes the risk-minimisation tendency to both lessors and lessees. Fundamentally this tendency

dictates the manner of lease arrangement right from its inception.

Lastly, the study will be useful to Bankers, business organisations and to individual investors who may be interested in acquiring assets through lease arrangement at the advantage of their respective businesses or to act as lessors in case of Bankers.

1.5 RESEARCH METHODOLOGY

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

a) Primary sources:

This took the form of discussions and interviews with lease practioners, lessees and credit officers at the International Merchant Bank (IMB).

b) Secondary sources

The study reviewed various textbooks written on leasing, Equipment Leasing Association of Nigeria (ELAN) publications and their Annual Reports on Accounts for various years, Business Journals, Seminar papers presented by experts in the field of leasing, MBA Projects (A.B.U., Zaria) and Central Bank of Nigeria publications which include:

i) Economic and Financial Reviews

ii) The Bullions

iii) Annual Reports and Accounts.

International Merchant Bank (IMB) Financial statements, Profit/Loss Account and Directors report for various years were all among the sources of data collected.

1.6 LIMITATION OF THE STUDY

Research work of this nature must have limitations. The first limitation of the study was the cost and time involved, as most of the data used for the study were obtained out of Zaria as such involves a lot of travelling expenses which is not an easy task these days. This was necessary because none of the Merchant Bank has established a Branch Office in Zaria.

Human errors and sentiments were other limitations of the study because some information obtained through discussions and interviews I had with people, are sources of data used, as such there is possibility of human error of 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 portrary a good image of their organisations.

Despite all these constraints, a lot has been done on the study to show the prospect of equipment leasing under the current Structural Adjustment Programme. The study will serve as a basis for subsequent research work on the topic or other related areas.

1.7 DEFINITION OF SPECIAL TERMS

LEASE: Is a contract or an agreement whereby the lessor conveys to the lessee in return for rent the right to use an asset for an agreed period of time.

STRUCTURAL ADJUSTMENT PROGRAMME: This is a set of comprehensive economic reform measures designed to achieve both internal and external balance in a country's economy.

SECOND-TIER FOREIGN EXCHANGE MARKET: Is a market where foreign currencies are bought and sold at market determined prices.

FINANCIAL LEASE: Is a form of leasing whereby the lessor expects to recover the capital cost of the asset, money cost and his profit during the basic period of the lease.

OPERATING OR SERVICE LEASE: 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.

LESSOR: The owner of the leased goods, the lessor, acquires the asset at the request of the lessee from whom he receives rentals for the lease of that asset.

LESSEE: The user of leased goods. The lessee has use and possession of the plant or equipment belonging to the lessor on payment of rental laid down in the lease.

LEASE PERIOD: The initial (primary) period of a lease, commonly less than the normal working life of the asset, during which the lessor expects to recover the capital cost of the asset, his money cost and his profit.

SECONDARY PERIOD: At the end of the basic or primary period the lease may be extended by agreement between the lessor and lessee, for a secondary period, the rental for which is generally at a much reduced rate.

RENTALS: Periodic payments by which lessee obtains quite possession of the asset leased.

LEASE TERM: The contractual manner in which the lease agreement is signed by both the lessor and the lessee.

LEASE RATE: This is the interest rate in which the lessor charge the lessee based on the contractual term of the two parties.

FAIR VALUE: This refers to normal selling price of an equipment less volume of trade discount.

BIG TICKET: Leases where the capital cost of the asset is very high.

USEFUL LIFE: The period of time during which an asset will have economic value and be usable.

REAL PROPERTY: Simply refers to land, building or part or part that is being leased.

RENEWAL OPTION: An option to renew the lease at the end of the initial lease term.

RESIDUAL VALUE: The value of equipment at the conclusion of the lease term.

REFERENCES

1. Ukpuho Iniobong (1992); Equipment Leasing Under the Structural Adjustment Programme. Financial Guardian February 3 p.7.

2. Ibid

CHAPTER TWO

LITERATURE REVIEW

2.1 AN OVERVIEW OF THE NIGERIAN ECONOMY PRIOR TO THE INTRODUCTION OF STRUCTURAL ADJUSTMENT PROGRAMME (SAP)

Prior to the advent of oil, the Nigerian economy was fairly robust and flexible enough to cushion it against fluctuations and economic misfortunes. However, once the oil sector shot into prominence in the 1970s, increase in oil earnings meant that Nigeria had substantial resources at her disposal. It also meant that government could embark on ambitious expansion of the economy. In those giddy days, Nigeria made not less than ₦100 billion, with more than two thirds of the earnings coming between 1971 and 1983. Overhalf the amount was earned during the 1979-1983 Shehu Shagari's tenure as President. Predictably, an upswing in oil fortunes led to gross neglect of the non-oil sectors (now the focus of government's programme) particulary agriculture, which had hitherto been the life-line of the economy.

And as if to underscore its new found oil wealth, the government got more heavily involved in economic ventures in the production, distribution and allied service sectors, especially during the indigenisation exercise of the early 70's. According to Prince Oladele Olasore (1987) "The traditional domain of the

private sector activities was assumed by government with adverse consequences on the development of the private sector which was left to play only a peripheral role in the economic development of the country".[1]

Expensive and gigantic programmes whose design and scope bore no relationship to the need or resource base of the economy were embarked upon. To compound matters, most of the projects were heavily dependent on foreign sources for machinery, spares purchases and maintenance and for raw materials. They were also characterised by high cost of emolument for expatriate technical and managerial manpower.

Abundance of petro-naira also brought about contractors and the middlemen whose rise was characterised by grossly inflated costs for the execution of government projects. There was also the introduction of the minimum wage, which was invariably higher than the average wage in the rural sector. The result was an escalation of wages and salaries bill of over-bloated public service and the population drift from rural to the urban centres.

Dependence on oil revenue was almost total, 93 percent of government revenue was derived from it in 1975, 88 percent in 1980 and nearly 70 percent lately. The bubble had to burst when the world oil market began to collapse in 1981. Public finance deteriorated greatly. Most expenditure of the government

during the boom years were consumption - rather than investment oriented. And, as Prince Olasore said (1987), "Where expenditure was investment-oriented, the return of such investment were usually marginal to negative as it is true of government parastatals and companies today".[2] The fall in oil revenue did not result in the steamlining of expenditure with revenue. Rather, government embarked on unbriddled deficit financing. The hope, usually was that the down turn in the economy would be short-lived.

Time, however, proved Nigerian planners, governments and economists wrong. And so from "A budget surplus of ₦1,796.8 million in 1974, it changed to a deficit of ₦437.4 million in 1975, ₦1,068.2 million in 1976, ₦2,389.0 million in 1978 and ₦6.7 billion in 1983".[3]

During this period Nigeria took its first jumbo loan, in 1978, during the Obasanjo regime. The loan was for $1 billion, about ₦627.4 million. In 1979, another $400 million was added. Since then, the external debt rose to ₦2,178.4 million in 1980, ₦2,962.7 million in 1981, ₦8,919.4 million in 1982, ₦10,577.7 million in 1983, ₦12,846.7 million in 1984, ₦13,866.3 million in 1985 and about ₦45,813.9 million in public debt in 1986, according to the Central Bank's annual report for 1986.

The austerity measures put in place by the Obasanjo regime were scuttled by the Shagari administration.

Finally in 1982, things got worse and the economy needed restructuring. The government subsequently appraoched the IMF for an extended a fund facility of about $2.5 billion. Former President Shehu Shagari never concluded the deal before he was overthrown by Major General Buhari.

Buhari stopped negotiations. However, his administration still realised that there was a need to restructure the economy. His approach then was to put in place austerity and stabilisation measures. Reduction of the size of government and, consequently, the wage bill, was the major peg of his programme. The Buhari government also decided to allow foreign currencies to slide. Basic Travelling Allowance, BTA, for Nigerias going abroad, was pegged at ₦100. A ₦100 special level was put on tickets originating from Nigeria and going to countries outside Africa. There was also the introduction of the controversial oil barter to help the worsening foreign exchange situation. On top of all these, there was a wage freeze.

These measures failed largely because they did not address effectively the questions of withdrawal of petroleum subsidy, trade liberalisation and finding the true worth of the naira. But during the Buhari regime, debt service ratio reached a peak of 45 per cent of Nigeria's total budget. The ratio had been climbing since 1980 from 0.8 percent to 4.7 in 1981,

8.9 in 1982, 17.5 in 1983 and 27.5 in 1984. The ratio, however, dropped to 29 percent in the 1986 budget.

Since Babangida overthrew Buhari in 1985, he has introduced, in his own words "A more dynamic economic programme which was aimed at altering and realigning aggregate expenditure and production patterns so as to enhance our export base, minimise dependence on imports and bring the economy to the path of steady, balanced growth".[4]

2.2 THE STRUCTURAL ADJUSTMENT PROGRAMME AND ITS OBJECTIVES

The SAP came into effect on June 27, 1986. The aim of the programme is to effectively alter and restructure the consumption and production patterns of the economy, as well as eliminate price distortions and heavy dependence on the export of crude oil and imports of consumer and producer goods.

Specifically, the major objectives of the programme are to:

i) Finding the true value of the naira through the setting up of viable second-tier foreign exchange Market (SFEM).

ii) Diversify export earnings and drastically reduce the current predominate role of oil in the nation's export earnings.

iii) Streamline public expenditures to prune down inflationary types of budget deficits.

iv) Drastically reduce dependence on import and unviable import patterns through appropriate adjustments in the foreign exchange rate.

v) Move the economy away from extensive and strangulating administrative controls to a system that relies more on the price mechanism that reflects the underlying structural forces of supply and demand.

vi) And encouraging a net inflow of foreign capital while keeping a lid on foreign loans.

(A) THE POLICY STRATEGY ADOPTED TO ACHIEVE THE OBJECTIVES OF THE STRUCTURAL ADJUSTMENT PROGRAMME

The policy strategy adopted to achieve the objectives of the Structural Adjustment Programme is made up of financial and industrial policies as follows:

FINANCIAL

(a) EXTERNAL

(1) The introduction of a second-tier foreign exchange Market (SFEM) now foreign Exchange Market in order to enable the naira find realistic exchange values against the major currencies of the world through the interaction of free market forces.

(ii) The rescheduling of payments on Nigeria's foreign debt obligations in order to grant time for a restructuring of the productive sector.

(b) INTERNAL

(i) Tight monetary policy to curb inflation through reduced production costs and a rationalised national demand profile.

INDUSTRIAL

(a) EXTERNAL

(i) Liberalisation of international trading links through a new tariff structure incorporating reduced import and export duties.

(ii) The promotion of non-oil exports to boost foreign exchange earnings and reduce dependency on crude oil as a revenue earner.

(b) INTERNAL

(i) Marshalling of optimum flow of resources to prefered sectors, notably agriculture and agro-allied industries, petrochemicals and liquefied Natural Gas and the manufacturing industries to achieve a rapid structural change.

(ii) Reduction in the extent of public sector ownership and management of companies

participating in direct economic activities.

(iii) Changes in the regulatory environment to promote enterpreneurship by reducing bureaucratic controls.

(iv) Adoption of appropriate pricing policies in all sectors with greater reliance on market forces and reduction in complex administrative control.

2.2.1 THE IMPACT OF STRUCTURAL ADJUSTMENT PROGRAMME ON NIGERIAN ENTERPRISES AND EQUIPMENT LEASING

The second-tier foreign exchange Market (SFEM) was introduced on September 26, 1986 and it has the most pervasive effects on the economy out of all the policies adopted to achieve the objectives of the Structural Adjustment Programme. Foreign currencies are bought and sold at the market at rates determined, not by government officials but by the interplay of supply and demand. The exchange rates are determined by the amount of hard currencies available and the amount demanded at any particular time.

All transactions (imports, medical treatment, travelling, student remittances etc) come under the market except government subscriptions to international organisations like O.A.U, ECOWAS, IMF etc and government donations to the international community.

The presence of the market has led to over devalu-

ation of the exchange rate of the naira in relations to the currencies of other countries. The implication of this is that foreign exchange a key input into Nigerian production now cost alot more, leading to both increased costs of production and to less importation of needed inputs. These two factors have led to general increase in prices particularly for businesses utilising large quantities of imported materials. The significant increase in the naira value of inputs has skyrocketed prices beyond the reach of the populace.

The quantum downward adjustments in the naira exchange value resulting from the Exchange Market have served to create major distortions of both existing projects and proposed ones. Erstwhile viable projects have been rendered unfeasible by the rapid depreciation of the naira relative to the major trading currencies of the world.

Since most of the capital equipment used by Nigerian industries, and a large percentage of raw materials inputs are purchased from abroad in hard currencies, both capital and overhead costs have risen considerably. On the other hand, aggregate prices for manufactured goods have not increased to an offsetting extent because the consumers are unable to accomodate large scale price hikes.

The introduction of the Exchange Market has ushered in what could be totally retrogressive era

for local industries. To meet the challenges of the Structural Adjustment Programme, many business enterprises in Nigeria are now partaking in the leasing trade in order to enhance their efficiencies and profit margins. Equipment leasing offers alternative form of finance and is no doubt becoming a major capital assets financing option in the country.

2.3 NATURE, EVOLUTION AND GROWTH OF EQUIPMENT LEASING IN NIGERIA

The international Accounting Standard (IAS) defined Lease as "An agreement whereby the lessor conveys to the lessee in return for rent the right to use an asset for an agreed period of time".[5] This definition includes contracts for the hire of an asset which contains a provision giving the hirer an option to acquire title to the asset upon fulfilment of agreed conditions. These contracts (hire purchase contracts) are covered by the Hire Purchase Act of 1965 which pre-supposes that leases are broader terms for hire purchase contracts with modifications to cover various kinds of risks and rewards.

Leasing which has only recently assumed an important role in the financing of capital asset acquition and hence industrial development in the country, had commenced in the United States of America in the early 1950s. It spread to Europe and Japan

in the 60s and to the rest of the world in the 1970s.

In Nigeria, the development of leasing closely followed the development of merchants banks. The emergence of merchant banks in the early 70's in the Nigerian Financial system contributed to the growth in the leasing industry in Nigeria. Particularly since leasing was recognised in the Banking (Amendment) Act 1979 as one of the principal activities of this category of banks. The merchant banks by virtue of their whole-sale operation and credit financing edge over other categories of banks, have remained the dominant equipment lessors in the country today. In fact it was not until the 1990, that commercial banks were given permission to go into leasing. Leasing in Nigeria was pioneered by Benthworth Finance Company Limited (now BFN) and Nigerian Acceptances Limited (now NAL Merchant Bank Plc).

The available information on leasing activities in Nigeria in the 70s and early 80s' shows that leasing activities were carried on in Nigeria by BFN Ltd and the merchant banks - Nigerian Acceptances Ltd (NAL), ICON Ltd. (Merchant Bankers), the chase merchant bank (Nigeria) Ltd. now the Continental Merchant Bank, the International Merchant Bank (IMB) and the Nigerian Merchant Bank. The available data also shows that leasing represented a relatively small proportion of their activities. Similarly, total equipment on lease

was not significant.

According to Mr. E.B.O. Akingbola, "Leasing option did not rank high in the finarcing alternatives normally considered by the various businesses for a number of reasons".[6]

i) The ease with which businesses could acquired other types of financing alternatives such as loans to procure needed equipment was very high.

ii) Many of the existing merchant banks were hardly aware of the benefits of leasing both to themselves and to the lessees.

iii) The existing regulatory controls on interest rates and the foreign exchange regime might have reduced the attractions of leasing to the merchant banks.

iv) There was and is still, the general feeling and belief among potential lessors that it is better to own an asset than lease it. Ownership factor was rated above availability of use of assets.

v) Many businesses were either completely ignorant of this option or barely aware of its benefits to their operations.

In the 80's and particularly with some significant policy and regulatory shifts in the management of the national economy, leasing has definitely emerged as a veritable financing option in the Nigerian Financial landscape.

Much of the boom and development in the leasing

trade has been attributed by lessors to the explosion in the banking and finance industry. And is likely to witness further expansion following recent announcement of more liberal participation of banks in the trade.

The role of the Equipment Leasing Association of Nigeria (ELAN), the self interest group of equipment lessors in the country has also been widely acknowledged as a contributing factor to the growth of the leasing market in the country. ELAN is playing a unique role by aiding the private sector and making the sector a key participant in lubricating industrial growth and also regulating the practice of equipment leasing in Nigeria.

Another contributing factor to the growth in the leasing market is the increasing awareness in Nigeria of the benefits of equipment leasing to both investors and industry users alike.

Presently about ninety percent of leasing business in Nigeria is done by banks (particularly by merchant banks). The merchant banks are more strategically positioned to control the larger share of the equipment leasing market due to their broad financial base. The commercial banks were initially barred from leasing because of the liquidity position of their deposits.

The Central Bank of Nigeria (CBN), had in its 1990 monetary credit policy guidelines for 1990 fiscal year, granted approval to commercial banks to book leases.

The Central Bank, having granted lease approval to the commercial banks brought leasing hitherto not regarded as a form of credit, under the aggregate credit ceilings, and thus limiting the growth of the industry. The limitation of equipment leasing to only 15 percent of a bank's assets has now been removed. All these developments favour the growth of leasing activities in the country.

The non-bank financial institutions and companies are also partaking in the leasing market. The number of non-bank financial institutions and companies participating in the equipment leasing market is increaseing steadily.

Chartered Bank is one of the first commerical banks to engage in the leasing business in the country. It has continued to blaze the trail in equipment leasing since January, 1990 when commercial banks got the CBN permission to engage in the business of equipment leasing.

The Nigerian Industrial Development Bank (NIDB) realising the tremendous impact the leasing industry could have on the economy, and in its restructuring process to meet the rapidly changing economic sector established the Leasing Company of Nigeria Limited (LECON) in 1987, as a subsidiary offering specialised financial services. LECON has emerged as the first financial institution solely responsible for the provision of lease facilities. The company backed by NIDB is poised for leadership role

in the industry.

Leasing has grown in volume since the period it was introduced into the country. "Preliminary statistics on leasing by ELAN members for 1990 shows a total volume of leased assets in excess of ₦2.8 billion as against ₦1.61 billion and ₦1.36 billion in 1989 and 1988 respectively. Assets acquired in 1990 for leasing purpose also increased by 67% over the 1989 levels".[7]

Similarly, membership of the Equipment Leasing Association of Nigeria (ELAN) has grown tremendously over the years. In 1983, membership numbered only six attaining 21 in 1988. At present, the total number of lessors in the country is well over 66.

Going by the rate of growth in the industry, the sky is the limit. But taking into account the potentials for growth presented by a restructured economy, the level already attained by the leasing sub-sector of the economy may not be totally impressive. According to Mr. Akinsola Akinfemiwa, "The ₦5 billion leasehold in Nigeria today is still low compared with what obtains in other countries".[8] The ₦5 billion leasehold in Nigeria is low when one considers the total credit volume of the banking industry. This shows that leasing is just starting.

The potentials are there. The economy has the potential of serving the entire sub-region. By the time the entire Nigerian populace take to leasing, the industry will grow better.

2.4 TYPES AND BENEFITS OF LEASING AS A FINANCING OPTION

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.

1) Finaicial or full pay-out lease - 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 the 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 lessors 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 posssession of the equipment passes to the lessee and, along with it, the responsbility for maintenance and insurance.

ii) The Operating or Service Lease - 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 operation 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 asset. Risk of obsolescence is inherent for certain equipment, and the lessor may be required to change and replace them.

In operating lease, the lessor will give out the equipment to the lessee and the lessee goes ahead to use it for about six months 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 environment. 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 amortised at the end of the lease period.

Variations of Lease Arrangements

i) Sale and Lease back Leasing: This arrangement is such that the original owner of an equipment transfers title of the equipment to a would-be lessor, who simultaneously leases the equipment to the original owner now the lessee. This arrangement is becoming common in the country especially now that the current cash squeeze affects more and more companies.

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. In the cases where the lessors have joint interest in the same asset 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.

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 lease is said to be leveraged because of the lessor who enjoys most of the risks and rewards of ownership usually borrows most of the funds needed to acquire the asset.

iv) Sales-aid-Leasing: This is an arrangment 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.

v) Cross-Border Leasing: It is an arrangment whereby a lessor is located in one country while a lessee is located in another. In considering this option, certain criteria are of importance. These include the applicable law, currency, risks and others.

Benefits of Leasing.

Without tangible benefits emanating from leasing as an alternative financing vehicle, the product would not have been able to generate so much market acceptance in Nigeria within so short a period of time. From lessors' perspective, these are the benefits they will derive by investing their funds in equipment leasing trade. The benefits are:

i) Simplified security arrangment for lessors. 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 bonafide 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 discounts available. And thus reduce the unit capital outlay on each piece of equp 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.

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 technological obsolescence, of the equipment on lease. The flexibility inherent in leasing could allow the lessee upgrade, at minimal cost, in cases 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 the traditional financing vehicles.

iv) Diversification of financing sources. Leasing offers an additional source of financing and avoids any over dependence on a 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, businesses are obtaining the use of productive assets without necessarily undertaking the affordable cash outlay required to purchase assets.

vi) There is flexibility in a leasing arrangment which most financing options 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 of individual companies and their situations.

vii) Leqsing 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.

viii) The flexible nature of lease contracts 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 instalments are small, whilst later instalments are large. In this way, cheaper money will be used in paying off future debts. Most other loan arrangments require regular repayments over the loan period.

ix) The lessee is permitted to write off the lease rentals to its profit and loss acount. This does not impair a company's ability to obtain the use of additional productive assets. Since the current off-balance treatment of leases ostensibly improves the lessee - company's appearance, especially as related to traditional measures of efficiency and leverage.

2.5 LEGAL ASPECTS 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 lease or a financial lease or leverage lease:

1) Tenor - every lease must be for a definite period, the option to renew the term will depend on the type of lease.

2) 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.

3) 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.

4) Convenants: Both parties to a lease agreement have covenents 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 a covenant could also give rise to the payment of damage.

5) Events of Default - Under this clause 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.

6) 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.

7) Termination of the Lease: The lease must come down to an end either by efflusion of time or determination on the breach of any of the terms of the agreement.

8) Warranties and Quarantees: Whether a lessor will give warranties or guarantee on equipment will 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 maintenance and warranties falls on the lessee.

9) 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 there in agreed to by the parties. The common Decree 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 use of the lessees business. Equipment lessors in Nigeria claim 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 binding or superior authority.

2.6 THE ROLE OF THE EQUIPMENT LEASING ASSOCIATION OF NIGERIA (ELAN)

The real impetus in the equipment leasing business came about with the formation in June 1983 of the Equipment Leasing Association of Nigeria with size members to regulate leasing activities in Nigeria. The founding members are the first generation of Merchant Banks in Nigeria namely:

i) Continental Merchant Bank
ii) Nigeria Merchant Bank
iii) ICON Limited (Merchant Bankers)
iv) NAL Merchant Bank
v) International Merchant Bank
vi) Nigeria - America Merchant Bank Limited

The Equipment Leasing Association of Nigeria (ELAN) is the umbrella body of leasing organisation (lessors) in the country and the broad aim of the Association includes:

a) Promotion and protection of the interest of the association members in the exercise of their business as equipments lessors.
b) 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 department, either public or trade associations and professional bodies.

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

d) It also affiliates with the Financial and related institutions both within and outside Nigeria.

The association has made a remarkable progress and achievement as far as the development of equipments leasing business is concerned.

ELAN attained more than a 1000% growth in membership from six members at the inception of the association in 1983, twenty one in 1988 and at 31st December, 1991 members had increase to 66. ELAN has contributed greatly to the growth and development of equipment leasing business in Nigeria from 1985 till date.

Among the factors responsible for the steady growth of leasing business is the enhanced awareness campaign embarked upon by the association through both print and electronic media. ELAN also organises seminars and workshops as well as publications to enhance the growth of the business. And to create an impact not only among practitioners but also among other professionals, government bodies, students as well as the general public.

2.7 FEDERAL GOVERNMENT POLICIES TOWARDS LEASE FINANCING

Since the introduction of Structural Adjustment Programme 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. This is because it requires little or no collateral securities before making funds available to a lessee.

Apart from guidelines issued by the government to lessors (mostly Merchant and Commerical Banks) on the conduct of both medium and long-term loan to a quite number of lessees, similar guidlines 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 provosion of medium to long term financing to smalle and medium scale industrial enterprises, especially manufacturing and agro-allied enterprises.[9]

In line with "NERFUND", the central Bank of Nigeria issued a circular on the small and medium scale enterprises (SME) loan scheme.[10] 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 Dollars 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.[11]

These "SME" scheme is contributing to the development of rural areas where the industries are located. It is lving up to its objective of being designed to be a grassroot funding mechanism. Leasing is therefore likely to move from the large industrial projects in the urban areas to grassroot 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 loan (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.[12]

With the addition of investment tax credit (ITC) currently been 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 most 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.

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CHAPTER THREE

INTERNATIONAL MERCHANT BANK AND EQUIPMENT LEASING

3.1 INTRODUCTION

The banking industry particularly witnessed severe structural changes as a result of government policies aimed at stabilising the Nigerian economy. With these developments, operating banks were faced with newer challenges and it became obvious that banking business had changed irreversibly.

The developments in the finance industry has eroded the market shares of existing banks. Competition in the industry heightened, resulting in product innovations, more aggressive marketing, and intensified use of modern management techniques by those banks that were determined to compete effectively.

The above developments have largely made the Nigerian banking environment very challenging to operators of which the International Merchant Bank is one. To cope efficiently and effectively with the present trends in the banking industry, the IMB being a bigger and more experienced bank is in a better position to exploit their advantages, i.e increased and diversified customer base, good will arising from age and experience, a crop of skilled and experienced staff and technological capabilities.

3.2 BACKGROUND INFORMATION ABOUT INTERNATIONAL MERCHANT BANK LIMITED

The International Merchant Bank (IMB) commenced banking operations in 1975 as a merchant bank with the headquarter based in Lagos. The IMB was established as a joint venture between the Nigerian government and foreign partners with equity shares of sixty and forty percents respectively. Recently the foreign partners have withdrawn their forty percent equity shares and these shares are now being held in trust for the Nigerian investing public.

The scope of activities of the bank and its size have expanded greatly since it was established. Presently the bank has branches in Kano, Kaduna, Aba and Port-Harcourt.

The bank has numerous clients in all the sectors of the Nigerian economy and also abroad. The bank services are departmentalized into the following departments:

1) Treasury Department - comprising of
   a) Funds Management Services Unit
   b) Funds and Portfolio management services Unit
   c) Discountable Instruments Unit
   d) International Treasury Services Unit.
2) Credit Department - comprising of
   a) Financial Products and Services Marketing Unit
   b) Export financing Unit

c) Leasing Unit

d) NERFUND loan Unit

3) Corporate Finance department - comprising of

a) Capital Market Unit

b) Financial Advisory Services Unit

3.3 INTERNATIONAL MERCHANT BANK AND LEASE FINANCING

Nigerian enterprises promotion Act of 1977 postulates that "Merchant Banks should engage in all schedule of leasing in Nigeria". This schedule involves all different sectors of the economy. The decree specify a minimum lease amount, lease rates or collaterals needed under the lease agreement.

As a result of this decree like all other Merchant Banks, International Merchant Bank started leasing business in 1977 though at skeletal level. The bank leasing unit is placed under the credit department and its major in financial and syndicated leases. Is on record that IMB led the first syndicated lease in Nigeria.

3.4 CREDIT ISSUES IN THE ANALYSIS OF LEASE PROPOSAL AT INTERNATIONAL MERCHANT BANK

Whenever IMB obtains an enquiry for leasing facility, 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's 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 out-lay, lessee ability to make rental payments 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 the 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 include:-

a) Formal letter of application for the lease facility stating the estimated total capital outlay.
b) Copy of certificate of incorporation of the lessee in order to verify the length of time the lessee has been in operation.
c) Copy of Memorandum and Articles of Association in order to ascertain that the use to which the asset is to be put is permitted by rules governing the objectives of the company.
d) Cash flow projections to cover the tenure of the lease. This is very important to the bank, in that, it is from the expected cash flows that the lessee meets his rental payments.
e) Audited accounts for at least three years and that the credit officer concerned must be satisfied with the external auditors of that company.

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

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

h) Informations on any previous or outstanding lease relationship with other lessors. This is so because some companies treat leasing transactions as "off balance sheet", items in the audited accounts reports. This kind of information is mostly obtained by way of credit checks and/or informal inquiries from other banks. This enables the credit officer to know the lessee's ability to service his previous rental payments obligation if there has been any.

i) A visit to the site of the factory gives the credit officer a first hand information on the lessee's operation, staff and general surroundings. 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 the equipment he (lessee) intends to lease.

j) It is of great importance for the credit officer to analyse the risks involved in the whole trans-

actions, for there is no business without its' inherent - however beautiful the cash flow projections are. These risks include foreseables and unforseables. He is therefore expected to analyse these risks and how they can be taken care of in view of the prevailing circumstances.

If the lessee meets all the bank requirements for leasing, the bank and the lessee will sign the lease contract. A typical leasing transaction at IMB would see the user-lessee first deciding on the equipment needed. The lessee then decides on the manufacturer, the make, the model. The lessee will 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 a lease agreement is entered into with the lessor (IMB). 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 asigns its purchase rights to the bank, who then buys the equipment as specified by lessee. When the equipment is delivered, the lessee finally inspects the equipment to make sure its gets 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 of the equipment to an unrelated third party on behalf of the bank, or to terminate the agreement and return the equipment.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 ANALYSIS OF THE DATA ON THE GROWTH OF LEASE FINANCING AT INTERNATIONAL MERCHANT BANK (IMB) AND NIGERIA FROM 1986 TO 1991

The Structural Adjustment Programme contributions to the growth of leasing activities at IMB and Nigeria in general is enormous. It has contributed significantly to the recent increase in volume of leasing business at IMB and the economy as a whole. The contents of the tables below are testimonies to the above statements.

Table 1: Growth of Leasing at International Merchant Bank Limited between 1987 and 1991

Years	Total Assets (₦'000)	Value of equipment on lease (₦' 000)	% increase or decrease in the value of leasing	% of leased assets to total Assets
1987	1,792,339	75,936	-	4.24
1988	1,854,222	118,735	56.36%	6.40
1989	1,953,986	127,949	7.76	6.55
1990	2,212,286	189,418	48.04	6.55
1991	1,968,641	174,622	7.81(decrease)	8.87

Source: IMB Annual Report and Accounts for the year ended 31st December, 1991.

Table 1, shows that the % increase in the value of equipment on lease at IMB from 1987 to 1988 is 56.36%, 1988 to 1989 the % increase is 7.76%, 1989 to 1990 the % increase is 48.04%, 1990 to 1991 the % decrease is 7.81%. And the percentage increase in the value of lease assets between 1987 and 1991 is 130%. This means that within 5 years (1987 - 1991), the value of lease assets at IMB has more than double.

According to Mallam Saidu Bala (1992), the increase in the value of lease assets at IMB between 1987 and 1991 was brought about by the devaluation of the naira. Which consequently pushed prices of machinery, plants, equipment, tools, computers and office automation devices and materials to their all time high beyond the reach of the individuals and business organisations. And also the commitments of IMB to providing capital resources across various sectors of the economy through leasing arrangements.

The information in Table 1 is illustrated with the bar char below:

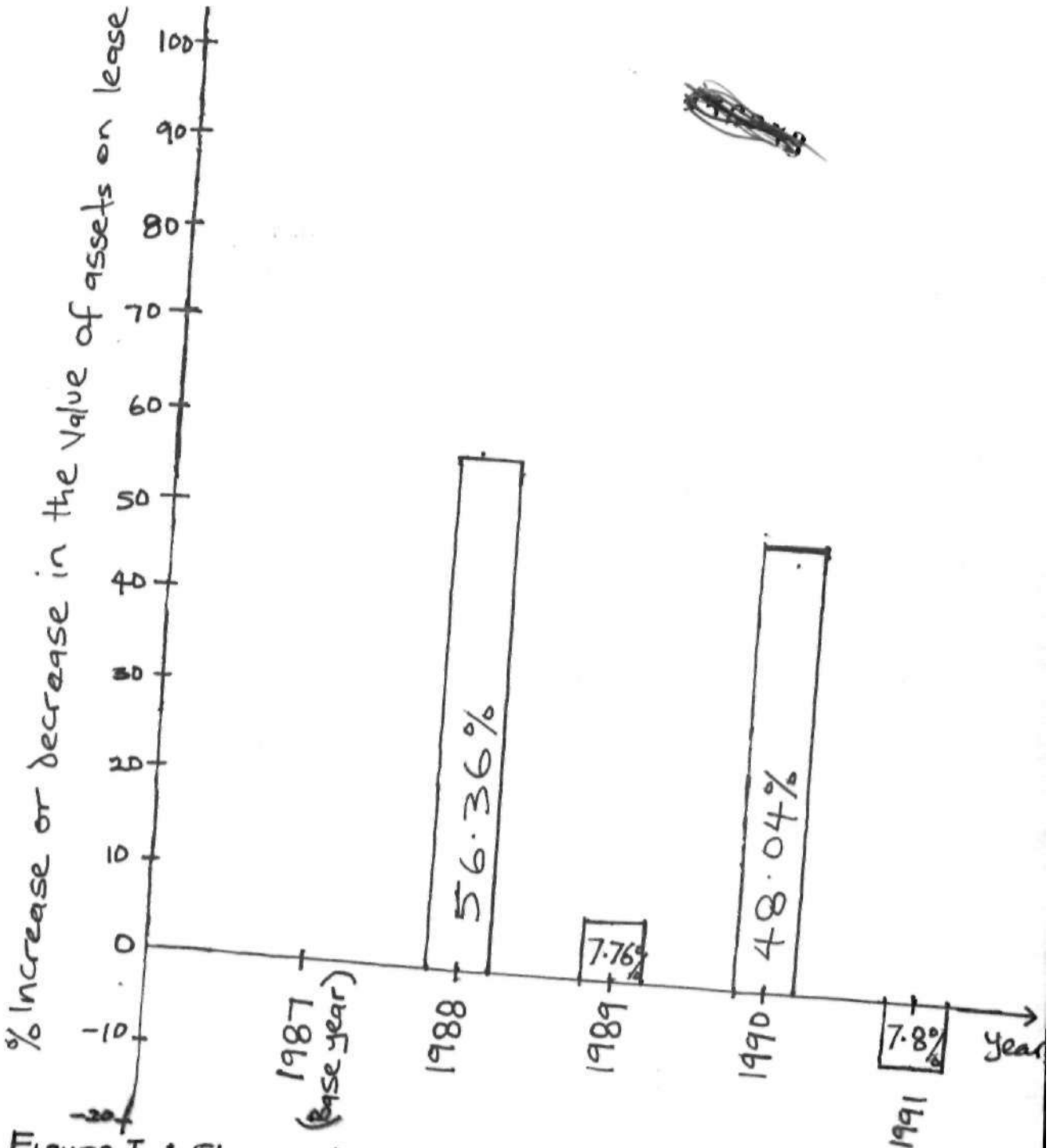


Figure I : Shows the % yearly increase/decrease in the Value of leased assets at IMB between

Table 1 - also shows that in 1987, the % of lease assets to total assets at IMB is 4.24%, in 1988, the % of lease assets to total assets is 6.40%, in 1989, the % of lease assets to total assets is 6.55%, in 1990, the % of lease assets to total assets remains at 6.55%, and in 1991, the % of lease assets to total assets is 8.8%. Between 1987 and 1991, the % of lease assets to total assets at IMB has more than double (4.24% to 8.87%).

Mallam Saidu Bala (1992), said that the increase in the % of lease assets to total assets at IMB is due to the gradual acceptance of leasing as a financing option and also the diversification of the assets base of IMB to meet the changes in the economy.

This additional information in table 1, is illustrated with the bar chart below

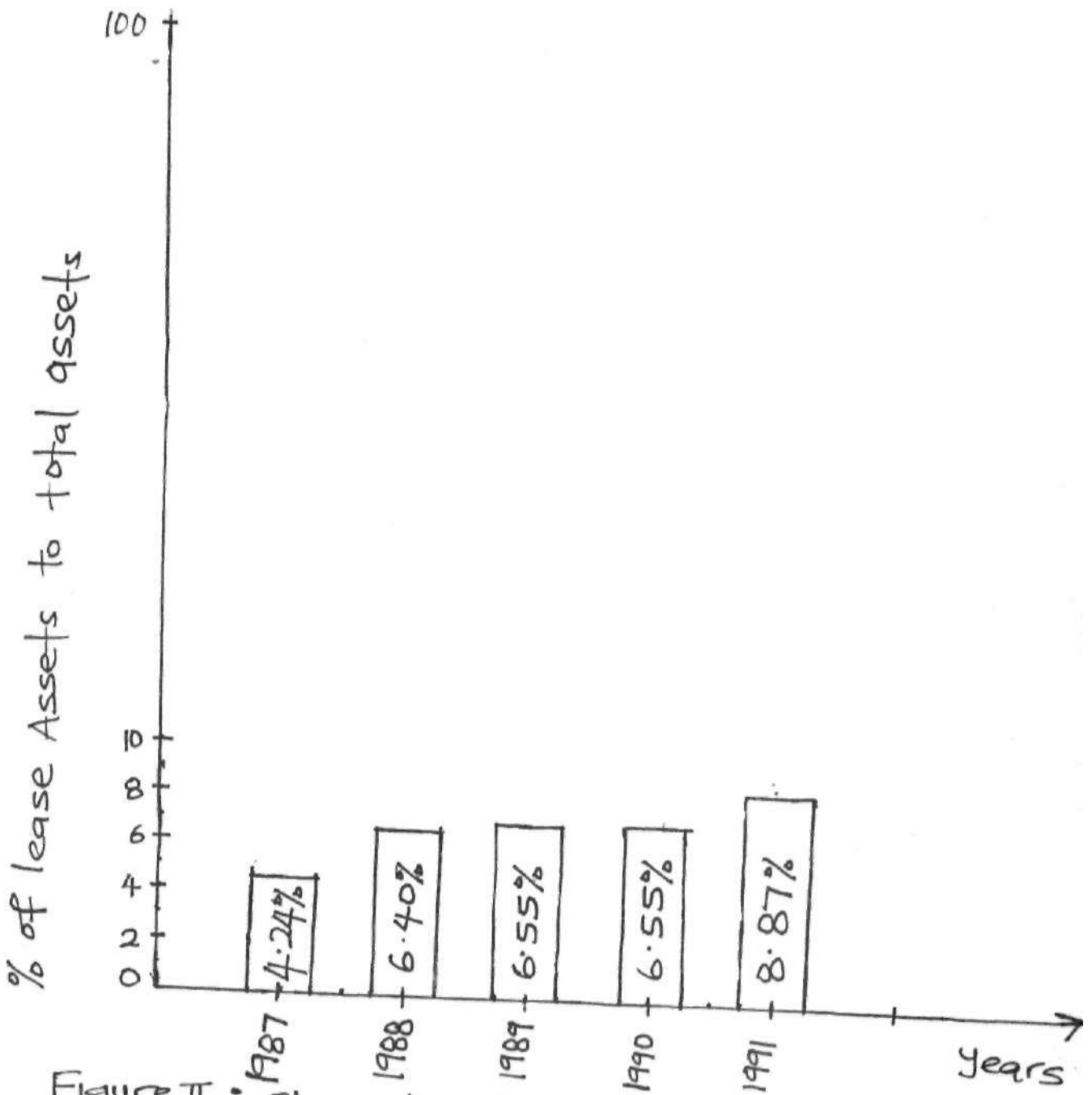


Figure II : Shows the % yearly increase of leased Assets to Total Assets at IMB between 1987 and 1991.

The contribution of Equipment Leasing to the total income of IMB is also on the increase. The table below shows the contribution of leasing to IMB total income in 1990 and 1991.

Table 2: Contribution of leasing to IMB total income in 1990 and 1991

Years	Total income (₦'000)	Income from leasing (₦'000)	% of income from leasing to total income
1990	473,841	98,515	20.8%
1991	521,924	123,437	23.65%

Source: IMB Annual Report and Accounts for the year ended 31st December, 1991.

Table 2, shows that the % contribution of leasing to IMB total income in 1990 and 1991 are 20.8% and 23.65% respectively. This shows an increase of about 3%.

Leasing is no doubt one of the primary functions of IMB. IMB is among the three leading lessors in the country today with a lease portfolio worth ₦175m as at December, 1991.

The information in Table 2 is illustrated with the bar chart below.

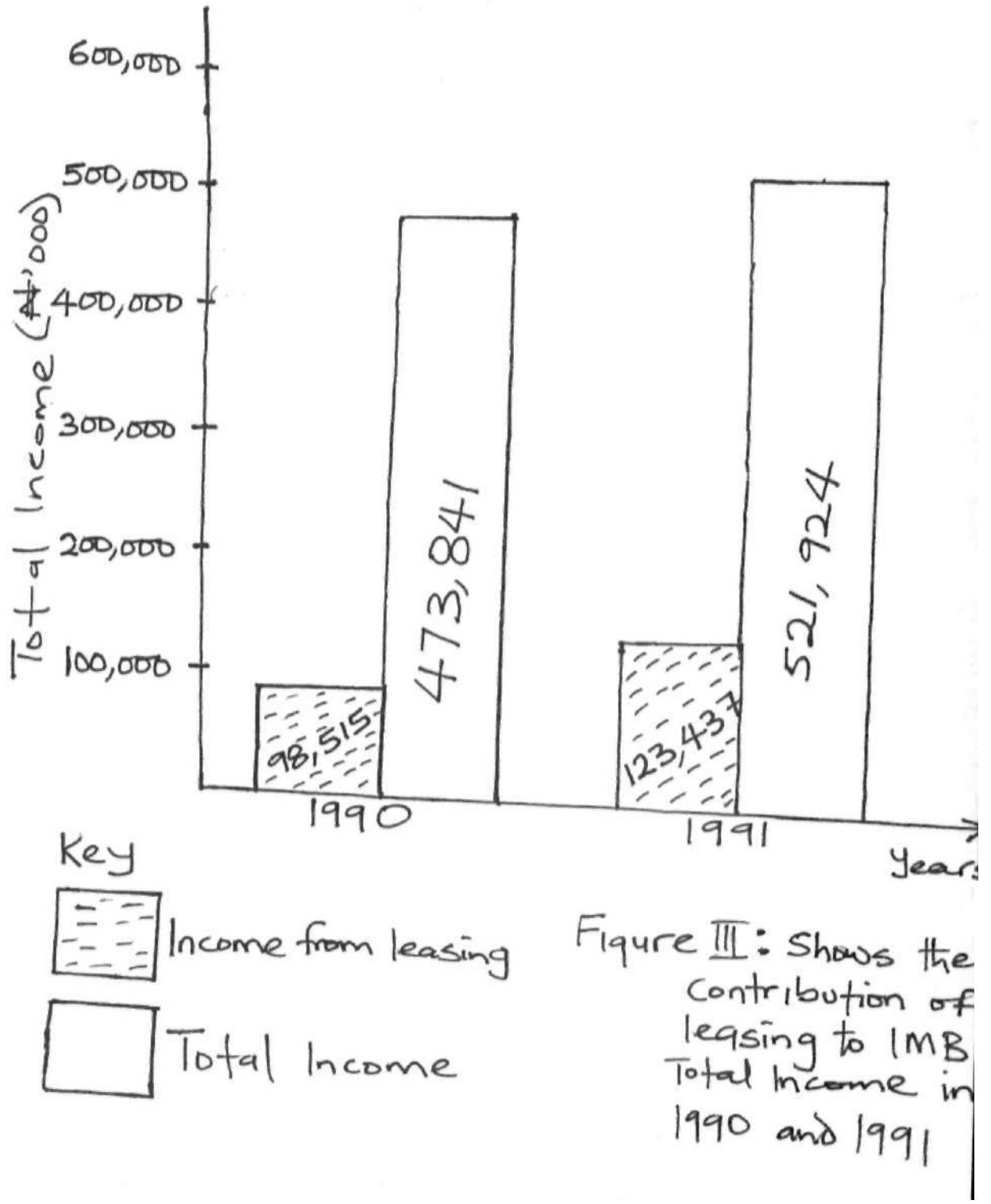


Figure III: Shows the contribution of leasing to IMB Total Income in 1990 and 1991

Table 3: Growth of Leasing in Nigeria between 1986 and 1990 ELAN members
(₦' 000)

	1990	1989	1988	1987	1986
Assets acquired during the year	654,839	564,105	457,718	336,527	100,136
Outstanding leased Assets owned at year end					
1) At cost	1,864,033	1,605,847	1,056,934	595,466	238,233
2) At Net Book Value	1,311,763	1,153,258	827,028	466,898	139,501
Assets Disposed of During the year					
1) At original cost	41,300	30,201	30,220	14,590	7,505
2) At Market price	14,402	12,231	11,222	4,120	2,095
Rentals received during the year	521,312	331,664	310,752	111,270	52,438

Source: ELAN

The information in Table 3 is broken down into sub-headings for easy explanation.

Table 4: Value of Assets Acquired for Leasing by ELAN members during the years 1986 - 1990

Years	Assets Acquired for leasing during the year (₦' 000)	% increase or decrease of assets acquired for leasing
1986	100,136	-
1987	336,527	236.7%
1988	457,718	36.6%
1989	564,105	23.24%
1990	654,839	16.68%

Source: ELAN

Table 4 shows that assets acquired for leasing in 1987 is worth ₦336.527 million this shows an increase of 236.7% over the figure for 1986, in 1988, assets acquired for leasing is worth ₦457.718 million, an increase of 23.24% over the figure for 1988 and in 1990, assets acquired for leasing is worth ₦654.839 million, an increase of 16.68% over the figure for 1989.

The table shows that Total Assets on lease acquired by ELAN members in 1986 is worth ₦100,136 million. By 1990, total assets leased under new contracts had risen 553.95% to hit ₦654.839 million.

Table 5: ELAN members Total Assets on lease and Rentals received from 1986 to 1990

Years	Total Assets on lease at Netbook Value (₦'000)	Rentals Received during the year	% increase in the value of Total Assets on lease	% increase in the value of rentals received
1986	139,501	52,438	-	-
1987	466,898	111,270	234.69%	112.2%
1988	827,028	310,752	77.13%	179.28%
1989	1,153,258	331,664	39.45%	6.73%
1990	1,311,763	521,312	15.74%	57.18%

Table 5 - shows that the % increase in the value of Total Assets on lease at Net book value from 1986 to 1987 is 234.69%, 1987 to 1988 the % increase is 77.13%, 1988 to 1989 the % increase is 39.45% and 1989 to 1990 the % increase is 15.74%. The % increase in the value of total assets between 1986 and 1990 is 840.53%.

Similarly, Table 5 shows that the % increase in the value of rentals received from 1986 to 1987 is 112.20%, 1987 to 1988 the % increase is 179.28%, 1988 to 1989 the % increase is 6.73% and 1989 to 1990 the % increase is 57.18%. The % increase in the value of rentals received between 1986 and 1990 is 894.15%.

Lessors and Lessees agreed that growth in the equipment leasing industry has been strong, since the advent of free market reform. From the virtual monopoly enjoyed at the beginning by International Merchant Bank (IMB), Continental Merchant Bank (CMB) and NAL Merchant Bank, the market has expanded to accomodate well over 300 lessors. The Equipment Leasing Association of Nigeria (ELAN), the most influential body of lessors, accounts for more 66 of them. Most of which are financially powerful Merchant banks.

The prices of equipment have climbed through the roof in response to the steep depreciation of the naira. Thus, putting pressure on company cash flows, already beleaqu ed by squeezed profit margins. Leasing is a relatively convenient way of spreading the strain of heavy capital commitment.

Leasing has proved to be a veritable way of out running rapid obsolescence. Equipment users can replace machines with more modern ones as each lease contract ends if the need arises. In addition, lease credits are often easier to obtain than straight loans. The equipment under lease serve the dual purpose of being the loan and the collateral for it. This is because ownership actually remains with the lessor, not the lessee.

Finally, lessors embrace leasing transactions because they are safer, than run of the mill lending.

As a bottom line, rental defaults by the lessees can be met with the withdrawal of the equipment under lease by the lessors, an effective, if inconvenient solution to the problem.

The information in Table 4 is illustrated with the bar chart below.

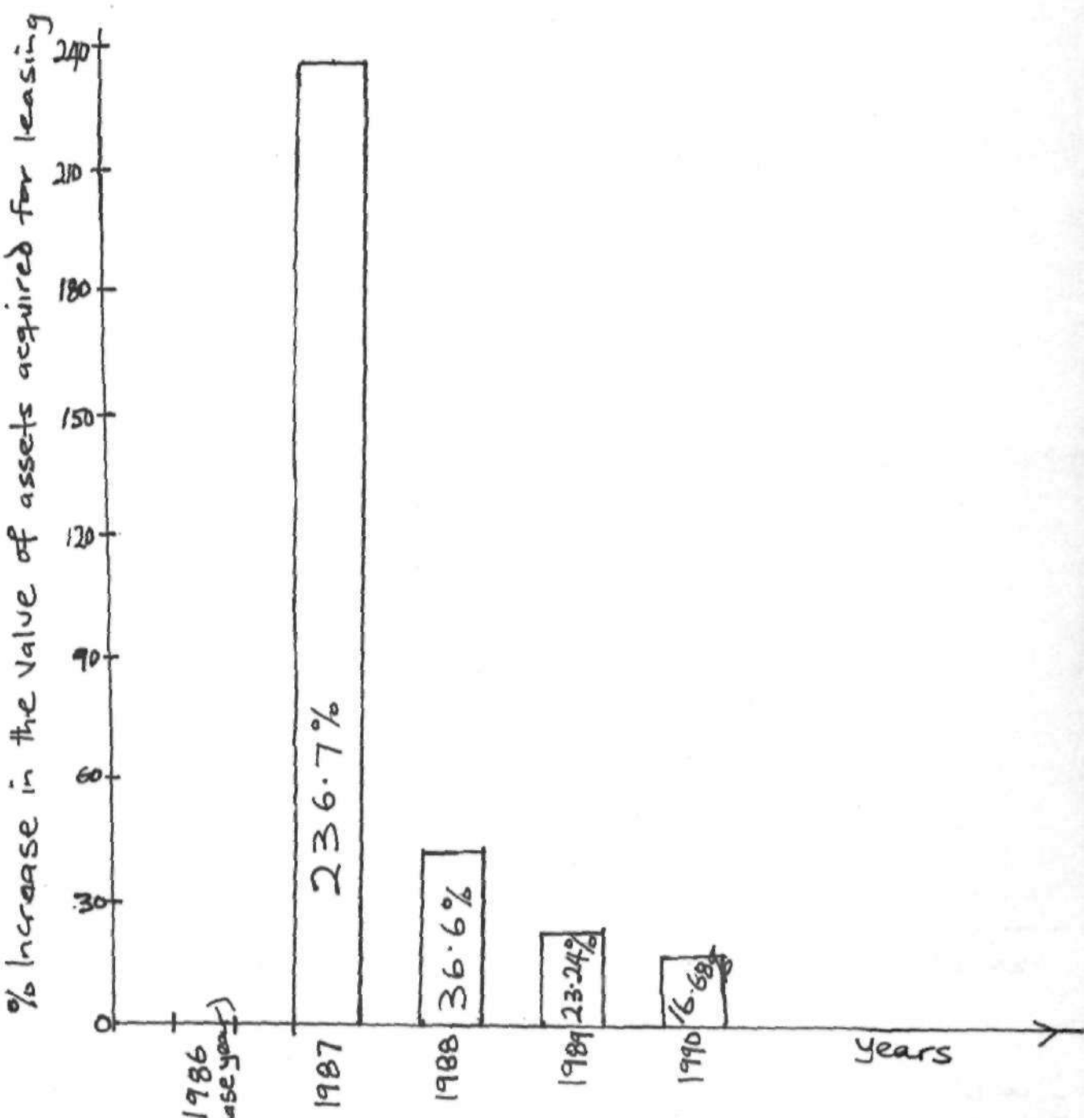


Figure IV: Shows ELAN members % yearly increase in the value of total assets on lease from 1986 to 1990

The information in Table 5 is illustrated also with the bar chart below

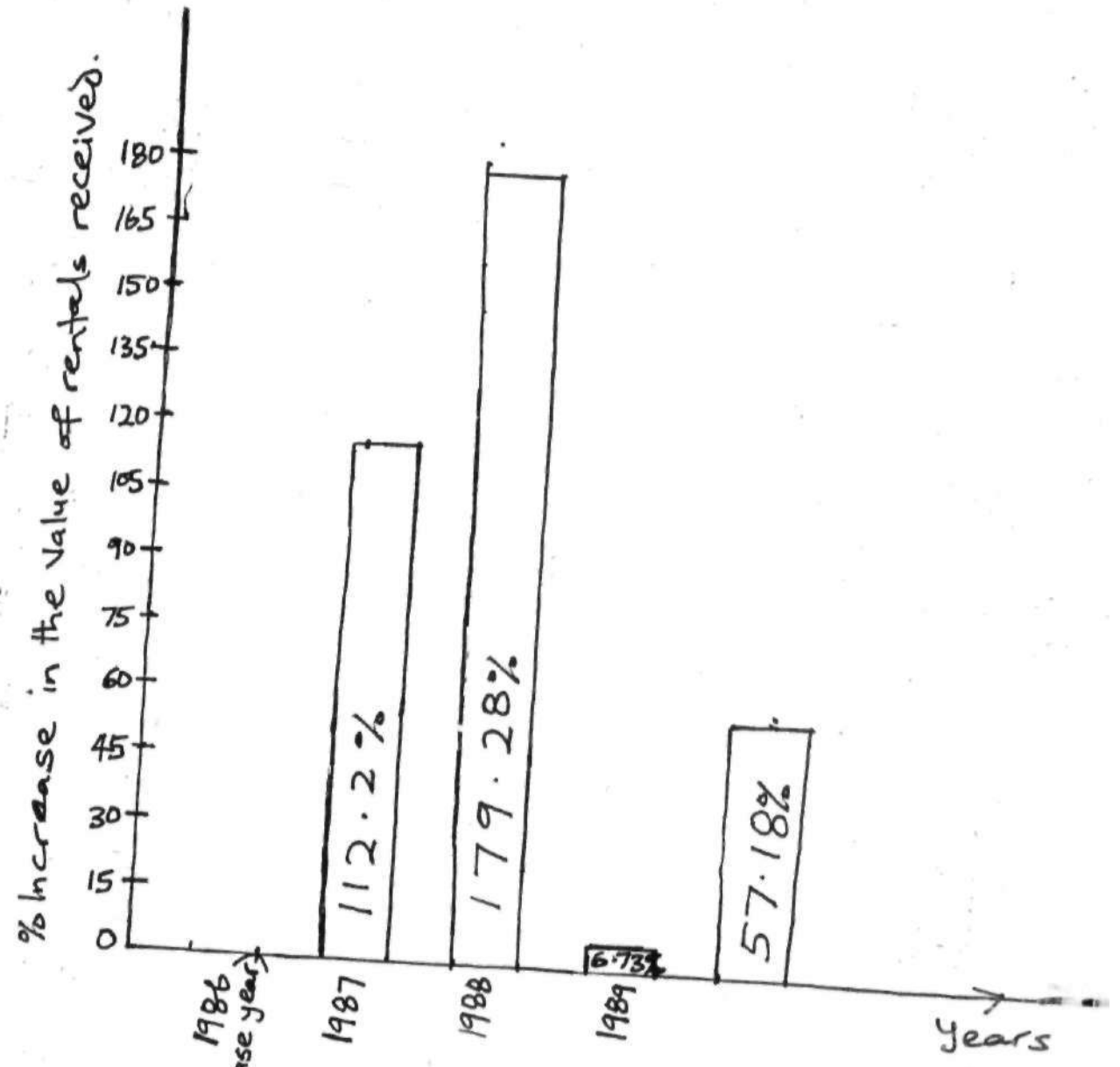


Figure VI : Shows ELAN members % year - Increase in the value of rentals received between 1986 and 1990.

Table 6: Assets Acquired during the year and leased to the Different sectors of the Economy by ELAN members (N'000)

	1990	1989	1988	1987	1986	Total
Manufacturing	352,319 (53.8%)	298,698 (52.10%)	184,971 (37.19%)	178,288 (52.98%)	55,080 (55%)	1,069,344 (49.46%)
Transport	77,611 (11.85%)	83,720 (14.60%)	60,036 (12.07%)	81,437 (24.20%)	19,829 (19.80%)	322,633 (14.92%)
Agriculture	17,381 (2.65%)	43,576 (7.60%)	1,851 (0.37%)	25,361 (7.5%)	4,000 (3.99%)	92,169 (4.26%)
Service	148,195 (22.63%)	14,810 (2.58%)	65,798 (13.23%)	27,596 (8.20%)	6,680 (6.67%)	263,079 (12.17%)
Government	26,375 (4.03%)	14,810 (2.58%)	3,094 (0.62%)	19,320 (5.74%)	5,933 (5.92%)	69,532 (3.22%)
Others	32,958 (5.03%)	117,693 (20.5%)	181,562 (36.51%)	4,525 (13.45%)	8,614 (8.60%)	345,352 (15.97%)
Total	654,839 (100%)	573,295 (100%)	497,312 (100%)	336,527 (100%)	100,136 (100%)	2,162,109 (100%)

Source: Equipment Leasing Association of Nigeria (ELAN)

Table 6 shows that the manufacturing industries are the dormin lessees in the country. In 1986, they acquired 55% the assets on lease and in 1987, they acquired 52.3% of the assets on lease. However, the percentage of the leased assets they acquired dropped sharply to 37.19% in 1988 and pick up again in 1989. In 1989, the % of the leased assets acquired by the manufacturing sector is 52.10% while in 1990 the value of the leased assets acquired by the manufacturing industries rise to 53.8%. On the whole, the manufacturing industries acquired 50% of the total assets on lease between 1986 and 1990.

The transport sector takes a distant second, acquiring 14.92% of the assets on lease between 1986 and 1990. The transport sector is closely followed by the service sector. The service sector acquired 12.17% of the assets on lease between 1986 and 1990. The agricultural sector takes a distant fourth and the government sector takes the fifth position. The agricultural and the government sectors acquired 4.26% and 3.22% of the assets on lease respectively between 1986 and 1990.

Others that cannot be classified as forming part of the other sectors and of minute and scattered nature that they cannot conveniently form a whole part on their own are classified under the sub-heading "others" and they acquire 15.97% of the assets on lease between 1986 and 1990.

Lease experts agreed that leasing to Nigeria's beleaguered manufacturing sector is like a breath of fresh air. Plant and Machinery, the engine of industrial production is kept running by equipment leasing transactions. Lessors and Lessees agreed that the massive investment in the manufacturing sector by lessors is expected because it is the growth sector and the need for equipment is userdriven. According to them, the equipment mostly go to textile, food and beverage manufacturing and also to processing of rubber. General manufacturing equipment provide lessors with good tax yields. The result is that major lessors are making their presence increasingly felt in the sector.

Leasing to manufacturing sector accounts for about 53.8 percent of all leasing activities in 1990 and the Merchant Banks show up strongly "IMB leads with an impressive ₦62 million, a good 17.6 percent of total investment to the sector. It is closely followed by Continental Merchant Bank (CMB) which posted ₦56 million (16 percent). Both lessors account for 33 percent of the sector's total and 40 and 61.8 percent of their respective Net Book Values (NBV) of outstanding leased assets acquired".[1]

4.2 ISSUES AND TRENDS IN LEASE FINANCING IN NIGERIA

From the views expressed by lessors and lessees, funding of lease transactions presents the greatest

obstacle to the expansion of the leasing industry. According to them, funding is the fundamental factor underlying lease financing. And in Nigeria's financial market, long-term deposits are non-existent. Therefore, to keep leasing activities alive, lessors are forced to come up with a whole range of hedges ranging from compulsory deposits, wide margin pricing and short tenure leasing. And these together put lessees in a tight corner.

According to Mallam Yakubu Danladi (1992), commercial and Merchant banks finance lease transactions with deposits that have much shorter tenures. With the hopes that when the deposits mature, they will be rolled over or new ones will be garnered with which to make up. However, lease experts in banks said that this is wishful thinking, because competition between banks and sudden interest rate changes have made deposits more volatile than ever before.

According to the experts, in situations where banks are able to retain enough deposits to fund the leases through the life span of the leases, rising interest rates can force the banks to do this at higher costs than originally envisaged. Since lease rentals are fixed and determined before the commencement of the transactions, the lessors can see profit margins vanish or even turn negatives.

The lease experts in banks agreed that the inter-

bank market cannot provide succour since funds traded on the market are both short-term and even more expensive than deposits from customers. They said that this is why banks insist on introducing two hedging techniques into their lease packages.

One is the insistence that the lessee places a fixed deposit with the lessor bank which is used for two purposes. Firstly to provide part funding for the lease, thereby reducing the banks exposure to the difference between the value of the lease and the size of the deposit. Secondly it acts as a hedge against interest rate fluctuations, since the rate payable on the deposit is fixed below the (equally fixed) implicit rate receivable from the rentals.

The second hedge is simpler. To compensate for the risk incurred by mismatching asset and liability tenures with its attendant interest margin gambles, the banks insist on higher margins over their initial cost of funds than on term loans. Thus, early supranormal profits can cover up for squeezed or negative margins later on in the eventof higher interest rates on the deposits through which the lease is funded.

Most lease experts in banks agreed that lessors who are not financial institutions are few, because they have no access to neither customers deposits nor the inter-bank money market. The existing ones are, in the main subsidiaries of major trading conglomerates such as John Holt, Leventis and Mandilas. This affiliation

provides them with access to formidable financial resources and enables them to position themselves on a market that even the banks shy away from: that for operating leases.

The experts agreed that these firms have virtually no cost of funds beyond administrative expenses. And they handle operating leases only. The specialised nature of their activities allow them to keep equipment on their books for use by several lessees. Unlike the banks who deal only in finance leases by treating lease transactions as one-off transactions, after which they let go of the equipment and seek out a new lease deal altogether.

Lessees are seriously affected by the funding of lease transactions. Though they agreed that lease transactions usually saves them the trouble of providing collateral and capital tie-down. However, the relatively high implicit interest required by lessors do have unpleasant consequences on lessees cash flows since grace periods are too short for liquidity build up. Besides the requirement for deposits against the values of the contracted leases, subsequent rentals are difficulties which have to be overcome. Add to these, the fact that lessors constrained by a lack of long term deposits, tend to make lease tenures shorter than they should ideally be.

According to lessees whenever they are faced with a take it or leave it situation they readily or some-

times reluctantly agree to lease terms at the expense of flexibility in the use of their cash flows. In worst cases, large rental commitments do prevent lessees from taking advantage of other market opportunities when they arise. While this continues to happen, lessees believe that defaults and roll-overs will remain part of the leasing markets inevitable feature.

The explosion in the banking and finance industry brought about by the deregulation of the economy is increasing the competition in the leasing industry. Lease experts believe that with time, competition will reduce lessors ability to dictate terms freely. For banks, their leading position in the leasing sector is now being threatened by independent leasing firms, stockbroking firms, finance companies and the equipment manufacturers themselves. Already, competition from these areas is heating up, putting the leasing market on the boil.

Experts in the field of leasing share the same opinion that competition in the leasing industry will create more flexibility and innovativeness both in the packaging and pricing of leasing deals to corporate clients. Also they acknowledged the unique role that the Equipment Leasing Association of Nigeria (ELAN) is playing in promoting the growth of the leasing, industry in Nigeria. Lessors agreed that they have benefitted greatly from ELAN activities.

4.3 SUMMARY OF RESEARCH FINDINGS

The growth of equipment lease financing in the country is largely influenced by the quantum downward adjustments in the naira exchange value resulting from the exchange market and the deregulation of the economy. Thus, the research has a number of facts to reveal on leasing trade.

1) The escalation in the prices of machinery, plants, equipment, tools, computers and office automation devices and materials brought about by the over-devaluation of the naira has contributed significantly to the growth of leasing industry at International Merchant Bank (IMB) and in the country.

2) There is a significant relationship between the level of inflation and the volume of leasing transactions at IMB and in the country.

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

4) The Merchant Banks are the dorminant lessors in Nigeria today, the commercial banks are coming up strongly likewise the finance houses and leasing companies.

5) International Merchant Bank (IMB) is the third biggest lessor in the country today trailing behind

Continental Merchant Bank and ICON (Merchant Bankers). And the Bank leads in leasing plants and machinery to the manufacturing sector.

6) Manufacturing industries are the dorminant lessees among the various sectors of the economy. They accounted for over 50% of the total leased assets. The reason for this is that General manufacturing equipment provide lessors with good tax yields.

7) Leasing is becoming a major source of income to financial institutions engaging in it.

8) Fluctuating interest rates is affecting the funding of leasing in Nigeria. Since lease rentals are fixed and determined before the commencement of leasing transaction, the lessor profit margins may vanish or even turn negative when interest rates are rising.

9) Some of the big merchant banks are slowing down the rate at which their leasing portfolios are growing. The problem is funding leases over several year tenures rather than any particular defect in the leasing market itself.

10) Equipment Leasing Association of Nigeria (ELAN) has been contfibuting significantly to the growth of the leasing industry in Nigeria.

11) There is increasing awareness among the lessors and the lessees of the many benefits to be derived

from leasing equipment rather than outright purchase of equipment.

12) The prospect for the leasing industry is very bright under SAP and with time the industry will become more sophisticated.

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

14) Lessees are put in a tight corner because in Nigeria's financial market, long-term deposits are non-existent. To keep leasing activities alive, lessors are forced to come up with a whole range of hedges ranging from compulsory deposits, wide margin pricing and short tenure leasing.

15) While merchants banks can expand their lease portfolios without the inhibitions of the Central Bank of Nigeria's credit ceilings on lending, the commercial banks on the other hand have to include their own lease portfolios within their credit ceilings. In theory, the commercial banks can lease actively but in practice they can hardly participate. This is why the contribution of commerical banks to leasing is very poor.

16) The disagreement over the issue of tax deductible capital allowances between lessees and lessors has been settled in favour of the lessors. The

rules give the lessors the verdict, much to the chagrin of the lessees.

17) The increasing competition in the leasing industry will reduce lessors ability to dictate terms freely. Oligopolies cannot be maintained by hundreds of firms, but cut throat competition can and will result from them. For banks, their leading position in the leasing sector is now being threatened by independent leasing firms, stockbroking firms, finance companies and the equipment manufacturers themselves. Already, competition from these areas is heating up, putting the leasing market on the boil.

18) Competition in the industry will create the need for alot more flexibility and innovativeness both in the packaging and pricing of leasing deals to corporate clients. One of the first usual conditions to be abondoned will be the tying of lease arrangements to deposits with the lessor by the lessee. Since equipment manufacturers have no need for such a practice, this will give them an advantage which financial institutions can only neutralise by following suit. Ultimately lessors will be forced to concede part of their tax advantages to their clients in the form of lease rental mark-downs.

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

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CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

Equipment lease financing is an alternative form of financing asset acquisition through contractual agreement between lessor and lessee. Leasing as an alternative form of finance is no doubt becoming a major capital assets financing option in the country. Lease practioners attest to the fact that it is an attractive instrument for financing especially under the harsh economic situation of high interest rates, very low liquidity positions of enterprises and ever increasing cost of equipment. Which are attributes to or considered side effects of Structural Adjustment Programme.

Lease financing involves transaction between the lessor and lessee. The contractual relationship between the lessee and the lessor determines the nature and terms of the contract. Lease financing takes many form which include operating lease, finance lease and syndicated lease. The lessors are Merchant and commercial Banks, Development companies, Institutional investors and independent leasing companies. The lessees include the manufacturing, transport and construction industries.

No doubt, Merchant Banks play a dorminant role in

the leasing industry, because they make funds easily available to companies, who seek an alternative means to acquire capital resource. Especially in this current period of Structural Adjustment Programme, where introduce economic measures affect adversely the financial position of such companies.[2]

With the establishment of Equipment Leasing Association of Nigeria (ELAN), more advantages of lease transaction came into light. As such it becomes preferred option to asset acquisition by quite a number of our industries.

Equipment lease-financing though a recent development in business become an important financial tool. That is contributing towards the development of the various sectors of the economy, by providing additional source of finance. This results to some benefits which could be outlined as follows:

1) Leasing allows the survival of industries that are in financial crisis. And with the government incentive of allowing the lessors to enjoy capital allowances, lessors will pass this to the lessees in form of reduced rents.

2) Leasing ensures that funds secured are invested in procuring equipment rather than put to less productive sectors.

3) Leasing increases competition among source of finance (lessors) thus increasing the availability

of funds.

4) Equipment lease financing encourages to a lesser extent spring-up of new industries, and to a larger extent innovation among existing industries.

5) Lease financing technique exposes both lessors and lessees to the whole idea behind the business. Which in the long run benefits the two parties and generally speaking, therefore it stimulates the economy.

Chapter one of the project discussed among other things the impact of SAP on lease financing. The research questions and objectives of the study are clearly stated likewise the Research Methodology and limitation of the study. Chapter two of the research topic reviewed the Nigerian economy before and after the introduction of SAP. The nature, evolution and growth of lease financing in Nigeria and adhered regulations and laws governing the entire leasing business are discussed under this chapter.

Chapter three focussed on equipment lease financing at International Merchant Bank Limited. And as such examined the credit issues in the analysis of lease finance at International Merchant Bank.

Chapter four focussed on the analysis of the data on the growth of lease financing at International Merchant Bank and Nigeria from 1986 to 1991. An as

such examined the total assets on lease and the percentage committed to lease portfolio of different sectors of the economy. The research findings are also stated in this chapter.

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

5.2 CONCLUSION

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

To cope with the harsh economic environment created by the Structural Adjustment Programme, a business organisation has to device strategies in order to utilise the opportunities created by SAP and also minimize the threats resulting from it if only it desires to survive. Equipment leasing is obviously one viable strategy for business organisation especially the manufacturing sector, because equipment leasing offers an alternative to outright purchase of asset in the face of ever increasing cost of capital asset. Equipment leasing also offers them (business organisations)

the option of selling their assets and leasing the same assets. Thus improving their liquidity position without having to go for loan and still maintaining the services of the assets concerned.

For banking sector, equipment leasing offers them an alternative to credit facilities which the governments is all out to control. They effectively substitute equipment leasing to take care of the vacuum created by the lack of borrowers (especially in the industrial subsector which is the priority area of the government in terms of credit facilities to the private sector) because of high interest rates and still reap a good margin of profit.

The continued 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. This is moreso when the commercial banks get to understand the provisions of the 1990 credit policy guideline which allows them to participate on the operations of lease financing. When they part-take in it fully then the already impressive performance of the leasing business in Nigeria will be better enhanced. This is because commerical banks have access to larger deposits that can be invested. They also have greater contact with larger portion of the economy than Merchant Banks. From the views expressed by various experts and available

data obtained on leasing transactions it can be inferred that equipment leasing business has alot of opportunities and prospects in the country.

5.3 RECOMMENDATIONS

The prospects for equipment leasing in Nigeria is tremendous. But the ability to realise it is possible only to the extent that the operators themselves and Government through their policies encourage its growth. In order to realise 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 its agencies that are responsible for directing or giving guidelines on factors affecting the leasing industry.

a) The Federal Government should deregulate the leasing market to enable the country's small, medium and large scale industries develop 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 banks. The exemption of leasing from credit ceilings would enable commerical banks

use their numerous branch network to package small ticket leases for the nation's cottage industry.

b) The authorities that is the government should treat the business of equipment leasing just with the kind of favour it has extended to finance instruments such as export and small medium scale enterprises (SMEs) loan schemes. Both of which currently enjoy special concessional interest rates. The extension of such lower interest rate favour to the leasing industry will boost investment in production assets.

c) The authorities should increase the capital allowance available on essential production equipment. The government should grant a first year investment allowance on equipment which are considered crucial to the country's economic growth. The government can give a boost to the trade by keeping the tax law the way it stands now. That is, by giving the right of claiming capital allowances to lessors only. If this is done, it will serve as an incentive to promoting the business. What needs to be done is to prevent lessors from over exploiting uniformed lessees by charging high interest rates and taking capital allowances on the leases, all at the same time.

d) The government needs to create the right kind of atmosphere for the promotion of equipment leasing

in the country. The present tax incentives available to all purchasers of equipment in Nigeria are inadequate and insufficient to encourage finance organisations to enter the leasing industry. The imposition of 15 percent withholding taxes on lease rentals indiscriminate of whether such leases are finance leases or not will serve as a disincentive to the equipment leassing business. Only the interest component of lease rentals constitute income which is subject to taxation. Moreover, bankers and other finance houses that engage in finance leases are reputably tax responsible entities. That do not deserve up front taxation at point of receiving income. It is hoped that it does not act as a disincentive to the equipment leasing business.

e) The Equipment Leasing Association of Nigeria (ELAN), the umbrella body of leasing organisations (lessors) in the country should be given legislative recognition. The body should be given exclusive powers to register new lessors and their staff and promote increased awareness and technical knowledge of the product.

ii) <u>The Lessors and Lessees</u>

a) 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 multinationals and blue chip companies operating in Nigeria.

b) Lessors should liberalise their policy of receiving compulsory deposits immediately a leasing agreement is signed.

c) The lessors should try as much as possible to transact leasing business with the end user of the equipment, since the asset being financed is primarily the security.

d) Some marketing activities by the lessors would be invaluable increating awareness of the important benefits of equipment leasing. The idea and the practice of leasing must be sold to un-informed Nigerian businessmen and industrialists by the lessors for the advantage of both, as well as the economy as a whole.

iii) 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:

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

b) The association should also try to analyse informations and give vital statistics to all the members and the public through printouts, publications, periodical journals and phamplets.

c) Concessions are not likely to flow unsolicited from the Government. For this reason, equipment lessors must join forces. In other countries where the industry has developed and enjoyed good concessions from governments, the associations of equipment lessors have invariably worked for them.

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APPENDIX I

SAMPLE QUESTIONS USED IN INTERVIEWING LESSORS AND LESSEES

LESSORS

1. Which year did you start leasing business and what types of leases do you handle?
2. What are the common items or projects you have leased so far?
3. Is leasing one of your primary functions or just a secondary function?
4. How is the deregulation of the economy affecting your leasing business?
5. Has the level of inflation had any significant effect on the volume of your leasing transactions?
6. Who are your major clients and competitors?
7. What are the major problems/constraints you normally encounter in your leasing operations?
8. What are the benefits that you derive from leasing?
9. Do you consider leasing to be a sophisticated financial tool and alternative to buying?
10. Do you have any dealing with ELAN?
11. What are the developments or innovations that you envisage in the leasing industry in the nearest future?

LESSEES

1. When did you become a lessee and what types of leases do you go for?

2. What are the common items or assets that you acquired from leasing?

3. Why do you prefer leasing of assets to outright buying of assets?

4. How is the deregulation of the economy affecting you as a lessee and also your business?

5. What are the major benefits that you seek from leasing?

6. What are the major problems/constraints that you normally encounter when you want to acquire leased assets?

7. What are the developments or innovations that you envisage in the leasing industry in the nearest future?