THE ROLE OF MERCHANT BANK IN EQUIPMENT LEASING IN NIGERIA

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C E R T I F I C A T I O N

This project entitle THE ROLE OF MERCHANT BANKS IN EQUIPMENT LEASING IN NIGERIA BY ALAYANDE YINKA has been read and approved as having met the requirements of the Department of Business Administration, Ahmadu Bello University, Zaria, for the award of the Degree of Master of Business Administration (M.B.A) and is therefore approved for it's contribution to knowledge and literacy presentation.

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D E C L A R A T I O N

I hereby declare that the work done in this MBA project is wholly my effort. No any other project of this nature or similar work has been done before in anywhere for any other degree before this research was conducted. All materials used from other sources have been duely referenced.

Sign: .....

Alayande Yinka

DECEMBER, 1992.

D E D I C A T I O N

To my LATE BROTHER MR. ISAAC ALAYANDE, who made me realized, early in life, the value of Education.

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Glory be to God Almighty for giving me the health and the will in making this work a success.

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A B S T R A C T

Merchant Bank differ from Commercial Bank in that they have as their primary objective filling the medium term to long-term loan vacuum in the Country.

They are the specialists in the Nigerian Financial System as selective cases are referred to them. Their wholesale nature and corporate focuse can have more direct impact on industries.

Equipment leasing is a unique function performed by Merchant Bank in Nigeria. This is beeause commercial bank are not allowed to engage in equipment leasing. Other financial and commercial houses that engaged in equipment leasing operate in a totally different environment and as such do not compete directly with merchant banks, they also lack the strong financial base that would allow such competi-r: tion.

While the term "Lease" may be familiar, it's meaning in the context of Equipment Leasing is not fully understood. Today leasing has become familiar as a method of financiag the acquisition of capital plant and equipment. Leasing is gaining prominence as the creative financing alternative for the acquisition of heavy capital goods as a result of farreaching economic reforms under the structural Adjustment Programme (SAP), introduced six years ago.

Eventhough the regulatory body (CBN) has stated that a maxium of 15 per cent of the total asset of merchant banks should be devoted to Equipment Leasing, most of them are yet to perform up to 50 per cent of this amount. This is inspite of the current upsurge in the demand for leasing products. The performance of Merchant Banks in equipment leasing still leaves a lot to be desired.

A lease is a contractual agreement by which the lessor (owner rentor) grant rights to the leasee (tenant) to use real or personal property (asset) for a specific period of time less than it's (actual) working life in return for compensation in the form of specified periodic cash payments rents. The practice of equipment leasing attracted other aspects of finance such as legal, taxation, accaounting, Insurance, lease of purchase etc.

Equipment leasing has continued to be a popular means of financing business operation in recent times. This is due among other things, to the numerous advantages it has over its disadvantages and other means of financing. Despite the advantages the leasing industry in Nigeria is plagued with a lot of problems such as: lack of a leasing law, lack of precise regulation regarding uniform taxation; and accounting policies on leasing plans/assets, lack of competition in the industry, lack of adequate funding; credit policy problem, the erratic and frequent changes in the fiscal and monetary policies of the Government leading to unattractive exchange rates.

other are: Death of trained and experienced relevant financial engineers and lack of viable projects.

If the above mentioned problems can be effectively tackled, there is no doubt that the operators of the industry will be adequately equipped to face the challenges ahead in the industry. The future of leasing in Nigeria is very bright and promising.

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CHAPTER ONE

INTRODUCTION

1.1. BACKGROUND OF STUDY:

The development of Merchant Banks in Nigeria is a recent occurence. Merchant Banks, Commercial Banks, Development Banks, Saving-type Institutions, investment Companies, Federal Ministry of Finance and the Central Bank constitute the Nigeria Financial System. The Central Bank is the regulatory body of this system. These financial intermediaries as they are also known are expected to serve as the motive force in the mobilisation and channelling of the Country's financial resources into their most productive uses.

Commercial Bank are known for their ordinary banking business of accepting deposits from the general public and advancing same in the form of loans, given and charging interest respectively. Development banks like Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI) and the Nigerian Agricultural and Co-operative Bank (NACB) are created by Government and private individuals with the aim of providing long-term capital for development. They differ from the Commercial and Merchant Bank in the sence that thier primary concern is development and not profit making.

The Merchant Banks on their part have the primary objective of filling the medium term to long-term loan vacuum in the country. They are to the financial system what the specialist hospitals are to the medical sector as selective cases are referred to the Merchant Banks unlike commercial banks, lend long and big; as such they employ all sort of specialists so as to avert the risk of losing huge sum of money. Since the amount involved is usually so large that no sufficient cover can be given in the form of collateral security, the banks depend on the project for security

and as such all care are taken so that the project is properly evaluated. Hence clay and wheble (1976)[1], wrote that "Merchant Bank" word is a complicated one one of long-term lending and monitoring of long-term trends in the economy, it's various sectors and prospects of it's corporate units. There has been arguments as to whether banks in Nigeria fall into the above category due to shortage of capital, and counter - arguments from the banks that not only do they fall into the said category but that shortage of capital on their part cannot explain the Country's lack of industrialisation.

Of the many institutions involved in providing capital to industries, the merchant banks wholesales nature and corporate focus can have a more direct impact on industries. The functions performed by these institutions can be broadly classified into banking and corporate finance. The banking services offered include management and syndication of loans, handling letters of credit, funds transfers and foreign Exchange Services, providing bills discounting, bills for collection, dealing in deposits, commercial papers, bankers acceptance and other money market instruments. The Corporate Finance Functions include the provision of investmentsadvice on real estate, agricultural, industrial and related projects, leasing machinery and equipment; management of issues of debt and equity securities; advice of joint ventures, mergers and acquisition; export financing and and financial strategy.

Schatz (1964)[2], contends that ..... "these facts combine to indicate that the significant shortage in the indigenous seetor of the Nigeria economy is one of commercially viable projects. The large false demand for capital creates the illusion that there is shortage of capital. But the record indicate that the true situation is the converse of capital shortage. Instead of a large numbers of viable projects vainly seeking viable projects".

Whether the above statement made some twenty-four years back can be used to explain the lack of industrialization in this Country will be examined in this study.

Of all the functions of merchant bank enumerated above the unique function of Equipment Leasing has been the enmarked for this study. Leasing is a distinct form of finance which provides specific benefits for the parties concerned. While the term "Lease" may be familiar, its meaning in the context of Equipment Leasing is sometimes not fully understood. In recent years leasing has become familiar as a method of financing the acquisition of capital plant and equipment. The increasing cost of bringing in new equipment into Nigeria is currently leading to an upsurge in the demand for the leasing products. Leasing is gaining prominence as the easy way out - the creative financing alternative for the acquisition of heavy capital goods.[3-ojo]

The severe decline in the Country's oil revenue necessitated a complete revamping of the economic system through the imposition of far-reaching economic reforms under the structual adjustment programme SAP. introduced six years ago. This programme deregulated imports by completely abolishing the inefficient and bureaucratic import lincensing procedures and established a foreign exchange market (FEM) that devalued the naira, inpursuit of a "realistic" exchange rate.[4-mud] The programme (SAP) also deregulated interest rate, provided a comprehensive tariff restructuring, curtailed public sector spending promoted non oil exports and privatisation. These fundamental changes in the economic environment created a lot of opportunities for equipment leasing activities which up till then was relatively unknown or low viewed vis-a-vis other vehicles such as term loans, revolvers and overdrafts. Today, leasing as a financing alternative has emerged as the fastest growing financial instrument for capital expenditure on plant and machinery. In effect, equipment leasing is fast becoming an integral part of the equipment acquisition process.

In Nigeria today, finance lessors are primarily the merchant banks and as such, there are no active independent leasing companies. Other financial houses and commercial lessors operate in a totally different environment and as such do not compete directly with merchant bank as they lack the strong financial base that would allowed such competition However, in a few years government policy might encourage the growth of such companies. Such companies will be in direct competition with merchant banks for lease contracts. Commercial banks are statutorily excluded from engaging in lease financing, what more, they lack the requisite know how to undertake the business

1.2 THE STATEMENT OF PROBLEM

The merchant bank in Nigeria had been bid by the central Bank to carve out specific role in its (Merchant Banks) Annual Monetary POlicy that among other things: maximum of 15% of total assets of merchant banks shall be in equipment leasing and other corporate banking services. By 1976 when the first equipment leasing transaction was recorded and 1983 the equipment leasing association of nigeria was formed not up to half of this amount was achieved.

With this government officials, business executives and academics had criticise merchant bank that they have not started playing roles designed for them and that they have failed to mobilise moreo of their funds on a long-term basis and what merchant banks does that can not be done by other financial institution, especially commercial banks.

Merchant Bank on their part have countered these criticisms as a misconception of the functions expected of merchant banks and a mark of ignorance on the activity they actually carry out, they maintain that they have justified the reason for their establishment and that their problem is not that of capital shortage or fear of undertaking long-term leading activities but that of lack of viable projects to support.

Even though merchant bank are responding to the growth of the lease financing in the economy, many believe that what makes it attractive to lessors (Banks) is its is its higher yield vis-a-vis other credit instruments.

As the growth in importance of leasing as a source of Financial for Commerce and Industry becomes prominent the accounting problems inherent in the intricate financial arrangement that are submerged under most lease agreement also become apparent. The problems under lease agreement go beyond traditional problem, that is determine the proper method of accounting and reporting leasing transactions.[5-Ibid]

Also, it is possible for lessees pledging the same assets to different lessor (Merchant Banks) under the full-pay-out leases for debt financing.[6-Banker]

1.3 THE OBJECTIVE OF THE STUDY

The objective of this study is to critically look into the role played by merchant banks in their unique function of equipment leasing in the country Nigeria. This study objectives can be examine in the following stepp.

1. To examine a case of leasing as opposed to outright purchase of asset and to examine the the advantages and disadvantages of leasing.

2. To examine leasing as a means of financing by considering the type of lease: legal aspect of lease; tax aspect; insurance aspects and the accounting problems posed by leasing.

3. To critically examine the extend to which merchant banks have adequately performed their function of equipment leasing to corporate bodies in the face of problems/hindrances encountered by such corporate bodies and merchant banks.

4. The function of equipment leasing by merchant banks as a unique function to it and other financial institutions that may perform such function.

5. Finally, to suggest solutions where possible to come of the problems faced by both merchant banks and corporate bodies in lease financing, and to speculate on the future of leasing in Nigeria.

1.4 SIGNIFICANCE OF THE STUDY

The importance of a study such as this - the role of merchant banks in equipment leasing - can not be over emphasized, since an essential feature of commerce in any developed or Developing country is an efficient and effective use mf a suitable credit instrument.

Leasing as an alternative financing option is relatively new and only making a steady and determined in road into the Nigerian financing arena as was mentioned earlier - on. It is a means by which a firm can acquire the economic use for an asset over a specified period of time. Due to their scale of operation and corporate focus. merchant banks have been identified as the major providers or financiers of leases.

However, the extend to which they have carried out this unique function of equipment leasing in the face of multivariate challenges is still contestable. In the 80^{s} and particularly with some significant policy and regulatory shifts in the management of the economy, leasing has definitely emerged as a varitable financing option in Nigeria, e.g SAP has made Business concerns to place very high premium on available working funds, and the need to have easy access to finding has made a good number of them to embrace leasing as an alternative source of finance.

In addition, individuals, academicians, bank, executives government officials will find this study useful in the broadening of their knowledge on the topic, as stimulant on merchant banks, a guide to future research and an influence on the implementation of policies on lease.

1.5 SCOPE OF STUDY

This study is not limited to the role of a particular merchant bank in equipment leasing. It is a general analysis of the roles played by all the merchant banks fully engaged in equipment leasing in the country today. It cover the period of 1976 - 1991 of active leasing because of the limitation of data.

Secondly, information gathered in this study relates specifically to the sample of the research work which was taken from merchant banks which operate leases, and organizations with leased equipments from merchant banks, in Lagos and Kaduna

1.6 LIMITATION

This research has its own share ofs such limitations. Time was a serious handicap to this study. This is more so when it cames to an interesting and unique topic like this, the cause work had to be completed before adequate attention could be focused on this project.

Another constrain was finance. The researcher is a private student who has to finance the research work all by himself and well wishers. Again the head office of the merchant banks are all based in Lagos, although we made a trip to Lagos not much was achieved from the banks because most of the officials of the banks visited were not ready to cooperate. Thurs, reducing the necessary information and data needed, and relevant information and data concerning the equipment leasing in the merchant bank and you hear things like "I can't do that, that is impossible, no Bank will given you such specific information..... for instant".

Hence the researcher had to contend himself with the little information gathered through oral interviews, and data collected from a few banks and mostly from equipment leasing Association of Nigeria (ELAN) Secretarial in Victoria Island, Lagos.

However, I have the confident that within these constraints and and indept analysis was done to enlighten readers and future researchers about the myth and realities surrounding merchant bank in NIgeria in their equipment leasing business.

1.7 DEFINITION OF TERMS

Commercial Bank: For the purpose of this study, we shall adopt the definition by the 1969 Banking Degree which defined bank as any person in Nigeria who transacts banking business and whose business mainly consists of trading in and holding commercial bills of exchange, treasury bills or other securities, or whose operation are, in the opinion of the central bank, those of a discount house.

Consortium Leasing: This is a situation whereby a group of firms arrange the deal (to lease) if the item involved is very expensive and require a huge finance outlay.

Cross-Border Leasing: This is a type of leasing arrangement where the lessor and the lessee are in different geopolitical entities.

Direct Leasing: This represent a straight forward lease contract between a lessor and a lessee where the equipment tenor and rent are covered under a lease agreement for the obligatory period of the lease.

Finance Lease: Finance lease is a contract involving the payment of specified rentals, over an obligatory period, sufficient to amortize the capital outlay of the lessor as well as providing a target return on the capital.

Hire Purchase: This is an arrangement whereby a trader or finance house transfers the possession of goods to a hirer while retaining the ownership rights after receipt of cash deposit plus the hirer's promiseeto pay the balance of the cost of good in pre-agreed instalments.

Lease: This is a means by which a firm can acquire the economic use of an asset for a stated period of time.

Lessee: A person or firm to whom asset is leased.

Lessor: A person that leases the asset. In otherwords, he is the owner of the asset on lease.

Leveraged Leasing: A situation whereby a third party finances, usually, most of the cost of the asset purchased by the lessor, with the lessor providing only a minimal portion of the cost. The lessor's return is leveraged by funds provided.

Merchant Banks: A merchant banks is a wholesale bank as licensed under the Banking Act, 1969 (Amended 1979) that engage in medium and long-term activities such as acceptances, loans and advances, deposits, equipment leasing, foreign exchange services, project financing issuing house services, investment and financial advisory services and so on.

Operating Lease: This is a lease in which the lessor would expect to lease the asset to more than one lessee during its life and does not therefore look to the first lessee for the repayment of the cost of the asset.

Rentals: This is a periodic payment by which a lessee obtains quite possession of the asset leased.

Sale and Lease Back: An arrangement where a firm sell an item it formerly own and leases it back. Hence forth, it pays the rental from business proceeds while using the money realized from the sale for other purpose.

CHAPTER ONE

FOOTNOTES

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4. MUD, I.K: Leasing: The Neglected Option, Business Times, September 12, 1988, P.10.

5. IBID

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CHAPTER TWO

LITERATURE REVIEW

2.1 THE CONCEPT OF MERCHANT BANKING

Generally the concept of merchant banking has been accepted definition. All attempts to define a merchant bank have succeeded only in further pointing to the difficulty of a definition. This problem was illustrated by Reid (1963)[1], he said, "the term merchant bank is sometimes applied to banks who are not merchants, sometimes merchant who are not banks and sometimes to houses who are neither merchant nor banks".

Hanson D.G (1976)[2] in his book "service banking" referred to merchant banking as service banking to distinguish it from the traditional banking functions of commercial banks of accepting deposits, advancing loans and providing money transfer services.

Section 41 (1) of the banking Act. of 1969 (as amended) define a "Bank"as"any person who carries on banking business and includes a commercial bank, an acceptance house, discount house and financial institution". While section 41 (1) (a) defines "commercial bank" as "any person who transact business in Nigeria and whose business includes the acceptance of deposits withdrawable by cheque".

On the other hand, "Merchant bank" is define by section 41 (1) (e) as "any person in Nigeria who is engaged in wholesale banking, medium and long term financing, equipment leasing, debt factoring, investment management issue and acceptance of bills and the management of unit trusts. In this connection, the conclusion that could be drawn from the combined effect of section 41 (1) (a) and (e) of the banking Act of 1969 is that commercial banks are statutorily precluded from entering into equip-

ment leases. Does this help solve the myth sorrounding merchant banking.

The limitation here is that many other institutions who are not merchant banks also engage in these activities. Perhaps, some characteristic traits usually idetified with a merchant bank could help us out. These are:-

(1) A high percentage of decision makers in it's staff.

(2) Quick decision making process.

(3) High density of information.

(4) Close contact with it environment.

(5) High liquidity ratio.

(6) Innovative as against repetitive operation. ETC.

A comprehensive defination is, A merchant Bank is a wholesale financial institution licensed under the Banking Act (1969) as ammended in 1979 as a merchant bank with a minimum paid up capital of ₦8 Million that accept deposits mainly from corporate clients of not less than ₦50,000; and is expected to concentrate on medium and long-term engagements is selected productive sectors of the Nigerian economy in a professionally sophisticated manner.

2.2 THE CONCEPT OF LEASING

Lease is one of the various forms of project financing. It is an agreement between a lessor and a lessee during a specific period to loan/lend out fund/equipment by the lessor to the lessee. The lessor at anytime reserves the right of ownership of the good(s) Even during the period it is being rent out to the lessee.

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

A lessee, willing to retain the goods to himself after the lease period will be expected to pay an amount that will be specified by the lessor.

Goods leased out range from household equipment (FAN, A/C, FRIDGE ETC) to factory machines,loans/overdraft from banks, buildings,cars etc.

From the Advanced Oxford Learner Dictionary of lease as "a contract or agreement by which one person, the lessor agrees to allow another the lessee to use land or building for a certain period of time usually in return for a money payment called rent".

It is noted that leasing is not restricted to land and building but it has extended to other categories of fixed assets.

A lease by definition is a contractual agreement by which the lessor (owner rentor) grant right to the lessee (tenant) to use real or personal property (asset) for a specific period of time less than its (actual) working life in return for compensation, usually in the form of specified periodic cash payments (rents). As a contractual agreement, the terms of the lease are framed to reflect the desires of the lesser and the lessee.

In corporate finance long-term rentals are common. A rental agreement that extend for a year or more and involves a series of fixed payment may be recognised as a lease. Firms lease as an alternative to buying

capital equipment. Every lease involves two parties. The user of the asset called the lessee, the lessee makes periodic payment to the owner of the asset, who is called the lessor. The lease contract specifies the monthly or semi annual payments, which the first payment usually due as soon as the contract is signed. The payments are usually levelled, but their time pattern can be tailored to the user's need. When a lease is terminated, the lease asset reverts to the lesser. However, the lease agreement often gives the user the option to repurchase the asset or take out a new lease.

EQUIPMENT LEASING

From the legal view point the term lease, hiring agreement and rental agreement in relation to goods have exactly the same meaning and are mutually interchangeable. The term "equipment lease" has, however, acquired a distinctive significance in commerce as denoting an agreement for the lease of plant and machinery for business purposes for a term rather longer than the ordinary rental agreement, the lessee in general being given no power to terminate the lease before the end of the leasing period.

The United Kingdom Equipment Leasing Association define equipment leasing as "a contract between a lessor and lessee for the hire of a specific asset selected from a manufacturer or vendor of such asset by the lessee. The lessor retains ownership of the asset. The lessee has possession and use of the assets on payment of specified rentals over a period"[3] ....Orimalade and Adewunmi.

The above definition embodies some vital features of an equipment lease which required a brief analysis. Firstly, it is basic in an equipment lease for lessor to retain the "ownership" of the specific asset or chattel which is the subject-matter of the lease. Secondly, the possessory right of such chattel is vested in the lessee with an attendant right to "use" the chattel during the currency of the lease. It is this seperation of "ownership" and "use" that is central to the whole concept of equipment leasing and distinguishes it from other payment-by-installment types of transaction. Lastly, the lessee is obliged to pay specified rentals over a period of time as consideration for his possession and use of the equipment.

Because of the contractual nature of a lease obligation. Both the lease payment and the payment of principal and interest on debt are fixed obligation that must be met. Inability to meet these obligation will result in financial embarrassment. Thus, lease financing and debt financing are very similar from the stand point of analysing the ability of the firm to service fixed obligation.[4] -Equipment leasing, Association of Equipment Leasing , London, P.7.

In lease financing, the obligations of the lessor and the lessee are specified in the lease contract. This contract contains:-

1. The basic or primary period during which the lease is non-cancellable.
2. Any option to renew the lease or to purchase the asset at the end of the basic period. Otherwise, the lessor takes possession of the asset and it is entitled to any residual value associated with it.

3. The timing and amount of periodic rental payments during the basic lease period.

4. Provision for the payment of the costs of maintenance and repairs, taxes, insurance, and other expense with a "net lease" the lessee pays all of these costs under a "maintanance lease", the lessor maintains the asset and pays the insurance".[5]-Van Horne C.J. (1986).

2.3 PARTIES TO LEASE

In Nigeria there are four different groups in the leasing industry. These are:-

(a) The Merchant Banks;

(b) The Financial Houses and

(c) The Commercial Lessors and Recently,

(d) The Commercial Bank.

(A) THE MERCHANT BANKS: Equipment leasing is one of the several ways merchant banks finance industries; through the negotiation of leased equipment directly to their corporate cleints. This function is unique to merchant bank because commercial bank in Nigeria are not allowed to undertake equipment leasing function. Merchant bank have higher capital base and are therefore in a position to play a higher stakes, to them equipment leasing is a form of sheltering existing fund than as a major source of revenue generation.

(b) THE FINANCIAL HOUSES: These have relatively smaller capital base and operate in a totally different environment. As their financing is lower their client market is wider. These finance house do not compete directly with the merchant banks as they lack the strong financial base that would allow such competition.

(c) THE COMMERCIAL HOUSES: These are companies that lease back-up-equipment such as vehicles, generators, computer etc. Again they are not in direct competitiom with the other groups as they provide complete packaging i.e lease and maintain the leased equipment, a service that none of the other groups can readily provide since they lack the know-how and facilities.

(d) COMMERCIAL BANKS: Have been given the go-ahead by the Federal Government to engage in leasing activities. In a CBN monetary circular No 24, 1990, commercial banks are allowed to undertake leasing activites as from January 1990. It is being speculated that this development will lead to a geometric growth in the leasing industry.

WHAT CAN BE LEASED? Any item of equipment in normal use within the business or industrial environment may be leased. In Nigeria most lessor (merchant banks) aim for a minimum of $250,000 (₦1 Million) size transaction given the time frame and related administrative costs. Items suitable for leasing include :-

1. Telecommunications Equipment, including radio, telephone answering equipment.
2. Computer and related items.
3. Generator.
4. Textile Machinery.
5. Office Equipment, including accounting machines, copying machines, and office furnitures.
6. Contractors Plant.
7. Machines Tools.
8. Capital equipment for oil exploration and extraction.

9. Printing Presses.
10. Aircraft.
11. Containers.
12. Ship and boats.
13. Medical and dental equipment.
14. Vending machines.
15. Cranes.
16. Hotel and kitchen.equipment.
17. Heavy agricultural equipment.
18. Commercial vehicles e.g business car and lorries trucks etc.

The lessees range from industrial corporations, transport companies and services business to all kind of governmental bodies. The common factor is that they pay lease rentals at regular intervals in advance- monthly, quarterly, half-yearly, and annually are common. In many cases there will be no initial deposit or front end fee. At the end of the period of the lease contract- the"primary" term - it is possible in some countries to buy the asset outright ; in other countries it is illegal or against the financial interest to allow the current market value. The value of the equipment (the asset) at the end of the primary term is know as the residual. It is vitally important for the lessee to know what his position is concerning this residual because if he is able to realise some or all of its value this has a profound effect on the cost of the transaction. It is usually possible to agree upon a further lease term known as the "secondary period", but the financial conditions of this will depend on the kind of lease that has been agreed. The sign lease constract is know as "writting a lease".

2.4 TYPES OF LEASES

There are mainly two types of lease, they are: finance lease and operating lease. It must be mentioned that the dividing line is blurred, the legal right of the lessor and lessee and accounting tax treatment, as well as transfer of risks of obsolescence being the distinctive factors.

Finance Leasing

Capital leases, finance leases, full-pay-out leases or purchase leases, all this four are leases which are used for financing the purchase of an asset or procuring the exclusive right to use an asset for economic life. These four leases are interchangeably. This are very common with merchant banks operating Nigeria today.

The finance lease, the lessee agrees to fixed series of financial obligation (rentals) in favour for the quiet use of the equipment spread over a period equal to the major portion of the useful life of the equipment.[6-JULIAN.] Typically, during initial term, known as the primary lease term, the contract is non cancellable by either party. Furthermore, the rentals paid by the lessee must be sufficient in total to amortize the capital outlay of the lessor and to provide for the lessor's borrowing costs and profit margin.

Here the leasing company (bank) will act simply as a financial institution. The lessee will specify the equipment needed, and act as the lessor's agent in the matters of ordering it, inspecting it and maintaining it. The lessor is simply interested in the equipment as his legally owned asset, to which he has recourse if the lessee fails to pay his rentals. The

lessor will raise the money, accept the invoice from the supplier and pay accordingly. Usually leases may be extended, after the expiration of the primary period, by a secondary period when it is usual for the rentals to be significantly reduced.

To determine whether a lease is finance lease, there are four test that determine's it.[7-FASB]

1. The lease has an option to purchase the equipment at a bargain price.

2. The non-cancellable period of the lease is equal to 75% or more of the useful life of the equipment as estimated at the inception of the lease.

3. The present valve at the begining of the lease term of the minimum lease payments equal or exceed 90% of the fair market value of the Equipment (after taking into account any related investment incentives such as capital allowance etc. accruing to the lessor.

4. The lease arrangement is so structured as to transfer ownership of the equipment from the lessor to the lessee by the end of the lease term.

Operating Lease

The operating leases are the type of leases which allow the lessee use of physical asset for a specified period of time but which do not transfer ownership risks to the lessee. These operating lease are treated as rentals of assets even though in substance they may not differ materially from finance leases. Operating lease encompasses all other leasing contracts and not involving any fixed future financial or any other commitment by the lessee but cancellable by the leasing contracts.

An operating lease is a contract under which the asset is not wholly amortized during the primary period (if any) of the lease, and where the lessor does not rely on the rentals in that period for his profit, but looks for the recovery of the balance of his costs and of his profits from the sale or re-lease of the returned asset at the end of the lease.[8-IBID.] Operating leased is common for goods where technological or other changes may mean that the lessee would not wish to retain the asset for its full working life and where there exists a good second-hand market e.g copying machine, office space etc, leasing company relies on its expertise to remarket the asset after the primary term, a thing merchant bank in nigeria do not and will not undertake.

The importance in distinguishing between the operating lease and the finance frequently extends beyond the convenience to the lessee of using the equipment for a short period without having to pay its entire capital cost.

It is noted that a finance lease is primarily a devise for permitting the acquisition of a piece of equipment without paying cash for it, while the chief purpose of an operating lease is to permit the lessee to use a piece of equipment without running the risk of ownership, again one should also note that in finance, lease, the lessor transfers to the lessee substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred, but rentals payable must be of size and pattern as to ensure that the lessor recovers capital costs of the equipment on the other hand, in an operating lease, the risk of ownership remain with the lessor.

Finally, it is important to realize that the distinction between an operating lease and a financial lease does not rest on the lenght of the contract, but on its cancellability. Finance lease are for all practi-

cal purpose non cancellable during the initial lease term, whereas, operating leases are not usually subject to this restrictions.

OTHER FORMS OF LEASING

Apart from the two major categories of lease enumerated above there are other special leasing situation which are also important.

Sale and Lease Back or Sales Aid Lease:

A sale and leaseback transaction is one in which the owner of a property enters into an agreement with another party to sell the property and to simultaneously lease it back. Here there is usually a connection between the lessor and the manufacturer or vendor. In this type of lease the equipment user sells to a leasing company equipment to which it already has title, and which has a reasonable remaining useful life. The leasing company then leases the equipment back to the equipment user, who then becomes the lessee. This can be of either new equipment or of second-hand equipment.

Some of the major reasons retionalizing the need for a business to arrange a sale and lease back transaction for equipment already in its book include:

(i) Provision of working capital when the company is experencing liquidity squeeze.

(ii) Generation of book or taxable profit when the fair market value of the equipment exceeds the depreciated value in the user's book.

(iii) Refinancing of short term funds used in procurring the asset on a more convenient medium term basis.

International Merchant Bank (IMB) lease of a

fleet of steyr 91 distribution trucks to "seven up" in 1987 is an example of sale aid lease.

Leveraged Lease:

These are leases which are in effect direct finance leases. Direct finance lease generally result from arrangements with lessors that are primarily engaged in financing operation such a lease finance corporations, pension funds, trusts bank and the like leveraged lease, also allows the lessor to borrow to purchase the equipment for the lessee, although the final user bears no responsibility to the original tender. This is also called "back-to-back" leasing. The lessor provides only a proportion of the capital cost from its own funds, while the balance of the funds required to meet the purchase price of the capital investment is often provided by one or more institutional investor or finance houses (the third party). A leverage lease may possess few of the this characteristics:

(a) It is first and foremost a direct finance lease.

(b) It may involve at least three parties: a lessee, a long term creditor and a lessor (commonly called the equity participant) etc.

Syndicated or Consortium Lease:

Syndicated leases are leases where two or more lessors decide to come together to finance assets with high capital outlay thereby sharing the risks and rewards of the lease contract among themselves. syndicated leasing is resorted to when individual lessors feel that the capital requirement for the lease is too great to be borne alone, it is possible for two or more

parties to jointly lease an asset on a joint venture basis. Many financial analyst believe that the type of syndicated lease practice in Nigeria is an approximation of leverage type of lease.

2.5 DIFFERENCE B/WEEN LEASING AND HIRE PURCHASE.

In many countries leasing is similar to Hire Purchase while in other the two concept are very different.
In Equipment Lease, the lessee is a hirer of the leased asset who is entitled to the possession and use of the leased asset while ownership remain vested in the lessor throughout the period of the lease. This is the major legal distinction between an equipment lease. and hire purchase which Hicks describe as "a contract of hire paid for by instalments under which the hirer-may become the owner of goods if he completes payments of the hire-purchase price"[9].

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

In Nigeria there is a raging controversy among legal experts, financial analyst, students and the like as to whether if a lease has an option to purchase, the transaction then falls within the category of hire purchase agreement or not. I personally feel that a lease agreement does not necessarily become a hire purchase simply because the agreement contains an option for the lessee to buy the equipment at the end of the lease. The contention that if a lease agreement contains an option for the lessee to buy the

equipment at the end of the lease, the transaction would be treated as a hire purchase is only applicable in England in accordance with the provision of the English hire purchase Act of 1965. This Act is not a statute of general application as at 1st January 1900 and is therefore not applicable to Nigeria. However, if we decide to follow the English system we can only do so on the basis of our historial heritage and membership of the common wealth. I am of the opinion that since most of the existing merchant bank in Nigeria derive their roots from United State of America, the system there will readily appeal to them.[10-IBID]

2.6 INSURANCE AS A ASPECT OF EQUIPMENT LEASING.

The lessor can be expected to attract certain liabilities in both common law and statute law as the owner of goods as will be outline in the coming section. Whilst the main security for a lessor is the credit worthiness of the lessee, the primary function of the lessee'S covenant is the payment of lease rentals, and therefore all reasonable steps should be taken to transfer to insurance companies of substance the risk of physical loss of, or d damage to, the leased assets and the legal liabilities (which may fall upon either the lessee or the lessor) arising out of the use of those asset.[11] (ELAN).

Let us now consider those areas where liability exists and the risk could be transferred to an insurance company.

1. Damage to the Property Forming the Basis of the Lease:

(a) At manufacturers on supplier premises.

(b) In transit from manufacturer/supplier to place of use in Nigeria, including whilst temporarily warehoused during the journey.

(c) During installation at premises, including testing and commissioning.

(d) Whilst operating at premises i.e after handover by the vendor/contractor.

In all these instances except "D", it is probable that only little risk will be incurred.

2. General Third Party Liability Arising Out of the Existence of the Property:

The fundamental problem basic to the liability of a lessor is that only rarely does he have the opportunity to select and examine the goods he purchases and subsequently leases especially in finance lease. Third party and fire cover would be needed by banks to pick up and under insured claim or a claim where the third party sues the lessee and bank in a joint action.

3. Financial Loss to Lessees:

The lessee may sue the lessor (Bank) for financial loss if the leased asset refused to perform it's stated purpose either by volume or by standard. Insurance can be arranged for the bank but only on a specific lease basic and provided that the bank has not waived it's subrogation rights against the supplier or manufacturer.

4. Workmen's Compensation:

Many companies do not insure their common law liability (which is unlimited) but only their workmen's

compensation ordinance liability (₦1,600 for death or ₦3,200 for total disability). To protect their interests the banks should ensure that the customer has common law cover for all employees and then still arrange their own cover to pick up claims against the bank.

5. Sales of Expiry of Lease:

Lessor would be liable if he sells equipment at the end of a lease and that equipment is found to be not of merchantable quality or fit for the purpose for which it is required, the lessor becomes the supplier of goods and will be liable for the consequences of detects in those goods.

2.7 TAX AS A ASPECTS OF EQUIPMENT LEASING

It is important to note that the distinction in the tax law is not as between operating and finance leases but as to whether there is an option to acquire title to the asset. As a general rule the lessee and not the lessor in finance lease is entitled to claim capital allowances only on the cost of the asset excluding interest charge which is an allowable deduction for tax purpose. The finance charge, the maintenance and insuranceccosts of the equipment are expenses which are tax deductible and allowable against the profits of the lessee under section 20 of companies income tax Act (CITA) 1979. The rational is that the lessee is treated from the substance of the transaction as the owner of the assets who also puts them into use.

Operating lease on the other hand is a lease where the lessor bear all incidental cost of maintenance and insurance apart from clearly retaining the ownership

of the equipment. Where all these are clearly expressed the lessor is entitled to claim capital allowances on the equipment under section 26 (1) and (3) of C.I.T.A. 1979.[12]

The current rates applicable in respect of capital allowances are:

		Initial ALLowance	Annual Allowance
(a)	Building Expenditure	5%	10%
(b)	Industrial Building Ex Expenditure	15%	10%
(c)	Mining Expenditure	20%	10%
(D)	Plant Expenditure Exclu sing Furniture and Fitting	20%	10%
(e)	Furniture andFFitting	20%	10%
(f)	Motor Vehicle Expenditure	30%	25%
(g)	plantation Equipment Expen- diture	20%	33 1/3%
(h)	Housing Estate Expendi- ture	25%	12½%
(1)	Ranching And Planatation Expenditure	25%	15%
(j)	Research and Development	30%	15%

The purpose of tax incentives is two fold:

(a) To influence capital investment to be directed towards a particular sector of the economy at any particular time, in order to improve productivity, efficiency in that sector.

(b) To encourage enterprise to invest by way of capital outlay, in order to improve the capital and efficiency of their operations and thereby

improving profits.

Reference should also be made here to the provisions of capital gain tax as it affects the disposal of business assets. Capital gain tax was introduced in Nigeria with the effect from 1st April, 1967. The rate of tax being 20% on the chargeable gain with limitation on chargeable gain which are slightly over ₦1,000. Capital gain accruing to a lessor on disposal of business assets are liable to capital gains tax.

A lessor may take advantage of roll-over-relief as provided for in section 32 (6) of capital gain tax Act 1967. Relief permits the lessor to defer payment of capital gain tax on chargeable gain subject to satisfying the following conditions:

(a) The sales proceeds of the old asset must be reinvested in an identical asset twelve months before or after the disposal of the old asset.

(b) If the total proceed of the old asset is not reinvested as state above, the chargeable gain attributable to the amount which has not been re-invested will become assessable as it cannot be defferred.

2.8 LEGAL ASPECT OF EQUIPMENT LEASING

The documents embodying the terms of an equipment lease has become increasingly formalised and technical partly because of the sophisticated nature of the transaction which is intended to be made the subject matter of the equipment lease and partly because of the understandable concern of the lessor to ensure that his financial outlay on the leased asset is not lostas a result of failure or inadvertence in including certain vital contractual clauses that would safequard his

Position, should the need arises for the lessor to invoke the machinery for the enforcement of the terms of the lease. The major clause of an equipment clause are designed to outline the terms of the legal relationship between the lessor and the lessee. It should be noted that the sum total of the legal framework in this regard is the granting of a reasonably effective legal protection to the lessor in particular.

It is clear so far that an equipment lease may be a finance lease or an operating lease, but the lessor's remedies for the lessee's default in the two kinds of leases do not differ in any material sense. The remedies available to a lessor where there has been default by the lessee are partly a product of the common law nature of an equipment lease and partly a consequence of the construction of the agreed terms of the lease in so far as they relate to default. It should therefore be made clear from the outset that the remedies available to an aggrieved lessor at common law and under the contractual terms of an equipment lease are not water-tight compartments rather, these remedies tend to devetail from one type into the other in such a way that the discussion of one with the out right isolation of the other is neither wise nor reasonable feasible.

Let us now examine some specific clauses which should normally make up the legal framework in an equipment lease.[13-EZEJI, JULIAN.]

1. Lessor's Provision of Suitable Equipment :

Since the Equipment is the subject-matter of the contract, the lessor is obliged to provide a suitable one to the lessee. This is perhaps the

only major obligation of the lessor to the lessee. This obligation also requires the lessor to ensure the unfettered and unencumbered use of the equipment by the lessee.

Lessors often attempt to neutralise this basic obligation through the inclusion of exemption clause which exempt the lessor's from liability in respect of "any conditions warranties or representation relating to the condition of the equipment or it merchantable quality ....."

2. Non-Payment or Irregular Payment of Rents:

Puntual payment of rent by the lessee to the lessor is usually made the essence of an equipment lease. The significance of this obligation is reinforced by copious provision which render an equipment lease automatically terminated in the event of the lessee's default in payment of any of the sums payable under the lease.

Also, equipment lease usually provide for penaity payment to be made by lessee to lessor in the event of the lessee's default or rentals. Such payments sometimes relate to accrued rentaland losses which may be suffered by the lessor as a result of the default.

3. Misuse of Leased Equipment:

A lessee is generally not liable for afair wear and fear in relation to leased equipment, but is usual for leases to impose on the lessees on obligation not only to take due care in using such

Equipment but also to keep them in good and serviciable repair and conditions.

4. Disposition of Leased Equipment:

Although the ownership of leased equipment remains vested in the lessor, the lessee has possession and useeof the equipment . It is therefore practically possible for him to sell, assign, pledge or mortgage the leased equipment to a third party. In order to safequard against this frandulent possibility, the convenant is reinforced by the common law principle which preclude a person from selling that which does not belong to him which is aptly expressed in the latin maxim "Nemo dat quod non habet" meaning no one can give that which he does not have. Accordingly, a sale by a lessee of a leased equipment to a third party does not pass a good title to such party, even if he is an innocent purchaser for value.

However, the lessor may well be precluded from recovering his leased equipment where its disposition was made on the order of a court exercising its competent jurisdiction.

5. Annexation of Leased Equipment to Land:

Such covenants is designed to protect the lessor from the rigours of the principle of the common law relating to real property expressed in the latin maxim, "quicquid plantatur solo credit". Which means whatever is attached to soil becomes part of it. That is any equipments which are

affixed to land or buildings are regarded as part of such land or buildings.

The question is, would the above water-tight provision be sufficient to protect the interest of the lessor against an owner or mortagee of the real property who had no notice of the lessor's ownership of the said equipment? informed legard opinion believed that no degree of ingenuity in draftmanship is likely to give adequate protection to an equipment lessor, in the absence of actual or constructive notice to the third party.

2.9 ACCOUNTING ASPECT OF EQUIPMENT LEASING

One of the biggest challenges faced by the entire leasing industry in Nigeria, as was observed by Akingbola (1990)[14] in a paper presentation, are the twin issues of accounting for leases and the existing laws on taxation which affect lease transactions. Said he "with no harm intended, you will agree with me that there is no love lost between the tax man and the tax payer and the latter will continue to sing his redemption song 'Born Free Tax to Death'. There is at the moment confusion on the accounting treatment of leases by both lessors and lessees".

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

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

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

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

2.10 LEASING VS PURCHASE OF FIXED ASSET

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

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

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

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

2.11 HISTORICAL BACKGROUND

History of Merchant Bank in Nigeria:

Merchant Banking in Nigeria is a recent development what was to become the first merchant bank started in 1960 on 14th September, 1960 Hill, Samuel and Company a United Kindom merchant bank registered a subsidiary firm in Nigeria as Philip Hill (Nig) Limited. Similarly, on 25th November, 1960. John Holt Limited registered a subsidiary finance firm known as the Nigerian Acceptances Limited (NAL).[15-Ibid]

These two firms (NAL and Philip Hill Ltd) existed side by side until 1969 when they merged to form NAL Merchant Bank Limited.

Also, in August 1973 United Dominious Corporation (Nig) Limited, a wholly owned subsidiary of UDT international, which in turn was a wholly owned subsidiary of United Dominion TRUST Limited converted its hire purchase business into a Merchant Bank. This was as a result of the hire purchase regulation of 1968 which made the business of hire purchase very difficult. The name of the bank was later changed in 1977 to Nigeria Merchant Bank Limited.

1974 withnessed the emergence of more merchant bank, first to come were two American Banks - first National Bank of Chicago Ltd; and first National City Bank of Newyork. In 1977 First National City Bank of Newyork went into voluntary liquidation protest against the indigenisation degree. First National Bank of Chicago (Nig) Ltd on the other hand, changed its name

in 1976 to international merchant bank to reflect the new ownership structure. Chase merchant bank (Nig) Ltd now Continental Merchant Bank and ICON Ltd were lincense in 1974, which was at that time a wholly owned subsidiary of (NIDB), ICON ... securities limited was transformed into ICON Ltd (Merchant Bankers).

For the first time, of Private Nigerian Investors in 1979 collaboration with Foreign Banking Interest (Bank of Boston) into the Business of Merchant Banking known as the Nigerian-American Merchant Bank Limited.

The merchant bank corporation limited and indo-Nigerian merchant bank limited; were both granted licence in 1981 to commence operations as merchant banks. In 1982 three new merchant bank were granted licences, they are: merchant bank of Africa (Nig) Ltd, first city merchant bank Ltd, and ABC merchant Bank, in October, 1983 Grindlays Merchant Bank of Nig. Ltd, was licenced and its commenced Business in 1984. Financial Merchant Bank Ltd was also lincenced to carry on the business of merchant banking. The new entrants into this subsector of the financial system commenced business intthe year 1988 are crown merchant bank ltd, and Alpha merchant bank Limited. Bring the total number of merchant banks then to 15, the new entrants into the merchant banking industry as at the year 1990 were Alpha Merchant Bank PLC, century merchant bank Ltd continental merchant bank (Nigeria) Limited, ...

Devcom Merchant Bank Limited Fidelity Union Merchant Bank (Nigeria) Limited, First Interstate Merchaat Bank Limited, Industrial Bank Limited (Merchant Bankers), Ivory Merchant Bank Limited, Kapital Merchant Bank Limited, Nationwide Merchant Bank Limited, Nigbel Merchant Bank (Nigeria) Ltd, Nigerian-Intercontinental Merchant Bank Limited, Prime Merchant Bank Limited, Rims Merchant Bank Limited, etc. and it issbeing speculated that more merchant banks will soon be licensed.

From 1988 to date, there are evidence to show that more merchant bank have been created among them are Abacus Merchant Bank in 1989 January, crown merchant in 1990 and many others.

Between 1970 and 1983, aggregate loans and advances of merchant banks rose from ₦1.3 Million to ₦1.5 Billion while their deposit liabilities grew from ₦4.4 Million in 1970 to ₦2.8 Billion in 1991.

2.12 EVOLUTION OF LEASING:

Due to the fact merchant banking has a recent history in Nigeria and also due to the obscurity surrounding the institution there is no much in the existing literature about Merchant Banking. Also, data, especially financial data is difficult to come by in Nigeria, write-ups about merchant banks started emerging in 1979.

The formal General Manager of Nigeria Merchant Bank in his article titled "Merchant Banks and Nigeria's Economic Growth" published by the CBN in the bullion 20th Anniversary edition made a lot of observation on the activities of merchant Bank. He presented a brief history of merchant banking in

Nigeria and attempted a statutory and functional definition of what a merchant bank does. He was of the opinion that as far as function are concerned, merchant banks do noting that cannot be done by other banks, and investment institutions. We do not share this views, a distinguishing characteristics is their skill especially in arranging large loans through issues of bonds placed locally and internationally, loan syndications and financing of equipment lease. He went on to discuss how the merchant bank could help in the economic growth of Nigeria by placing more emphasis on corporate financing.[16]- Central Bank of Nigeria Annual Report.

G.O. Nwankwo (1981) in his book "The Nigerian Financial System" wrote briefly on the activities of Merchant Bank in Nigeria. He first of all touched on the hurdles that the ealier merchant banks had to cross and the opportunities that opened up to brighten the prospects of merchant banking operation in the Country, which the merchant banks did not hesitate to take up. As far as Nwankwo is concerned the merchant banks have not measured up to the Federal Government guidelines. He therefore adviced them to be more dynamic in some of their areas of operations especially investment advice and management, and corporate financing such as equipment leasing. His work is no doubt a good foundation for assessing the impact of merchant banks in Nigeria.

Okigbo (1981)[17] also did a similar work on merchant banks in his book. "Nigeria's financial system structure and growth". He feels that the

Public criticisms of merchant banks performance between 1970 and 1977 was due to a misconception of their functions.

The Commissioner of Finance then, in an address to the Financial Review Committee in 1976 was of a contrary view. He observed: "The merchant banks were lincensed to perform other specialized services in the area of equipment leasing, corporate financing project operations and other areas of specialization for which merchant banks are renowned so far, their performance has not justified the expectation".

So far, some people are of the view that merchant bank in Nigeria have been under-utilised if not wrongly utilised. This opinion became loudest when in 1976 merchant banks were barred from foreign exchange transactions. Although this ban was later lifted, it was a significant comment on the official conception of what merchant banks should or should not do.

It was probably for these reason and more that the Federal Military Government decided for the first time in 1976 to include merchant bank in its credit guidelines scheme which was before then draw up for commercial banks alone. 1

Merchant banks are defined as banks because they accept deposits and owned liquid assets. The classical differences between commercial and merchant banks are atleast two. While commercial banks maintain a large number of small units of deposits held by individuals, clubs, social organisation and

companies, the merchant banks maintain only a few accounts with large deposits held by corporate bodies. This in other words means that while commercial banks act as retail bankers, merchant banks provide tailor-made, fit-to-wear wholesale banking services.[18]

Another distinguishing factor between the two is that commercial banks have the ability to create credit while this is not feasible with merchant banks who are supposed to keep most of their assets in liquid form. Merchant banks, therefore, scout the financial market in search of money which they will buy and lend out.

Merchant bank are also involved in other numerous functions such as project finance, financial counselling and funds management equipment leasing is another important function performed by merchant banks.[19]-Ogundipe General Manager. Nigeria Merchant Bank Ltd.

Leasing financing may be use to finance a variety of activities. Ideally start-up ventures, such as paper pulp mills, bear brewery, commercial and motor assembly plants, refineries, integrated textile manufacturing plant etc.

Merchant banks as the only operators in the sub-section of equipment leasing is the main focus of this study. The need for such prominence assumed importance in the face of the accusation that merchant banks have performed far below expectation

in this sub-section. For instance, a maximum of 15 per cent of their total asset should be in equipment leasing but not half of this was achieved in the year under review (1976 - 91).

History of Leasing

Authors are diversified and incoherent as to the origin of leasing. While historians would have us believe that the first leasing agreement was a transaction involving plough oxen in ancient mesopotania some 5,000 years ago. Records indicate that leasing as a means of financing business operation may have existed as early as the fifth century B.C and that it was common during the Grecian and Roman periods. At that time as it is today assets used in business may be acquired by outright purchase or by renting under a lease contract. Many believe that capital equipment without capital (leasing)- has been in practice since pre-medival times.

In Nigeria, it is agreed that the concept of land leasing- the earliest form of documented leased transaction in the country was one of the legacies of our colonial past. Records available in some of the Southern Protectorates, Lagos and Calabar, especially. show that leasing and sub-leasing of land thrived as early as in the 1910's.

Modern Development

The history of modern leasing would seem to date back to the early 1950's when in the United State contractors discovered the tax advantages of medium and long term equipment financing. It

may however be suprising to learn that it was just as recently as may 1952 that Henry Schoenfeld set up the first modern leading company in U.S.A now known as United State Leasing International Inc.[20] with its expansion into Canada and U.K in 1959 and 1960 respectively, it catalysed the dramatic expansion in leasing business in the developed countries of Europe, Japan and Australia. By 1970, leasing has been established in Brazil, Venezuela, Korea, Hong Kong, Singapore and other developing countries.

In Nigeria the first recorded leasing activity occured during the early 1960's when some British leasing companies wrote cross-border leases for their subsidiaries operating in the country. These leases ceased with the imposition of stringent exchange control measures at the beginning of the civil war. By 1972, Benworth Finance Limited (now BFN) and NAL Securities Limited (now NAL Merchant Bank) offered a limited amount of leasing.

2.13 EQUIPMENT LEASING ASSOCIATION OF NIGERIA (ELAN)

During the 1970s five merchant banks were granted operating licences bringing to six the number of merchant banks operating in Nigeria.

As these six merchant banks expanded their leasing activities the need arose for a formal forum to discuss ideas and current development in the leasing industry. In response to this, the equipment leasing association of Nigeria developed out of a series of informal meetings among representatives

of six merchant banks. The first of such meetings was held at Bacchus Restaurant on the 23rd April, 1982.

On June 29, 1983, six merchant banks formed the equipment leasing association of Nigeria (ELAN). The association was established to promote and protect the interests of members of the association in exercise of their business as equipment lessors.

The founding member of the association are:

1. Continental Merchant Bank PLC.
2. Icon Limited (Merchant Bankers))
3. International Merchant Bank (Nigeria) Limited.
4. NAL Merchant Bank PLC.
5. Nigeria-American Merchant Bank Limited.
6. Nigeria Merchant Bank Limited.

The association has continued to expand as more members have been admitted bringing the number of members to more than 35. other members of the association are:-

7. Alpha Merchant Bank PLC.
8. Century Merchant Bank Limited.
9. Citi Trust Merchant Bank Limited.
10. Devcorm Merchant Bank Limited.
11. Equity and Trust Finance Co.
12. Fidelity Union Merchant Bank (Nigeria) Limited.

13. First Interstate Merchant Bank Limited.
14. Industrial Bank Limited (Merchant Bankers).
15. Ivory Merchant Bank Limited.
16. Kapital Merchant Bank Limited.
17. Leasing Company of Nigeria (Lecon).
18. Nationwide Merchant Corporation (Nigeria) Ltd.
19. Nigbel Merchant Bank (Nigeria) Ltd.
20. Nigerian Intercontinental Merchant Bank Ltd.
21. Prime Merchant Bank Ltd.
22. Rims Merchant Bank Ltd.
23. Venture Trust Company Ltd.
24. A.B.C Merchant Bank Ltd.
25. Benworth Finance Nigeria Ltd.
26. First City Merchant Bank Ltd.
27. Financial Merchant Bank Ltd.
28. Grindlays Merchant Bank Ltd.
29. Holt Leasing.
30. Indo-Nigerian Merchant Bank Ltd.
31. Leventis Technical Limited.
32. Merchant Bank of Africa Limited.
33. Merchant Banking Corporation.
34. Nigerian Bank for Commerce and Industry etc.

Aside from protecting the interest of its members and regulating the conduct of the leasing business, the next most important objectives of the

Equipment Leasing Association of Nigeria (ELAN) is increasing awareness and expertise of lessees and potential lessees and operators respectively. This objective the association strives to achieve through the organisation of seminars. The association has had successful seminars and workshops in the past. As part of its continuing publicity and education programme, the association successfully hosted a non-fee paying seminar on the 2nd of April, 1988. The aim of the seminar was to educate the financial community in general and lessees in particular on certain concepts on leasing activities.

As part of the Association Primary function of gathering and disseminating information on leasing, it began in 1987 the following projects:

1. A news letter titled "LEASING IN NIGERIA" that on a quarterly basis provides the market with an update on analysis of developments in the industry.

2. A Leasing Reference Book that provides members with an all inclusive guide to available leasing services in the market, the equivalent of a leasing "Yellow Pages".

3. An Annual Survey of Leasing Business, a publication that documents the Association's effort at collating operational information on leasing business conducted by member on a yearly basis.

4. A leasing textbook, that will fill the existing gap in local educational literature on leasing business.

....

Although ELAN is yet to be formally recognised by the government, it has tacitly given the association acceptance by officially inviting two of its members to the constitution drafting committee.

Mainwhile, as the association continues to entertain various enquiries from student, reporters and the public in general on matters affecting leasing in Nigeria the need arose for appermanent secretariat to enhance the operational efficiency of the association. The association has therefore established a permanent secretatiat at No 1 Engineering Close, Engineering House, Victoria Island Lagos. The Secretariat presently houses a library that contains the most recent information on leasing activities within Nigeria and world wide.

TABLE 2.1
MERCHANT BANKS' TOTAL ASSETS (₦ MILLION)

TABLE: 2.1

MERCHANT BANKS' TOTAL ASSETS (₦ MILLION)

BANKS	1986	1987	1988	1989	1990	1991
CMB	888.97	1,366.64	1,677.69	1,991.01	2,397.76	2,635.37
ICON	1,041.90	1,685.56	2,389.30	2,393.83	2,394.79	2,407.91
IMB	947.15	1,792.33	1,854.22	1,953.98	2,199.91	2,874.54
NAL	533.18	1,359.86	1,622.98	1,404.30	1,456.45	1,601.76
NMB	429.83	790.78	1,073.30	1,540.80	1,566.84	1,607.11
TOTAL	3,841.03	6,995.17	8,617.49	9,283.92	10,015.75	11,126.69

SOURCE: Computed from the balance sheets of the banks.

It is noted that, the total assets of the five banks put together exceeded ₦11 Billion in 1991. This amount could be judiciously used for lease financing and the financing of other industrial project in Nigeria.

However, merchant banks have been found to be conservatitive in their approach to financial to management. The following tables depict this:

TABLE : 2.2 MERCHANT BANKS' LOANS AND ADVANCES (₦ MILLION)

BANKS	1986	1987	1988	1989	1990	1991
CMB	302.64	449.28	632.63	761.23	1,048.19	1,349.27
ICON	438.50	600.40	841.72	847.83	748.51	793.37
IMB	385.26	538.98	524.36	558.28	563.30	581.45
NAL	181.69	232.45	338.99	366.10	296.42	327.31
NMB	193.01	314.26	503.19	760.57	768.71	772.35
TOTAL	1,501.1	2,135.4	2,840.9	3,294.4	3,425.1	3,824.3

SOURCE: Computed from the Merchant Bank Financial Statements.

TABLE: 2.3 LOANS AS A PERCENTAGE OF ASSETS

BANKS	1986	1987	1988	1989	1990	1991
CMB	34.34	32.8	37.7	38.2	43.7	45.2
ICON	42.1	35.6	35.2	35.4	31.2	37.3
IMB	40.7	30.1	28.2	28.5	25.6	29.1
NAL	34.1	17.9	20.8	26.1	20.3	21.4
NMB	44.9	39.7	46.8	49.3	49.1	52.7
AVERAGE	.39	.31	.34	.36	.34	.37

SOURCE: Computed from the Banks' Balance Sheets.

From the above tables, out of a total assets of over ₦11 billion in 1991, only ₦3.725 billion (37 per cent) was advanced by way of loans. This suggests that if the merchant banks are to play any significant role in providing capital for industrialization, it has to be in some other aspects rather than the quantity of loans dished out. It has to be in some other qualitative terms, for example maturity of loans. According to respondents, less than 20 per cent of their total loans and advances are for aperiod of more than five years. This contrast sharply with the CBN'S directive that a maximum of 20 per cent of total loans and advances outstanding shall be of short-term nature.

Considering the nature of the total amount of loans and advances, with concentration on short-term rather than long term periods, itiis being viewed that this cannot have the desired impact on industries. The merchant banks have advanced as their reasons for this short coming to be the fact that they cannot afford to borrow short and lend long.

CHAPTER TWO
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CHAPTER THREE

METHODOLOGY

This chapter carries a description of the various steps taken in the course of this study, designed to find out empirically the role played by merchant banks in the business of Equipment Leasing in Nigeria.

It covers the following:-

(a) Period Covered
(b) Population
(c) Sample Size
(d) Hypothesis
(e) Research Method - Data Collection.

3.1 PERIOD COVERED

This study covers specifically the period of active leasing services (1986 - 1991) by financial institution in Nigeria.

3.2 POPULATION

For the purpose of this study, the entire operations of the leasing industry in Nigeria is ex-rayed with particular reference to Merchant Bank, as Equipment Leasing is regarded essentially as a function of Merchant Banks.

3.3 SAMPLE SIZE

A sample size of five Merchant Banks (with particular reference to others where necessary) was chosen out of a population of 35 institutions for this study. They include:

1. Continental Merchant Bank PLC.
2. Icon Limited (Merchant Bankers)
3. International Merchant Bank (Nig) Limited.

4. NAL Merchant Bank PLC.

5. Nigerian Merchant Bank Limited.

These entities were selected through a non-random sampling technique to fully reflect their operations covering a reasonable period of the study. It is the opinion of the researcher that any information gathered from the sample chose will fully reflect the view of the entire population since they are the pioneers and the movers and shakers of the leasing industry.

3.4 HYPOTHESIS

In Nigeria, most people are of the opinion that Merchant Banks have not played any perculiar role in lease financing. The hypothesis of this study is therefore built on the following statements:

1. Merchant banks appear to be doing nothing that can not be done by other banks and investment houses.

2. Merchant banks have not measured up to the federal Government credit guidelines on lease financing.

3.5 RESEARCH METHODOLOGY

Selection of Sample

As of now there are about 29 to 35 merchant banks in Country of which 27 are fully engaged in active equipment leasing and are fully-fledged members of the equipment leasing Association of Nigeria (ELAN). The other 8 member of the Association are 2 financial company, 2 development bank and 4 commercial houses. In this study 1 analysed the operations of the equipment leasing industry concentrating on merchant bank and made specific references to individual banks only were it was necessary.

3.6 METHOD OF DATA COLLECTION

The data used in this study was gathered through two main sources:

(i) Primary Sources and

(ii) Secondary Sources.

Primary Data:

The Primary Sources were questionnaires and interviews. Two set of questionnaires were designed and administered for the study. One set of questionnaire was administered to the officials of some selected banks considered as "Leaders" in the leasing industry. The questions asked sought to obtain information mainly on the banks policies and problems encountered in leasing equipment to corporate clients.

The other set of questionnaire was administered to some companies in Lagos, Kaduna and Kano. This sample of companies were mainly those with leased equipment from merchant bank and those that have made effort to lease equipment from merchant bank but were not granted by the banks.

The questions asked were mainly for obtaining information about the company opinions about merchant banks and the problems they (the companies) encountered with the merchant banks when they tried to lease equipment from them The Data was tabulated and percentages calculated from the questionnaires.

The question asked in both set of questionnaires were open ended ones in which the possible answers were not supplied this is to ensure that responses are reliable and not pre-empted.

A most valuable interview that has provided useful information to this study is that held with the formal president of equipment leasing association of Nigeria chief Dele Orisabiyi.

Secondary Data

The Secondary Data was made use of by the researcher. The major source of information was the equipment leasing association of Nigeria records and library which include annual reports i.e statement of account, news, seminar paper, unpublished lectures, news letters etc. other sources were text book, central bank of nigeria publication such as the bullion, economic and financial review, CBN guidelines of bank etc.

CHAPTER FOUR

ANALYSIS AND PRESENTATION OF DATA

4.1 EQUIPMENT LEASING IN THE NIGERIAN ECONOMY

In the year 1979 Nigeria had a net surplus of export over imports to the tune of ₦1.8 Billion, rising to ₦2.4 Billion in 1980. By 1981 this had turned into a deficit of ₦2.9 billion due to excessive importation, indiscriminate massive borrowing from unsuitable external finance source, having failed to be prudent mindful of the heavy costs and future debt servicing problems. In 1982, April the president of the country came up with a stabilisation act which was to:

(a) Reduce the level of import and conserve scarce foreign exchange;

(b) Encourage and protect local industries and

(c) Ensure strict adherence to government priorities.

In 1986 the stabilisation Act was replaced by the Structual Adjustment Programme (SAP). This programme among other things:

(i) Abolish the import licencing practice by the government, thus streamlining the inefficient bureaucracy that surrounded the process of equipment importation.

(ii) Introduces a foreign exchange market which devalue the naira, thereby raising the cost of procuring equipment.

(iii) Placed strict restrictions on bank lending as part of an overall government deflation policy.

(iv) Placed a ban on selected raw materials that can be substituted locally mainly maize, wheat barley and malt.

This programme (SAP) which aimad at rationalising the economy because compelling on the government as a result of severe decline in oil revenue. The present economic difficulty has created new demand and developments for the equipment leasing industry. These development brought new flexibilities in procuring lease equipment and marketing new products. The focal rationale for leasing which hinges on the thrust that it is the use of an equipment not its ownership was driven home in the austere environment.

The industry also made innovative strides in reaction to the new business challanges. Lease syndication, corporate acquisition using lease funding, aviation leasing exemplifying the industry's ability to meet the challanging need of the Nigeria business community.

From the foregoing it is therefore clear that the growth of the leasing industry has occured against the background of the most fundamental changes in the Nigeria economy.

As can be seen from 4.1 active equipment leasing by merchant banks started in 1976, as the first attempts at the leasing in the early 70s. were confused with the concept of hire purchase. Prior to late 1985 equipment

leasing is relatively unknown in the countary. more regular means of funding business ventures such as term loans and advances are better know. With the advent of SFEM and the subsequent depreciationof the naira, the price of productive machinery and equipment escalated beyond the reach of most enterpreneurs in the country. It become difficult for investors to acquire equipment under the traditional and very familiar funding arrangements partly accountablefor this as well is the requirements for collaterals for the more familiar funding vehicles. This situation which is still very much with us explain the current apparent mushrooming of leasing activities.

The leasing industry has come a long way. In 1983 when ELAN was founded total leasing volume was estimated at ₦61 million and there were only 6 member companies.

Table 4.1 below shows the statistic made available.

TABLE: 4.1: MERCHANT BANK'S EQUIPMENT ON LEASE IN NIGERIA (₦'MILLION)

BANKS	1986	1987	1988	1989	1990	1991
CMB	47.12	160.36	243.78	215.70	217.54	219.61
TCON	11.58	-	122.50	127.24	144.93	153.31
TMB	19.02	75.94	118.74	1127.95	189.42	193.37
NAL	15.50	15.17	29. 80	83 11	90.48	997.21
NMB	34.92	33.38	21.81	35.14	59.31	63.47
TOTAL	128.14	284.85	536.63	589.14	701.68	726.97

Source: Balance sheet of the banks.

Elan shows that in 1985, the assets required for lease stood at about ₦61.9 million. There is not much difference between the figures of 1983 and 1985. But 1985 was the year of increased awarness among, the business community about leasing as an alternative for the acquisition of assets.

The year 1985 figure registered 50% growth to ₦92.5 million in 1986, the Year SAP was introduced (see table 4.2 over leaf). In 1987 total asset acquired for lease increase three fold to approximately ₦400 million. This figure works out at an average of ₦22.4 million lease asset per member during the year. Judging from the clues in the market place, it may not be too ambitious. This, indicates a significant growth in leasing activities among ELAN members. This trend is expected to be sustained in the years ahead, in view of stimilus provided by the remifications of SAP.

For instance, according to the 1990 Annual Report and Accounts of ELAN as in (table 4.2) in just a period of five years total assets on lease increased by over seven fold from ₦238 million in 1986 to ₦2,034 billion in 1991. Consequently, the net book value of leased asset increased from ₦139 million in 1986 to ₦1,521 billion in 1991. Rentals received from leasing during this period rose from ₦52 million in 1986 to ₦763 million in 1991.

TABLE: 4.2

A BREAKDOWN OF ASSETS ACQUIRED BY ELAN MEMBERS (₦'MILLION)

	1986	1987	1988	1989	1990	1991
Assets acquired during the year.	100.136	336.523	457.718	564.105	654.839	763.332
Outstanding Leased Assets owned at year end:						
(i) At cost	238.233	595.466	1,056.934	1,605.047	1,864.033	2,034.932
(ii) At net cost value	139.501	466.898	827.028	1,153.258	1,311.763	1,521.674
Rentals received during the year.	52.438	111.270	370.752	331.664	521.312	763.417

Source: 1991 Annual Report and Accounts of ELAN.

It also implies that equipment leasing has now been embraced as a practical technique for financing capital goods in Nigeria needed to modernize, diversify, and or enhance production activities or services.

Looking at the breakdown of assets acquiredbby members, it is observed that the acquisition of plant and machinery tops the table, and has also increased tremendously when compared to the 1986 figure of ₦9M and 1988 projection. Ships and aircrafts during the year 198.7 also received much attention, as table 4.3 indicates a rise in their acquisition.

It should be mentioned at this point that the acquisition of particular types of equipment especially plant and machinery could have adverse effects such as obsolescence and improved technology and therefore careful analysis must be done before purchase.

TABLE: 4.3

ASSETS ACQUIRED BY ELAN MEMBERS DURING THE PERIOD (₦'MILLION)

	1986	1987	1988	1989	1990	1991
Plant/Machinery Cars	9.017	9.143	120.453	228.018	394.547	474.112
Cars	6.041	31.251	35.078	79.624	157.895	194.213
Commercial Vehicles	9.032	27.378	75.078	46.859	75.780	91.714
Computers and Office Equipments	1.119	2.405	4.435	6.763	9.373	11.475
Ships, Aircraft, etc	24.605	46.698	24.658	50.887	2.776	31.147
Others	50.332	219.648	198.014	12.234	14.468	17.418
Total	100.136	336.323	457.718	564.105	654.839	820.079

Source: 1991 Annual Report and Account ELAN.

Plant and machinery had the Lion Share of assets acquired by ₦9 million in 1986, it increased tremendously to ₦474.112 million in 1991 (Table 4.3).

Leased rentals quoted by ELAN members do vary considerably ranging from ₦3.54/₦100 cost of equipment. The average interest rates remain relatively uniform. (see table "X").

The Lion Share of lease written in the Country has alway gone to the manufacturing sector. From a little over ₦55 million in 1986, it climbed to about ₦391 million in 1990. Transport comes second with ₦19.8 million in 1986 and ₦80 million in 1991. No lease has been written for the public section. Distributive trade got ₦6.8 million in 1986 and a paltry ₦66,543 in 1987 mainly on sales aid leases (see table 4.4.).

In the year 1987 was clearly a big year for leasing with the launching of new lease products and an estimated additional lease volume of over ₦200 million. Leventis Technical Limited acquired the power generating leasing business of Allied Oil Field. Nigeria Bottling Company Limited (coca-cola) acquired Nigerian soft drinks company limited (schweppes). Both transactions were financed by Nigeria American Merchant Bank Limited.

TABLE "X"

MEMBERS	BEFORE TAX %	AFTER TAX %
Financial Lessors:		
ABC Merchant Bank Limited	18	-
Benworth Finance Nigeria Limited	19	-
Continental Merchant Bank NIgeria PLC	18	-
Icon Limited (Merchant Bankers)	16	-
Indo-Nigerian Merchant Bank Limited	17.5	16.5
International Merchannt Bank Limited	16	-
Merchant Banking Corporation	16.5 - 19.5	-
NAL Merchant Bank PLC	17 - 19	18-21
Nigeria-American Merchant Bank Ltd	17 - 20	10-12
Nigeria Merchant Bank Limited	17 - 19	-
Operating Lessors:		
Holt Leasing	17 - 22.5	-

Source: ELAN SECRETARIAT.

TABLE: 4.4

SECTORIAL ALLOCATION OF ASSETS ACQUIRED (₦'MILLION)

SECTORS	1986	1987	1988	1989	1990	1991
Manufacturing	55.080	178.288	184.971	298.686	352.319	391.437
Transport	19.829	81.437	60.036	83.720	77.611	79.114
Agriculture	4.000	25.361	1.851	43.576	17.381	21.137
Service	6.680	27.596	65.798	14.810	148.195	173.374
Government	5.933	19.320	3.094	14.810	26.375	43.438
Others	8.614	4.525	181.562	117.693	32.958	39.731

Source: 1991 Annual Report and Accounts of ELAN.

Aircraft Leasing business also took off with a bang in 1987. Continental Merchant Bank Limited concluded two transactions. Kabo Air Procurement of a Boeing 747 aircraft from Eastern Airlines USA and Skypower Express Limited acquired 5 Brazilian made Embraer passenger aircrafts. International Merchant Bank also Finance the acquisition of aircraft for Aero contractors and Imani Aviation and also distribution vehicles of seven-up bottling company through sale and lease back.

The first syndicated leasing transaction was also recorded in 1987 with the successful conclusion of a ₦20 million lease syndication for spintex Nigeria Limited by continental merchant bank limited. International merchant bank limited came to the market with a ₦30 million lease syndication on behalf of President industries limited expansion into spinning business. First-city merchant bank entered the market with a ₦20 million lease syndication for ENPEE industries. Five star industries'effort at syndicating ₦25 million on a lease basis was agented by merchant bank of Africa limited.

In February 1988, international merchant bank limited leading a group of eight other merchant banks came to the market with a lease of ₦36.7 million. (The largest so far) for united spinners Nigeria limited as joint lessors. The other banks in the syndicate are: NMB, First Interstate, Financial Merchant Bank, NBC, Nigbel, ABC, Indo-Nigerian and Abacus Merchant Banks. Two other banks have commited ₦11 million to the lease syndications making it an over subscribed venture.

From the data presented above we can safely conclude without minding words that the rapid growth in equipment lease finance currently experienced in Nigeria can be directly attributed to the on going Structural

Adjustment Progeamme (SAP).

4.2 STRUCTURING LEASES

The problem of structuring leases is not so much the technical difficulty, but that as hasbbeen demostrated earlier in chapter two, it is rather complicated by the fact that leasing plan can be offered in almost intimate variety. This then means that each leasing plan so chosen is endowed with some specific structural feature(s).

But since the most distinguishing charateristic of a finance leasing plan is that it permits the lessee to avoid paying the full purchase price of a piece of equipment on the date it is acquired, it then means that the evaluation parameters for granting a a finance lease facility will be similar to that governing credits. Most time the parameters for evaluating lease finance are very stiff. Hence, the structuring of lease is usually preceeded by the evaluation of the key risks associated with a finance lease facility relationship.

Generally, the structuring of most finance leases require first of all the information for granting credits. These are:-

1. On-going Companies, (that is a going concern).

a. Data on selling prices and cost.

b. Industry data where appropriate to determine how those already in the business are doing.

c. Market trend including effects of competition and government regulations.

d. Customers base and term sale.

2. Start-up-Companies

a. Total investments.

b. Equipment supply sources.

c. Financing requirement.

d. Projection of balance sheets, income statements and cash flows.

e. Suitability of location.

3. General Company Background. This will include:

a. The certificate of incorporation (where applicable

b. Ownership by percentage.

c. Description of nature of business.

d. Copies of at least two year prior tax returns of owners and company- (of owners only in a start-up)

e. The Article of Memorandum and of Association.

Lease Facilities, in addition to the above (i.e 1,2& 3) the following are also necessary:

1. Estimates operating life of the equipment under normal use.

2. Estimation of the market valve of the equipment over the primary lease period.

3. Details of third parties willing to sell the equipment on behalf of the bank should the need arise.

The evaluation of the lessee's ability to promptly make rental payments involves mostly the thorough assessment of the financial and cashflow forecasts of the projects for which the equipment lease facility is meant for. This evaluation of the credit risk is with a view to discounting greater uncertainty about the size and variability of future cash-flows as

Well as voluntary disposition of the project sponsore to apply the cash-flows towards setting the rental payable as and when due.

A well structured lease results from the proper integration of 4 main groups of lease variables:

1. Lessor's risk assessment variables.
2. Lessor's requirement variables.
3. Lessee need variables.
4. Lease structuring variables.

Risk Assessment of Leasee:

The risk results from the degree of credit worthiness of the lessee combined with collateral and residual value of the equipment to be leased. Also general business risk affects the transaction indirectly. Once risk has been assessed, it must be converted into a structuring variable.

If a lease is deemed risky by the lessor, any of the following variables might be affected:

a. Personal gurantee required.
b. Security deposit required.
c. Lease yield increased with all other factors except payment amount remaining constant.
d. All variable risk insured.

Lessor Requirements:

The lessors must also look to its remaining

needs and to the requirement of the lessee. Meeting the sometimes conflicting needs of the lessor and lessee represents the more difficult part of lease structuring.

A good example of lessor requirement that might be at variance with lessee needs in lease structuring are enumerated below:-

a. Floating payment leases. Absence of fewer maching.

b. Quantification and conversion of lessee risk into lease structuring variables.

c. A yield sufficient to meet the lessor's after tax weighted cost of capital.

d. Whether to structure the lease as "Leveraged" or otherwise.

Lessee Requirements:

The lessee requirements would include the following items which frequently are at variance with the need of the lessor mentioned above.

(a) Avoidance of fair market value purchase option in lieu of fixed percentages or fixed amount purchase option.

(b) An extended lease term which directly affects the amount of each lease payment. The longer the lease term, the smaller the lease payment.

(c) Few advance payments and no security deposit. We should recall that one of the primary motives for leasing is the minimising of down payments to conserve working capital.

(d) Fixed payment lease with variable term or variable residual guarantee in lieu of variable payment tied to prime rate. Such variable length or variable residual leases compensate the lessors for changing borrowing costs.

Given both the lessor needs and those of the lessee, the lessor must structure a lease comparable to both.

Lease Structuring Variables:

A list of lease structuring variable would take a whole book, however, the following list of 5 groups of structuring variables highlights the significant structuring considerations:

(a) Residuals.

(b) Security deposits - (i) interest bearing (ii) Non interest bearing.

(c) Variability of lease payments to satisfy various lease/lessor needs.

(d) Advance payments.

(e) Duration of lease.

I view it important that the structured finance lease logical synthesis of the risk evaluation and a special characteristics of the chosen leasing plan. It is therefore important for a typical Nigeria Bank should make sure that among the many solution few of the step mentioned below should be incorporated and executed.

1. Application of lease.
2. Proposal/commitment letter.
3. Lease schedule.
4. Purchase order.

5. Interim lease.
6. Guaranty (optional).
7. Financial statement.
8. Tax indemnification and master lease agreement.

The above document can be incorporated into a single document and is called legal documentation on equipment leasing.

4.3 THE ROLE OF MERCHANT BANK IN EQUIPMENT LEASING

Central Bank of Nigeria (CBN) in its annual monetary policy circulars to bank has endeavoured to distinguish merchant banks and carve out a special roles for them. The Central Bank has thus given official support to the argument in financial circles that merchant banks would make a more tangible contribution tothe economic development of Nigeria, if they provide more specialist services such as equipment leasing and other corporate services.

However, to fulful the role mapped out for them, merchant banks face the problem of liquidity. The source and nature of funds available to them outride their own capital and reserves are essentially short-term deposits repayable within one year. In these circumstances, it is difficult for merchant banks to concentrate on long-term lending as the resultant effect of issuring short-term funds toffinance long-term projects could be quite disastrous.

By the terms and nature of their deposits, mostly containing demand deposits with drawable at anytime, commercial banks can ill-afford to provide long-term capital to Nigerian industries. This role can better be done by merchant banks who have highly concentrated deposit see table 4.5 overleaf).

The current central bank of Nigeria's credit policy guidelines (1990), stipulates that the existing maturity structure prescribed for merchant banks' loans and advances shall remain as follows:

(1) A minimum of 50 per cent of total loans advance outstanding shall be of medium and long-term nature with maturity of not less than 3 years.

(2). A maximum of 20 per cent of total loans and advance outstanding shall be of short-term nature, i.e maturing with 12 months.

(3) Not more than 15 per cent of total assets shall be in equipment leasing.

TABLE$ 4.5

MERCHANT BANKS DEPOSITS (₦'MILLION)

	1986	1987	1988	1989	1990	1991
CMB	561.31	593.52	549.02	293.88	313131	432.91
ICON	583.50	1,051.86	1,405.57	742.19	1,183.79	2,043.03
IMB	722.20	1,063.70	872.78	909.33	1,008.36	1,732.74
NAL	388.82	361.34	366.48	803.70	811.52	871.33
NMB	350.62	574.86	685.16	1,140.69	1,176.01	1,361.32
TOTAL	2,606.45	3,645.28	3,879.01	3,889.79	4,492.99	5,241.33

Source: Computeddfrom the balance sheet of the banks.

TABLE: 4.6

COMMERCIAL/MERCHANT BANKS LOANS/ADVANCE (₦'MILLION)

	1986	1987	1988	1989	1990	1991
Commercial Banks	15,700	17,500	20,100	22,782	25,782	28,173
Merchant Banks	2,800	4,200	4,400	5,412	7,027	8,312

Source: Computed from CBN's Annual Report and Accounts (various years)

The roles of merchant banks in equipment leasing is more to be seen in the provision of medium and long term, and parmanent capital. Medium and long term financing is important to Nigeria' industrialization more than short-term finance because it provides the base for any productive activities. It is only after the industrial base has been established that short-term finance on the provision of working capital become meaningful. For a sound industrial system we need not only the finance of imported machinery for the assembly of spare parts here at home, we also need long-term loans. It is highly regretable, therefore, that in these austere times, companies have turned their attention to the short term financing of working capital particularly raw materials. In Nigeria, the largest source of funds to merchant banks constitute of deposits (more than 60 per cent) out of which they finance their current operations. The total deposits of the five banks as at December, 1991 (table 4.5) was above ₦5 million, comprising mostly of time deposit, with demand deposit constituting only a minor proportion, in contrast to commercial banks' demand deposit which form the bulk of their deposits.

The entry of merchant banks in Nigeria into the field of equipment leasing is a significant phenomenon and will accelerate the development of this important market. e.g most commercial and industrial companies have ready access to banks, usually, the lessee will negotiate the purchase of the equipment according to his own specifications and then will issue a purchase order in the name of the bank. Because the lessee

negotiates directly with an oversea manufacturer, he may be able to obtain a lower price than when he gets the same equipment from a business partner who may "load" the purchase order sometime up to 13%.

Merchant banks have made it possible for many project/disused equipment lying waste in various locations throughout the country due to lack of funds to be executed through leasing, particularly through leasing syndicates. How many bank for instance, can put down ₦20 million without advance security? They can only do that through leasing. Thus, it is apparent that equipment leasing is a growing vital source of providing additional funds to finance many businesses or trades both for survival and expansion especially during this trying period of our economy. With the syndicated lease, the burden of risks is diversified and shared among many financiers.

Merchant banks also make it possible for corporations to make use of "off-balance-sheet financing" since assets obtained by leasing, especially in this country, are not shown on a economy's balance sheet, the net profit ratio of the company is enhanced or made favourable. Furthermore, since lease obligations do not appear as a liability on the balance sheet, presumably the company stands a better chance of borrowing additional funds when the need arises and at an attractive interest rate. Thus, Corporation's cash position or lines of credit with banks are marginally or not even affected.

The merchant banks through leasing offers a great deal of opportunity for both industrial and commercial organisations having no capital expenditure programmes

and those whose budgets are lean to use the needed equipment or asset with a minimum of cash outlay (an effective argument of salesmen of leasing companies and Bankers).

Leasing is becoming more competitive with the entry of merchant banks, manufacturing organisations and independent leasing companies into the market. The effective utilization of the services provided by these leasing organisation depends on the advantages and disadvantages perceived by those who must finance their business operations either by payment of cash or by leasing.

Merchant banks also act as a middlemen between the lessee and the manufacturer in negotiating terms of purchase and means of payment.

It is also important to note that even though the volume of equipment on lease by merchant banks is on the increase, they are yet to perform up to the CBN credit guidelines of 15% minimum. A careful analysis of table 4.7, 4.8 and 4.9 will show that most of the merchant banks performed less than 50% of the prescribed maximum.

TABLE: 4.7

MERCHANT BANKS' LEASED EQUIPMENT AS A PERCENTAGE OF TOTAL LOANS AND ADVANCES.

BANKS	1986	1987	1988	1989	1990	1991
CMB	15.57	35.69	38.53	28.34	20.75	22.58
ICON	2.64	-	14.55	15.01	19.36	21.67
IBM	4.94	14.09	22.64	22.92	33.63	41.71
NAL	8.53	6.86	8.79	22.70	30.52	35.97
NMB	18.09	10.62	4.33	4.62	7.72	09.92
TOTAL	8.54	13.34	18.89	17.89	20.49	21.85

Source: Computed from the balance sheets of the banks.

TABLE: 4.8

MERCHANT BANKS LEASED EQUIPMENT AS A PERCENTAGES OF TOTAL ASSETS AS AT 1991.

MERCHANT BANKS	1986	1987	1988	1989	1990	1991
CMB	5.30	11.73	14.53	10.83	9.07	9.04
ICON	1.11	-	5.13	5.32	6.05	6.61
IMB	2.01	4.24	6.4	6.55	8.61	8.74
NAL	2.91	1.12	1.84	5.92	6.21	7.33
NMB	8.12	4.22	2.03	2.28	3.79	4.13
TOTAL	3.34	4.07	6.23	6.35	7.01	7.24

Source: Computed from the balance sheets of the banks.

TABLE: 4.9

TOTAL EQUIPMENT ON LEASES AS A PERCENTAGE OF TOTAL ASSETS PRESCRIBED? ACTUAL AND DEVIATION AS AT 1991

YEAR	PRESCRIBED MAXIMUM	ACTUAL	DEVIATION
1986	15	1.0	13.2
1987	15	4.0	11.0
1988	15	4.6	10.4
1989	15	6.0	9.0
1990	15	4.9	10.1
1991	15	5.6	10.6

Source: CBN'S Annual Report and Accounts various Years.

As table 4.9 shows, only during 1986 and 1991 have the banks been close to half of the 15% maximum prescribed by the monetary authorities. In 1989 the banks been close to half of the amount (about 6 per cent) merchant banks performance in this area is quite in consequential. This further shows that the current up surge in the demand for leasing product is due either, to the SAP or the activities of ELAN or both.

As can be seen from table 4.8, only CMB achieved 14.5 per cent of its total assets in 1988 but this figure has been on the decline since then, plumenting to a low figure of 9 per cent in 1991.

4.4 ADVANTAGES OF EQUIPMENT LEASE:

The important factor of leasing is that it enables the use of capital equipment to be secured by revenue expenditure thus freeing resources for other uses. It is fundamental therefore in any evaluation of leasing to consider the question of how profitably funds may be deployed which otherwise would be locked up in the purchase of the asset.

Leasing involves no charge on capital; instead, it imposes a continuing charge on income. However, there are many other advantages to leasing which, though not directly quantifiable, should not be overlooked when comparing leasing with other form of finance.

Generally leasing offers the following advanges to both lessors and lesses.

1. Equipment leases commonly provide that the lessee shall take the equipment for a minimum period and shall thereafter have the option either to continue the lease at a reduced rental or to return or buy the equipment.

2. Leasing is a hedge against inflation. It provides a safety volve against inflation and ensure that the lessee continue to operate normally irrespective of interest rate fluctuations or inflation.

3. Leasing enable the use of an equipment procured on revenue expenditure rather than on capital expenditure.

4. Leasing assists forward budgeting and management discipline in several way. The normally, fixed amount and regular nature of rental payments is helpful in the lessee's cash flow for casting.

5. Lease transactions enable banks to invest their surplus funds for a return on their investment and to take advantage of the differential between lending and borrowing.

6. In many cases, the total cost of the lessee is less than if the goods had been taken under a hire purchase or credit sale agreement, though this is by no means invariably the case.

7. Frequently a lessee under an equipment lease, unlike a hirer under a hire purchase agreement, is not obliged to pay an initial deposit. He may, however be required to make at least the first rental payment in advance.

8. As the taking of machinery under an equipment lease involves a revenue expense, the lessee avoids the necessity for showing an item of capital expenditure in it's balance sheet when seeking credit from its bank.

9. By leasing business organisation may use the most efficient method of production and remain competitive in its industry because it lease new equipment before they are even thoroughly tested.

10. Leasing enable the use of an equipment produced on revenue expenditure rather than on capital expenditure. With proper evaluation therefore, funds which could have other wise been tied up in the outright p purchase of an equipment can be profitably deployed. Etc. the above list is by no means exhausive.

4.5 DISADVANTAGES OF EQUIPMENT LEASE

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

During period of economic boom, leasing may be profitable as there will be very few defaulters. However, during economic depression many companies may be unable to meet their obligations in their agreement resulting in mass.defaulters with consequent reduction of income, also this will cause the control of second hand market will be lost by manufacturers as the market would be flooded with used equipment which nobody wants.

From the lessee's point of view, the disadvantages are operational and financial. In most cases, the lessee can not use the asset as he pleases because of

certain operational restrictions imposed by the lessor. The restrictions to which the lessee is subjected when leasing may, in some cases, be more annoying than those found in debt contracts, for instance, a lessee may be required to obtain permission from the lessor before needed improvements are made to a property. If the contract is noncancelable the lessee may find himself with a rotten apple which he is helpless to change, with an owned property, the owner can do whatever he pleases with the property; he can sell it or pledge it for another debt or even write it off.

Inspite of these disadvantages, leasing has continued to be popular as a means of financing business operations.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY

Merchant Banking is a prominent feature in most economics of the world. So also is equipment leasing a function that is performed by most of these merchant banks. It is a situation whereby one party allows another the use and possession of an asset (the equipment on lease) for a period of time, on the payment of specific rents over the period of the agreement.

History has it that leasing existed in different forms as early as 2000 B.C, though modern - day leasing is said to have started in the United state with the formation of the united States leasing international inc., which later expanded its operation into Canada, U.K, Europe, Japan, Australia, and so on.

In Nigeria, the first traces of leases were notices in the 60s but active leasing did not commence uniil the early 80s when an association (The Equipment leasing Association of Nigeria, ELAN) was formed by some merchant banks, Today, leasing has been embraced as a most veritable means of corporate financing in the face of substantial cost outlay on capital equipments, high cost of capital and stringent conditions on imports, all necessitated by the structual Adjustment programme (SAP). Equipment leasing has thus brough relief to firms who are strapped of capital to invest in capital projects.

To fully understand the vital role played by merchant banks in industrial financing, particular reference is made to such qualitative and subjective functions which they perform, such as investment and financial advice, project financing, mergers and acquisitions, loans and advances, foreign exchange services, issuing house services equipment leasing and so on. Merchant banks are therefore seen as the provider of medium, long-term and permanent capital, which is very crucial to the industrialization of the Nigerian economy.

Thus, in order to regulate merchant banks in Nigeria and to draw a clear line of distinction from other banks, The Banking (Amendment) Act of 1979 specifically spelt out the functions to be performed by merchant banks (which include equipment leasing). To further control their activities (Merchant banks), the central Bank of Nigeria prescribed in its credit policy guidelines (1990) that

(i) A minimum of 50 per cent of total loans and advances shall be of medium and long-term nature.

(ii) A maximum of 20 per cent of total loans and advances shall be of short-term nature: and

(iii) A maximum of 15 per cent of total assets shall be in equipment leasing.

After a thorough analysis of the nature of merchant banks deposit and the amount of their total assets, it was discovered that merchant banks are well equipped to judiciously use their assets for lease financing and other industrial projects. most of their deposit comprise of time deposits with their demamd deposit constituting only a small fraction. This is in contrast to commercial banks deposits which are mainly composed of demamd deposits.

However, available data showed that merchant banks have been conservative in their approach to financial management. They could not attain the 50 per cent minimum of total loans and advances as medium and long-term nature only about 20 per cent of their total loans and advances were of long-term nature. Respondents have advanced as their reason for this situation to the fact that they could not afford to borrow short and lend long.

of their numerous functions (merchant banks) equipmentl leasing is an area that was thoroughly scrutinised since most of the banks participate extensively in this activity. leasing is an important means by which merchant banks finance industries in Nigeria. The leasing industry has withnessed a tremedous growth trend recently with the emergence of more merchant banks in the country. It is being speculated that the growth will be sustained in the near future due to the ramifications of SAP and the rare benefit it efforts lessees and lessors as well, and these include affordability, a hedge against obscolescene, off balance sheet treatment e.t.c.

As was observed, plant/mechinery and ships and aircrafts continued to receive high preference as against other assets acquired by ELAN members due to the crucial role they play in the Nigeria economy. Like manufacturing sector has greatest attention and closely to it is transportation and service. Other areas where merchant banks excelled were in project financing and acquisitions. Lease syndication was another significant activity in the industry in 1987.

No doubt, the leasing industry in Nigeria has come of age, but inspite of the accolades, the growth is still inconsequential as data available revealed.

1.

1. Severe liquidity constraints and scarcity of foreign exchange
2. credit Policy of the government.
3. Accounting for leases and existing laws on taxation.
4. Competition
5. Lack of adequate skills
6. Lack of viable projects
7. Inadequate Security
8. Default of rental payments.
9. Difficulty in acquiring new equipments
10. Inadequate funds to meet demand
11. Others.

These issues deserve some attention in order to face the emormous challenges ahead.

All of these make purchasing equipment difficult and risky. No other method of providing capital equipment can give all the advantage of leasing enumerated in the proceding chapter.

In leasing equipment, the lessor has several risk judgements to make. Among them are credit worthiness, business or industrial practices of the lessee, collateral value of the equipment, technology remarketing environment, tax laws and the stability of the cost of funding, inshort, the lessee gets the use of equipment and makes a periodic rental payment.

The lessor assumes a credit risk, equipment risk and legal risk for an anticipated profit from managing and disposing of the asset, therefore, if encouraged and directed or controlled towards meaningful purposes, we will see such purposes achieved perhaps faster and more efficiently than other method of finance.

5.2 CONCLUSIONS

Merchant Banks entry into the leasing market is a welcome phenomeon as more attractive leasing packages can be negotiated by the merchant banks through their oversea correspondent banks on behalf of Nigeria industrialists and merchants. Regrettably, the entry of merchant banks into the leasing market has had adverse effect on the operations of the independent finance companies. Many industrialists and merchants prefer to deal directly with the banks or the manufacturers rather than deal with intermediaries such as finance companies. As a result, independent finance

companies are being squeezed out of the leasing market and the merchant banks are now the undisputed dominant operators of the leasing market.

Apart from the fact that the leasing industry is still at it's infancy, despite its virture it is plagued with a lot of problems. Among them are:

1. Lack of leasing law.
2. Lack of viable projects and tax incentives.
3. Credit policy problem and lack of adequate funding.
4. Lack of competition in the industry.
5. Accounting policies on leasing plans/assets.

5.3 RECOMMENDATIONS

1. Leasing Law:

There are no decided Nigerian cases relating to leasing but the various decisions of the English courts, Nigeria at time have no enacted law on equipment leasing, leasing transaction are therefore governed mostly by the roles of common law and to some extend by company law. As the law in Nigeria now stands The rules of common law and the few decided English cases are not sufficient to clarify all the rights and protection for both parties to lease agreement.

I believe that inorder to encourage an orderly but rapid growth of the leasing industry specific law should be enacted now, one of the most important catalysts to the development of any industry is the certainty of the law relating to such industry.

People are more prepared to take businesss risks when they know the extent to which they have rights and are protected under the law of the land.

The proposed law should be simple and concise. A lengthy and complicated law would stifle rather than encourage the growth of the industry. The most suitable model for our own law is in my view the proposed UNIDROIT RULES on international equipment leasing as adopted by the UNIDROIT study group 1984 of the international institute for the unification of private law. The law is brief, it covers only the essential elements which would satisfy both parties.

The Law of Nigerian should take into account the following fundamental aspects of leasing:

1. Lessors Rights and Obligations.
2. Investment and Business Incentives.
3. Lessee Rights and Obligations.
4. Definition: Clear and concise definition of Leases including both types of leases-finance and operating leases.
5. Accounting standards.

In this time of economic recession, leasing is proving to be a more acceptable means of finance for companies who are very hard hit for capital. This is the most opportune time for the Leasing Association to push forth for a leasing Law for this Country.

2. Viable Projects and Tax Incentives:

To adequately tackle this problem merchant banks

should advice their customers on viable projects, available in the market that will aid the growth of their business, because most prospective lessees interviewed did not subscribe to the merchant banks claim that there is the general lack of viable projects in the market to be financed via leases. They inturn claim that the merchant banks requirement are too rigid and numerous, especially in this present harsh economic climate.

The merchant banks should also publish their activities both in the money and capital market, so that their customers and the public at large can know and appreciate their role particularly in medium and long term financing.

CBN regulatory should also keep a close survellance on the merchant banks to make sure that their activities are fully directed toward medium and long term financing in the economy as specified by the CBN guide lines, and penalty for banks who fail to meet up 60% of the 15% maximum expected.

Merchant Banks can also seek alternative means of financing lease transaction through large leasing companies in advanced countries by discounting whole blocks of leases from leasing companies in the country and obtaining high spread by so doing.

About tax incentives, in order to aid economic growth and industrial development, the federal government should review tax incentive available to financial institutions engaged in leasing activities by increasing the rate of capital allowance specifically for leased assets thereby allowing an early write off of the assets. Other conditions such as the location

of industries making use of the leased asset may be imposed.

3. Need for Better Credit Policy and for Other Sources of Funding:

Apart from the normal criteria for credit risks evaluation, lessor demand other numerous information that has to be disclosed before a prospective application can be extended the opportunity of lease financing. Thus, the present criteria for credibility is too rigid for a growing economy like ours. It has also become increasingly evident that what we need in Nigeria today is:

(a) A progressive credit policy that can adjust to accommodate what changes there may be prompted by the economy.

(b) Finance controller who will be able to control the direction and funding of companies needing lease finance.

(c) Experts capable of analysing and moving with the market trends.

(i) On Need for Other Sources of Funding: As stated in the sources of funding for merchant banks and consequently for leasing is limited mostly short term deposits, the competition for the limited funds are high, leading to higher rentals than they would be in a free market.

To give funding for leasing the leverage it needs and to entice investors into equipment finance, relief

should also be allowed on dividends on equity investments as well as interest earend on lease finance transactions.

The Tax control in Nigeria is still relatively primitive and should investors perceive equipment finance as a high yield area more money will be available for equipment leasing, thus increasing the productive capacity of our industries. Such encouragement will bring more funds and invariably, more players into the market. The Banks will remain the Key Players Shaping the industry. By this funds attracted will escalate providing more money for lessors to draw and the banks will be encouraged to go for leasing subsidiaries.

4. Need for Competition.

Competition which is one of the greatest stimulants in business is, today, totally lacking in the leasing industry in Nigeria. The most obvious effect of this absence of competition on the leasing industry has the high pricing on lease financing. The absence of creativity and innovation, and the apparent conservatism present in the industry whereby most lessors will only touch "blue chip" lessee's and are unwilling to finance equipment for concerns often hastly classified as risky is also abundant. Where competition is to be a bit more rigorous lessors will be forced to be more daring, and lessor companies determined to stay in business at a profit, will be forced to educate their Staff inorder to improve their quality and assure profitability.

On could argue that the lack of maturity in the equipment leasing industru diminishes the need to appreciate competitive advantage.

As the federal government countinues to licence more and more merchant banks who will give equipment leasing the prominence it desires, we hope competition among the operators in the industry will finally emerge. The new competition should stimulate innovations in products and pricing; the development of market riches and specialisations. Accordingly, innovative and creative management of tax incentives, after-tax and residual structuring would featureein pricing strategies as lessees, themselves, will become increasingly price sensititive.

The ELAN on it part should ensure that the challege of competition does not overwhelm it's member to undertake acts that will compromise the code of conduct put in place by the Association for its members.

5. Regulation on Accounting Practice:

Lack of precise regulation regarding Uniform accounting practices/policies is another topical problematic factor in the leasing industry. The practising accounting must be made aware of the implicate financial arrangements that are submerged under most lease agreements.

The Nigeria Accounting Standards Board in conjuction with the Federal Inland Revenue and the equipment leasing Association of Nigeria should dust up its existing regulations for review in order to provide clear cut guidelines as to uniform accounting treatment of leasing plans by lessors, especially as regards

management of residuals, and accounting for secondary lease term. Without the precise policies in place, the current confusion in the market place will continue to subsist thereby compounding the present difficulties of lessors in establishing and realizing definite "yield" expectations.

5.4 FUTURE OUTLOOK AND CHALLENGES

The future of equipment leasing in Nigeria appear very bright because the economic condition are ripe for it to get entrenched. Many companies are having right now serious liquidity problems because of the economic recession. In order to maintain their growth rate, they must lease equipment, building, plants and the like.

Equipment leasing industry in Nigeria today is an attractive one. There are relatively few players and a number of viable strategies exist which can be successfully employed. Infact it is now becoming evident that leasing is gradually replacing other mainstream medium and longterm loans, as the fastest growing means of fixed asset financing instrument.

In view of the undisputable strong prospects for leasing business in the country the challenges the operators in the industry-ELAN-Face in ensuring that benefits are optimised and strategically focussed to benefit the Country can be opportioned as follows:

(a) Instituting a code of conduct for its members in order to streamline leasing business practices in the country.

(b) Acting as a centralclearing house for all informa-

tion that will facilitate the transaction of leasing business in the Country, including a compterised data base open to, and useful to all comersium industry.

(c) Regularly meeting with relevant federal government agencies with a view to ensuring that appropriate regulations for leasing businesses are enacted accordingly.

(d) Laising with international lease clubs with a view to enabling members access training and on the job attachment programs for the overall development of requisite manpower skills and expertise.

I am particularly happy to know that the Association is represented annually at the world leasing conventions.

Credit Policy of the Government:- There is a restriction on expansion by way of credit ceiling and maximum lease portfolio of 15 per cent of total assets of banks. Moreso, the CBN monetary circular No 24 of 1990 has it that as from January 1990, leases will count as part of the botal credit granted by banks. Also, there is the the imposition of 15 per cent with holding taxes on lease rentals indiscriminate of whether such lease rentals indiscriminate of whether such leases are finan or operating leases. These policies are likely to reduce the value of leases that merchant banks are capable of booking now and in the future.

As merchant bank face the challenges ahead they should not allow the present windfall overwhelm them to take acts that will compromises the code of conduct

put in place by the Association for its members. They should take caution while the windfall lasts. As the dynamism of the maturing industry continue to evolve, they should put the right structure in place for a dynamic leasing association which will represent and serve the industry.

Other challenges facing equipment leasing in Nigeria today are :

(e) Perhaps the greatest challenge faced by the entire leasing industry in Nigeria today are the twin issues of accounting for leases and the existing laws on taxation which affect lease transaction. According to the internation Accounting Standard Committees (IASC) draft, circulated by the Nigeria Accounting Standard Board (NASB). "The main attraction of leasing transactions to the lessor, appart from the gross earning is the capital allowances advantage".[1]

(f) Competition:- Competition at time can breed negative consequences. People can be forced to take greater risks under intense competition.[2]

(g) Lack of Adequate Skills - most of the merchant banks are not adequately Staff with the right calibre and number of qualified personnel. It is obvious that the adequate development of the responsible leasing staff in some of these institutionhas not kept pace with the growth in demand for finance lease facilities.

(h) Miscellanous:- Other problems in leasing include lack of viable projects inadequate security, difficulty in acquiring new equipments, difficulty in obtaining registration certificates, defaulty of rental payments and so on.

CHAPTER FIVE

FOOTNOTE

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APPENDIX 1

Department of Business Admin.
Ahmadu Bello University
Zaria.

Date:

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Dear Sir/Madam,

"QUESTIONNAIRE"

This questionnaire is in Furtherance of an academic research being carried out by the researcher on the role of merchant banks in equipment leasing.

It is part of the requirements of the above department for the award of the masters of Business Aministration (MBA) Degree. I am therefore soliciting your co-operation in carrying out this exercise by completing the attached questionnaire and allowing me any interview that I might like to have with you or any member of your staff.

Your responses will be treated in trict confidence and only for academic purpose. Also, no identity would be disclosed either of the bank or any person supplying information.

I would also want you to kindly supply me with:

(a) A six year summary of Financial statement from 1986 to 1991
(b) Any manual and/or publication on the activities ofthe bank
(c) Details of the articles of agreement when lease financing is being contemplated.

Thank you for your Co-operation in this research.

Yours faithfully,

ALAYANDE, YINKA.

APPENDIX II

QUESTIONNAIRE

1. Name: .....

2. When was it incorporated? .....

3. Number and location of Branches: .....
.....
.....

4. Please stick among the following functions performed.

(a) Short-term loans (under 1 year)
(b) Overdraft
(c) Acceptance Credit
(d) Bills discounting
(e) Medium-term loan(2 to 5 years)
(f) Long-term loans (Above 5 years)
(g) Equipment leasing
(h) Project Financing
(i) Bond issues
(j) Issues of foreign stock
(k) Shares issues and underwriting
(l) mergers and acquisitions

5. The highest profit derived from (please tick)

(a) Short-term financing (under 1 year)
(b) medium-term activities (2 to 5 years)
(c) Long-term activities (above 5 years)

6. More time and resources are devoted by the bank to:

(a) Short-term activities (under 1 year)
(b) Medium-term activities (2 to 5 years)
(c) Long-term activities (above 5 years)

7. The bank uses .....in financing Exports.

(a) Buyer credit

(b) Supplier credit

(c) All of the above

8. If answer to question 7 is c, which does it use mostly?

(a) Buyer credit

(b) Supplier credit

(c) Equally

(d)

9. Does the bank undertake equipment leasing?

(a) Yes (b) No

10. If answer to question 9 is (a), Kindly supply a list of your lessees below.....
.....
.....

11. Please give a break-down of the banks total equipment on lease as shown below:

1986 ₦ .....
1987 ₦ .....
1988 ₦ .....
1989 ₦ .....
1990₦ .....
1991 ₦ .....

12. Please give a break-down of equipment on lease as below

Years:	1986	1987	1988	1989	1990	1991
(a) Agriculture						
(b) Mining						
(c) Manufacturing						
(d) Construction						
(e) Transportation						
(f) Commerce						
(g) Others please						

13. Kindly give a break-down of the bank's total loans and advances as below:

Years: 1986 1987 1988 1989 1990 1991

(a) within 1 year

(b) 2 to 5 years

(c) above 5 years

15. Does the bank partake in loan syndication?

(a) Yes (b) No

16. If answer to question 15 is (a), for the largest loan;

(i) How much was involved? .....

(ii) Who were the other syndicates? .....

.....

.....

(iii) who was/were the beneficiaries?

.....

.....

(iv) What was the maturity?

(a) within 1 year

(b) 2 to 5 years

(c) Above 5 years

17. What problems Does the bank encounter in equipment leasing?

(a) Lack of viable projects

(b) Lack of qualified applicants

(c) Inadequate number of applicants

(d) Inadequate security

(e) Lack of profit in leasing

(g) Inadequate funds

(g) Difficulty in acquiring new equipments

(h) Lack of secondary market for equipments after the lease period.

(i) Others (Please Specify).....

.....

18. Of the problems in 17, which is

(i) The most Frequently encountered by the bank?

.....

.....

(ii) The severest? .....

.....

19. What problems Does the bank encounter in managing lease advances (receivables)?

(a) Default of interest payments

(b) Default of rental payments

(c) High cost of recovery

(d) Lack of profit

(e) Inadequate funds to meet demands

(f) Low residual value

(g) Other (Please Specify)

20. What is your opinion in the interest allowed by the central Bank of Nigeria (CBN)?

(a) Satisfactory

(b) Too high

(¢) Too Low

21. Has the bank executed or participated in the execution of a merger or acquisition in Nigeria?

(a) Yes (b) NO

22. If yes, which were the companies involved?

.....

.....

23. Do you think that people are now realizing the benefits of leasing?

(a) Yes (please say why)

(b) (Please say why)No.

24. The Banking Act (1969) requirment for a minimum paid up capital of ₦ million for merchant Banks before it can be licensed is:

(a) Alright
(b) Too high
(c) Too Low

25. The Central Bank guideline that a maximum is 15% of total assets of merchant banks shall be in equipment leasing and other corporate banking services is:

(a) Alright
(b) Too High
(c) Too Low

26 Why do you thing people prefer leasing to ownership of equipment?

(a) Tax benefits
(b) Low initial capital
(c) Fear of obsolescence
(d) Other (Please Specify).....

.....

Thank you for contributing towards the success of this project work.