ELAN

EQUIPMENT LEASING ASSOCIATION OF NIGERIA LTD/GTE

Creating Wealth & Growth Opportunities

2022 OUTLOOK

CONTINUED RECOVERY, AMIDST CHALLENGING ENVIRONMENT

JANUARY 2022

Executive Summary

Following the collapse in 2020, due the Covid-19 Pandemic, the global economy experienced an exceptionally strong but uneven recovery, expanding by a robust projected 6 percent in 2021. This is the strongest post-recession pace in 80 years, facilitated in part by the steady but highly unequal vaccine access. Growth was however, concentrated in a few major economies, with most emerging market and developing economies (EMDEs) lagging behind. Essentially, the recovery is disproportionately driven by the goods sector and this has created extraordinary pressure on supply chains and commodity markets. More recently, the narrative has evolved from the pandemic itself to its offshoots; supply chain disruptions, rising commodity prices and surging inflation rates.

The emergence of the Omicron Covid variant has rekindled the uncertainties around the global pandemic. Despite these, **2022 is expected to be another good year for growth as the global economy continues its recovery. However, the growth is expected to slow at 4 .9 percent in 2022, following an exceptionally strong 2021, as the massive support offered by governments and central banks during the pandemic's initial stages begins to fade.** The withdrawal of emergency levels of support by central banks and governments, is expected to play an important role in shaping economic activity in 2022. In all, according to the World Bank, the global outlook remains highly uncertain, with major risks around the path of the pandemic and the possibility of financial stress amid large debt loads.

On the domestic front, the Nigerian economy showed steady growth in 2021, with the Gross Domestic Products (GDP) recording positive growth in the past three quarters. GDP rose by 0.5 per cent in the first quarter, leapt to 5.01 in Q2 2021 and moderated to 4 .03 % in Q3 2021. The average growth rate of 3.28% in 2021, was largely driven by growth in the non-oil sector of the economy, which grew by 5.44% in Q3 2021. The economy sustained recovery, was fueled by the implementation of government's Economic Sustainability Plan and helped by the easing of COVID-19 induced restrictions on economic activities. **The recovery, is expected to continue in 2022 with experts forecasting GDP growth of 2.1% to 2.8% for full year 2022, while the Government prediction is 4.2%.**

The envisaged strong GDP growth is predicated on several factors, including the positive rally in the global crude oil price and production; expansion of financial services due to the Mobile Money Services (MMO) licenses issued to the telcos; sustained expansion in the trade sector; growth in the agricultural sector and most importantly, an increase in the Federal Government's consumption**.** However, some major risks could beset the expectations including: FX volatilities, fuel subsidy removal, sustained downturn in the oil sector, and the emergence of a deadlier wave of COVID-19. If any of these risks comes to play, growth could shrink significantly.

The global leasing industry contribution to world's economy remains impressive with the industry recording 10th year of continuous growth in 2019 before the pandemic in 2020. According to the World Leasing Yearbook 2021, new business volume grew by 5.85% from US$1,287.01bn in 2018 to US$1,362.38bn in 2019, growing by 129% in the past decade. The industry remained resilient since the beginning of the pandemic, as Leasing continues to be an added value product, allowing flexibility in asset management. As the world continues to recover from the ashes of the pandemic, the industry is set to accelerate its role of supporting global economic investment and development in 2022 and beyond. The global leasing market is expected to grow from $1.18 trillion in 2020 to $1.35 trillion in 2021 at a compound annual growth rate (CAGR) of 14. % and reach $1.83 trillion in 2025 at a CAGR of 8%. **Essentially, the prospect of the global leasing industry in 2022 remains positive. The industry has shown resilience, embraced digitalisation of processes and maintained high level of services as it poised further to meet the world's equipment needs.**

In the same vein, the Nigerian leasing industry continued to navigate through the storm, making significant contribution to capital formation in the economy. In the height of the pandemic in 2020, the leasing industry recorded a marginal growth of 4.5%. Available statistics show that outstanding leases as at 2020 stood at N2.01trillion as against N1.91trillion in 2019. With the lifting of lock down and restriction, the leasing industry picked up its momentum in 2021, despite the continued adverse impact of the pandemic on socio-economic fundamentals. We expect the industry to achieve close to pre-pandemic performance of double-digit growth, as figures are being concluded for the year. The growth was driven mainly by the resumption of economic activities, stable environment and demand, as businesses tried to do catch up. Essentially, the leasing terrain in 2021, was largely defined by spillover of the impact of the manifestation of conditions in 2020 and prevailing industry' specific factors.

In 2022, the leasing industry is expected to remain resilient and maintain its recovery and growth trajectory, in the face of economic challenges. However, the stability in the macro environment, devoid of any major disruption, will ultimately shape the outcome of the leasing industry. Essentially, many of the industry conditions in 2021, are expected to remain largely unchanged - New business volume will inch further; Consolidation of objective and strategic approach by lessors; absence of appropriate funding; inauguration of the Equipment Leasing Registration Authority (ELRA). Other variables include: increasing number of new entrants in the market; the increasing cost of asset and more business opportunities. Generally, the macro-economic and industry situations, will continue to determine the level of performance of the leasing industry in 2022 and beyond. However, it is imperative for the leasing industry to sustain its resilience to sail through these testing times and this requires continued realignment of strategies and adoption of innovative approach.

Specifically, driving success will require: broad and deeper funding structure; prioritising risk management and processes, enhancing internal capacity to improve processes and performance*;* sound corporate governance; improved leasing infrastructure*;* maintaining and improving portfolio quality while keeping the balance; constructive engagement with market and relevant stakeholders as well as controlled back-office cost.

The overall summation, is that 2022, will be a better year for the Nigerian leasing industry and the economy at large compared to the last two years. This is predicated mainly on the continued recovery and stability of the economy, though the challenges of the macro-economic and industry situations, remain obvious.

GLOBAL ECONOMY

The pandemic remains a recurring theme in the world today. Following the collapse in 2020, the global economy experienced an exceptionally strong but uneven recovery, expanding by a robust projected 6 percent in 2021, according to the International Monetary Fund (IMF). This is the strongest post-recession pace in 80 years, facilitated in part by the steady but highly unequal vaccine access.

Growth is concentrated in a few major economies, with most emerging market and developing economies (EMDEs) lagging behind. While about 90 percent of advanced economies are expected to regain their pre-pandemic per capita income levels in 2022, only about one-third of EMDEs are expected to do so. In low-income countries, the effects of the pandemic are reversing earlier gains in poverty reduction and compounding food insecurity and other long-standing challenges. The setback was as a result of uneven access to vaccines, constrained fiscal space, high debt levels, and financial market volatility.

Essentially, the recovery is disproportionately driven by the goods sector and this has created extraordinary pressure on supply chains and commodity markets. More recently, the narrative has evolved from the pandemic itself to its offshoots; supply chain disruptions, rising commodity prices, and surging inflation rates.

The emergence of the Omicron Covid variant has rekindled the uncertainties around the global pandemic. Despite these, **2022 is expected to be another good year for growth as the global economy continues its recovery. However, the growth is expected to slow at 4 .9 percent in 2022, following an exceptionally strong 2021, as the massive support offered by governments and central banks during the pandemic's initial stages begins to fade.** The withdrawal of emergency levels of support by central banks and governments, is expected to play an important role in shaping economic activity in 2022. The massive fiscal stimulus policies (government spending and taxation policies designed to support economies over the short term), in response to the pandemic, are already winding down in the US and UK. Although government spending will remain strong, overall fiscal policy will be less supportive in 2022.

The IMF expects Sub-Saharan Africa to grow by 4.1% in 2022 on the back of sustained rise in commodity prices, steady improvement in economic activities, and the recovery in travel and tourism. However, some risks have surfaced in the region - social unrest, political upheavals, adverse weather conditions, and subdued recovery in tourism. High levels of unemployment elevated socio-political risks in the region

In all, according to the World Bank, the global outlook remains highly uncertain, with major risks around the path of the pandemic and the possibility of financial stress amid large debt loads. Controlling the pandemic at the global level will require more equitable vaccine distribution, especially for low-income countries. In addition to the necessary efforts to pursue widespread vaccination, policy makers face a difficult balancing act, as they seek to nurture the recovery through efficiently allocated fiscal support while safeguarding price stability and fiscal sustainability. Policy makers can also help entrench a lasting recovery by undertaking growth enhancing reforms and steering their economies onto a green, resilient, and inclusive development path. Prominently among the necessary policies, are efforts to lower trade costs so that trade can once again become a robust engine of growth.

Global Gross Domestic Product (GDP)

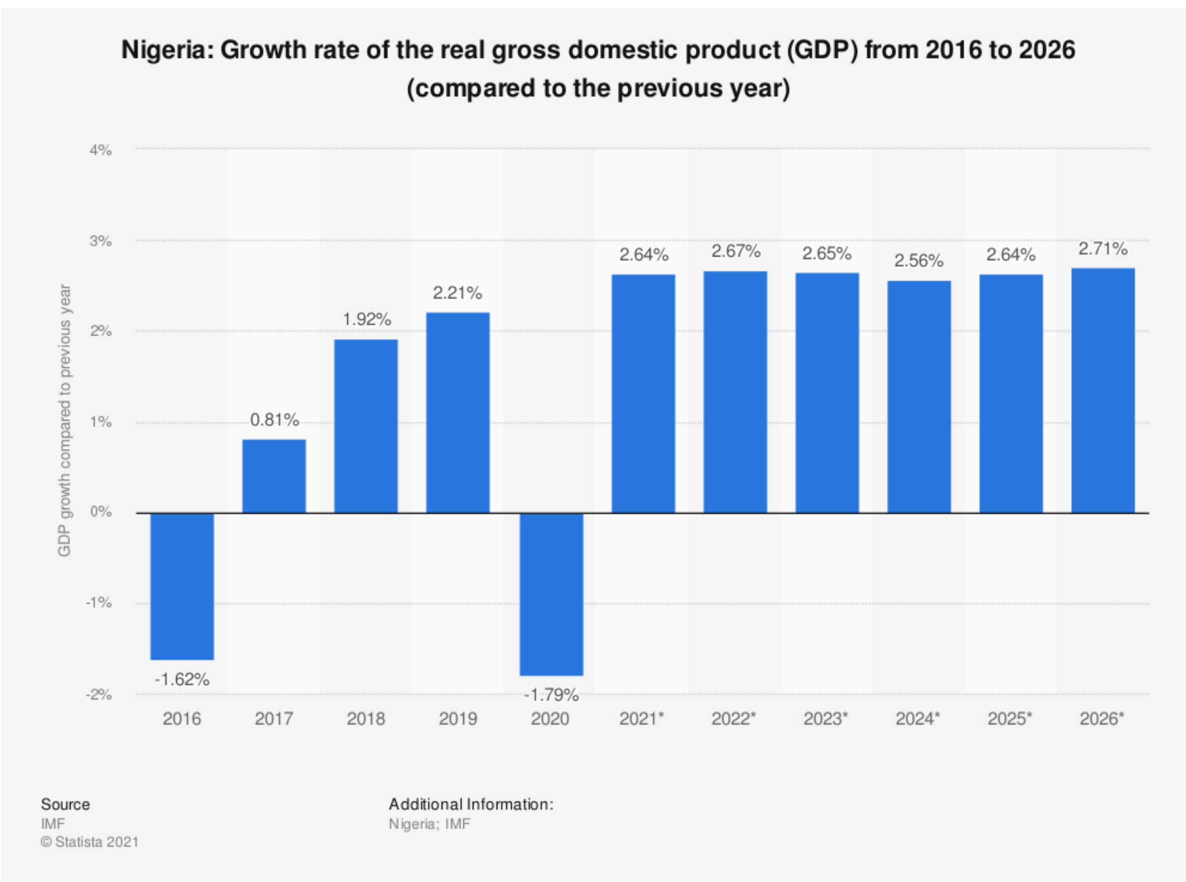
	Estimate	Projections	
Real GDP annual percent change	2020	2021	2022
World Output	-3.2	6.0	4.9
Advanced Economies	-.4.6	5.6	4.4
United States	-3.5	7.0	4.9
Euro Area	-6.5	4.6	4.3
Emerging Market & Developing Countries	-2.1	6.3	5.2
China	2.3	8.1	5.7
India	-7.3	9.5	8.5
Brazil	-4.1	5.3	1.9
Sub – Saharan Africa	-1.8	3.4	4.1
Nigeria	-1.8	2.5	2.6
South Africa	-7.0	4.0	2.2
Low: Income Developing Countries	0.2	3.9	5.5

Source: IMF, World Economic Outlook Update, July, 2021

DOMESTIC ECONOMY

Following the great lockdowns of Q2'20, the Nigerian economy showed steady growth in 2021 with the Gross Domestic Products (GDP) recording positive growth in the past three quarters. GDP rose by 0.5 per cent in the first quarter, leapt to 5.01 in Q2 2021 and moderated to 4 .03 % in Q3 2021. All indications, point to a stronger full-year GDP performance in 2021, with analysts' estimate around 3%, seven percentage points above its 2019, pre-recession growth of 2.3 per cent. The average growth rate of 3.28% in 2021, was largely driven by growth in the non-oil sector of the economy, which grew by 5.44% in Q3 2021. The economy sustained recovery, was fueled by the implementation of government's Economic Sustainability Plan and helped by the easing of COVID-19 induced restrictions on economic activities. **The Recovery, which began in the final quarter of 2020, is still underway with experts like IMF forecasting GDP growth of 2.1% to 2.8% for full year 2022, while the Government prediction is 4.2%.**

Nigeria's Gross Domestic Product

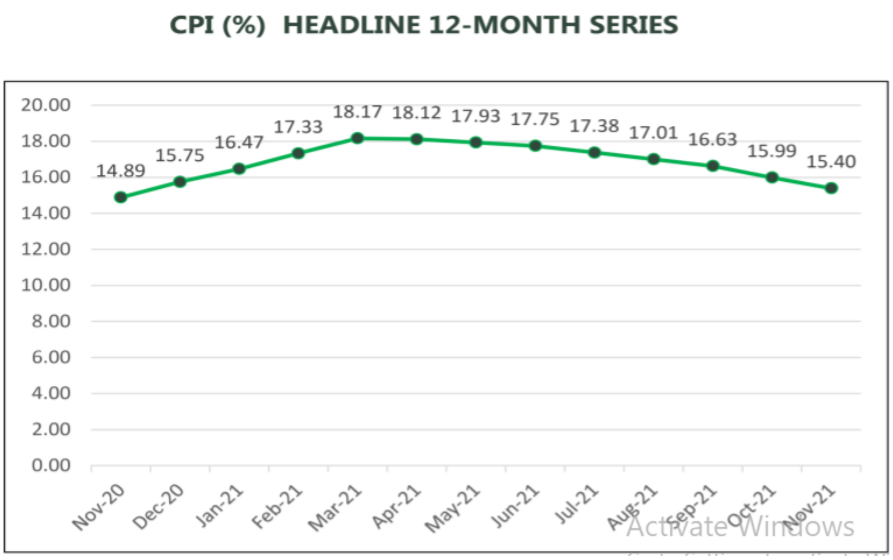


Source: International Monetary Fund (IMF)

The envisaged strong GDP growth is predicated on several factors, including the positive rally in the global crude oil price and production; expansion of financial services due to the Mobile Money Services (MMO) licenses issued to the telcos; sustained expansion in the trade sector; growth in the agricultural sector and most importantly, an increase in the Federal Government's consumption as contained in 2022 budget and spending due to the approaching election year. However, some major risks could beset the expectations including, FX volatilities, fuel subsidy removal, sustained downturn in the oil sector, and the emergence of a deadlier wave of COVID-19. If any of these risks comes to play, growth could shrink significantly.

The persistent rise of inflation halted in April 2021, from a four year high of 18.2% in March 2021 after nineteen consecutive months. For eight consecutive months, the consumer price index (CPI), which measures inflation rate, has decelerated closing at 15.4 per cent in November 2021 as against 18.2 per cent in March 2021, with the downward trend expected to continue into 2022. Besides election spending, food inflation from insecurity, the depreciation of the Naira and further tightening of imports by the CBN, the removal of petroleum Subsidy, would be a major determinant of inflation level in 2022. The partial removal of fuel subsidy in the past, had a greater impact on consumer prices than any other factor.

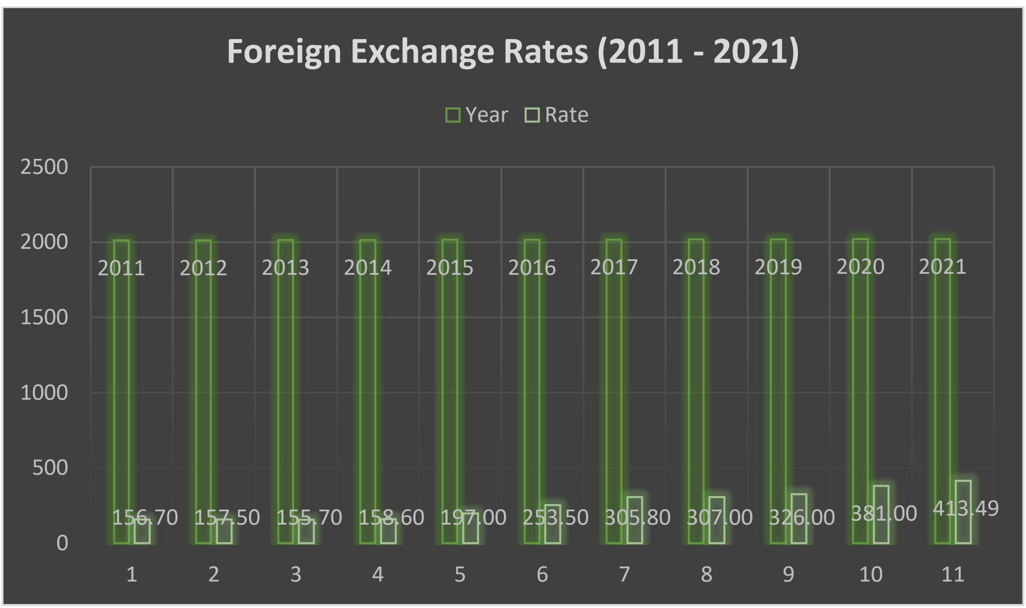
Consumer Price Index (CPI)



Source: National Bureau of Statistics (NBS)

The Naira volatility is expected to continue in 2022, as it faces various pull forces during the year. Increased demand from politicians mopping up dollars ahead of the 2023 elections, foreign investors seeking to repatriate their funds ahead of the elections, and manufacturers seeking to import materials, will be the main demand drivers. However, the Naira could stabilise on the back of oil receipts and renewed remittance inflows. Also, the expected commencement of operation of the 650,000 b/d of Dangote refinery in 2022, will impact the importation of fuel and consequently conserve huge foreign exchange consumed in the importation of petroleum product. Equally, the increased crude oil revenue, is expected to keep the foreign reserves above $35 billion and give the CBN, some ammunition to defend the Naira. The Naira, closed the year 2021 at N413.49 per dollar at the official Investors and Exporters (I & E) Window, representing a depreciation of five per cent on a rate of N394 per dollar recorded at the beginning of the year. At the parallel market, the Naira traded at N570 per dollar at year end.

Foreign Exchange rates (Dollar to Naira – 2011 - 2021)

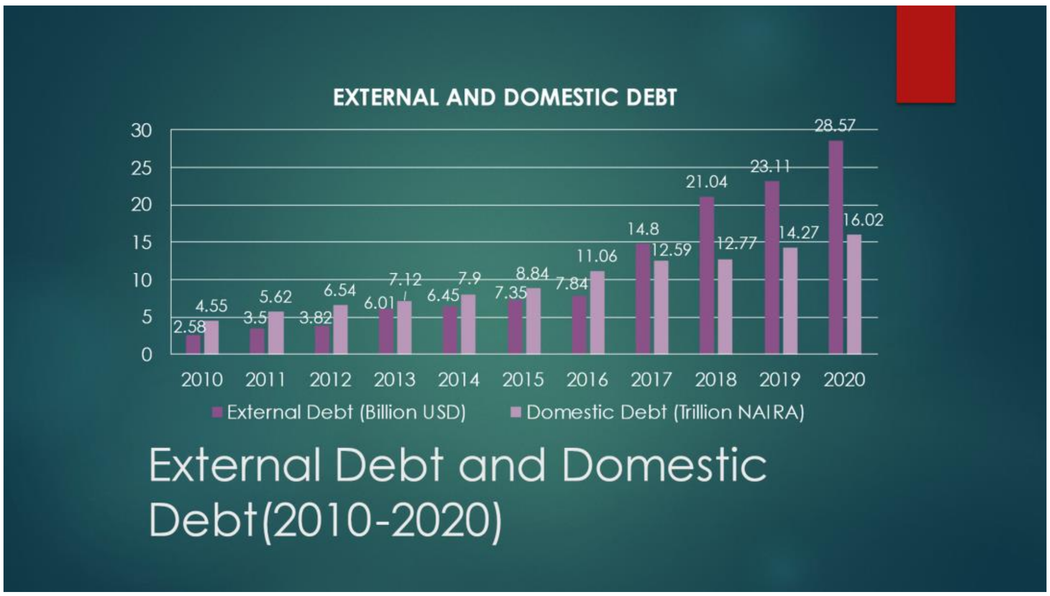


Source: Central Bank of Nigeria

Nigeria's debt stock has grown immensely over the years amid weak revenue mobilisation, raising concerns on sustainability. The Debt Management Office (DMO), places the debt stock as at Q3 2021 at N38trillion and this is expected to increase by N12trillion, hitting N50trillion mark in 2023, according to the Government MTNDP (2022-2025). The 2022 budget with a deficit of about N6.25trillion, is expected to be financed essentially by new borrowings.

Nigeria's public debt and debt service ratio would continue to increase, as the country faces the challenges of meeting its revenue targets for 2021 and 2022, thereby forcing the Federal Government to continue on its borrowing binge. Amid weak revenue mobilisation, debt servicing gulped an average of 61% of revenues pre-pandemic and skyrocketed to 83% in 2020. The DMO had raised the debt-to-GDP limit from 25% to 40% in its medium-term debt strategy for 2020–2024. While Nigeria's debt-to-GDP, is lower than those of its peers, its debt-to-revenue is too low to sustain the country, forcing huge percentage of the country's revenue on debt servicing, leaving the development of critical sectors to lag behind.

Nigeria's total public debt portfolio



NIGERIA'S TOTAL PUBLIC DEBT PORTFOLIO AS AT SEPTEMBER 30, 2021

	Debt Category	Amount Outstanding (US$'M)	Amount Outstanding (₦'M)	% of Total
A.	**Total External Debt**	**37,955.09**	**15,572,973.43**	40.98%
B.	**Total Domestic Debt**	**54,671.32**	**22,431,642.89**	59.02%
	FGN Only	44,437.88	18,232,862.81	47.98%
	States & FCT	10,233.44	4,198,780.08	11.05%
C.	**Total Public Debt(A+B)**	**92,626.41**	**38,004,616.32**	100%

Source: Debt Management Office, Nigeria

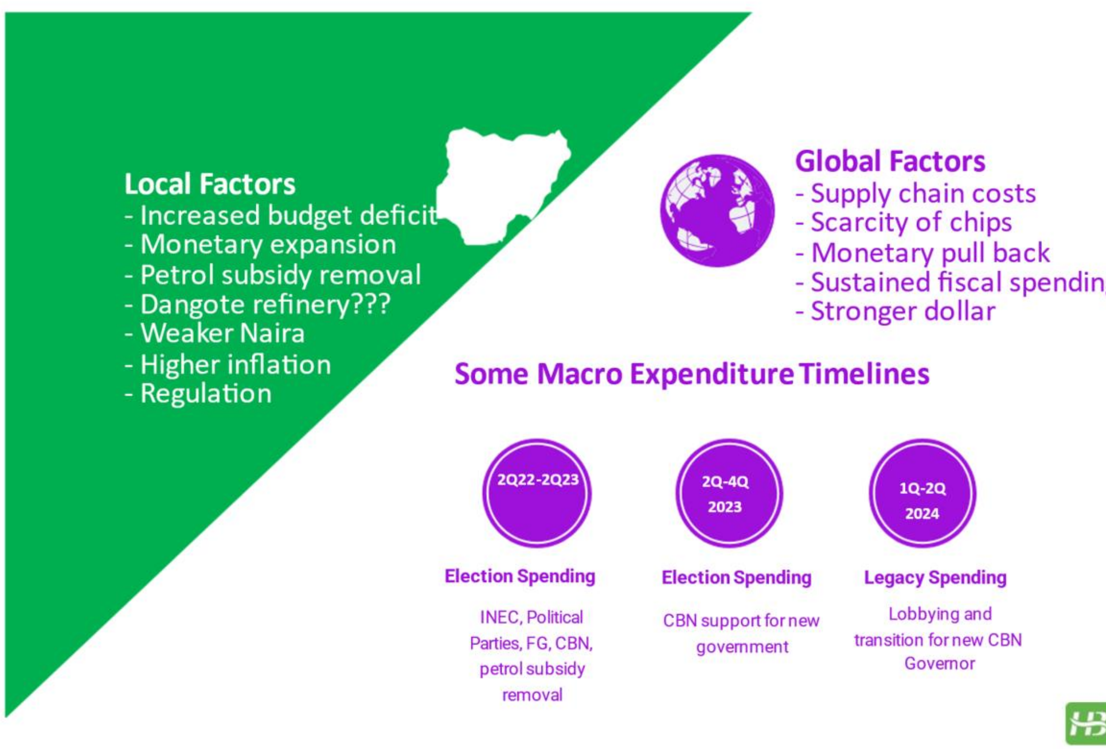
As posited by ELAN recently, borrowing should be tied to underlying asset. “Government should adopt the asset-linked debt model, whereby loans are taken to finance critical assets and income generated from such assets is used to pay back the loans”. This involves structuring the borrowing transactions like investments**.** Also, it is imperative to ensure transparency and sustainable repayment plan of the borrowings; reduce significantly the overhead cost of government at all levels to free funds for development; allocate more funds to infrastructure and capital projects that will enhance economic growth; unbundle opportunities in the Green and Brown field space as well as diversification of the revenue base by exploring opportunities.

The timely presentation and passage of budgets, has aided the implementation of fiscal policy. The 2022, Budget of ₦17.13 trillion (revised by the National Assembly (NA) from N16.4 trillion presented by the president, was signed into law by the president on 31st December 2021, though with caveat), tagged the Budget of Economic Growth and Sustainability, is the largest to date. The budget is in line with the expansionary fiscal stance embarked upon to stimulate the economy and hinged on the following assumptions: an oil price benchmark of $62/barrel (adjusted from $57 by the NA), a daily production estimate of 1.88 million barrels per day, a GDP growth of 4.20%, and an inflation rate of 13.0%. With the exception of the GDP growth expectation, experts believe that the underlying assumptions are achievable. Nigeria’s oil production has stalled for a better part of 2021, despite the easing of OPEC production cuts. Further downturn in oil production, could drag revenue downwards as oil revenue makes up 35% of projected revenue.

The Medium - Term National Development Plan (MTNDP) 2021-2025, was introduced in 2021 to replace the Economic Recovery and Growth Plan (2017-2020), which ended in December 2020. According to the government, the MTNDP is consistent with its social- economic transformation and guided by four strategic objectives namely; establishing a strong foundation for a concentric diversified economy; investment in critical physical, financial, science and innovation infrastructure; building a solid framework and enhance capacities to strengthen security and ensure good governance; and enabling a vibrant, educated and healthy populace. Also, the plan identified nine priority areas that need interventions - enlarge agriculture output; attain energy sufficiency in power and petroleum product; expand transport and other infrastructure development; expand business growth; entrepreneurship and industrialisation; enhance social inclusion and reduce poverty. The MTNDP, is expected to gain traction with the implementation of the 2022 budget, being a short-term instrument of achieving the MTNDP.

Monetary policy environment is expected to remain stable in 2022 as the Central Bank of Nigeria is expected to remain largely accommodative, keeping all policy rates constant as in 2021. The CBN lending policies have led to credit growth - averaging 20% in the past three years with credit to the private sector growing by 12% in 2021. However, lending rates are expected to remain in double digits mirroring the mounting challenges in the business environment. Although, the maximum lending rate has reduced marginally between Q4'20 and Q3'21, they remain in the high 20s. While the apex bank maintains its loan-to-deposit ratio (LDR) policy, the bank has rolled out new initiatives to drive credit to the private sector. One of such initiatives is the '100 for 100' policy where the apex bank intends to select on a quarterly basis, 100 private sector companies with projects that have potential to significantly increase domestic production and productivity, reduce imports, increase non-oil exports, and overall improvements in the foreign exchange, generating capacity of the Nigerian economy. Loans under this intervention would be in single-digits (5% up to Feb'2022 and 9% thereafter).

Nigeria's Medium Term Strategy Influencers



Source: Heritage Bank Limited

The road to Nigeria's 2023 national elections is unfolding with political risks - a major factor in an economy where government plays the dominant role. Also, the heightened insecurity, high unemployment (33%), poverty (40%) and growing inequality, remain major challenges in Nigeria. Concerted and coordinated efforts are required to improve the policy environment and address these issues especially, insecurity in order to boost domestic investment and attract foreign direct investments.

THE LEASING INDUSTRY

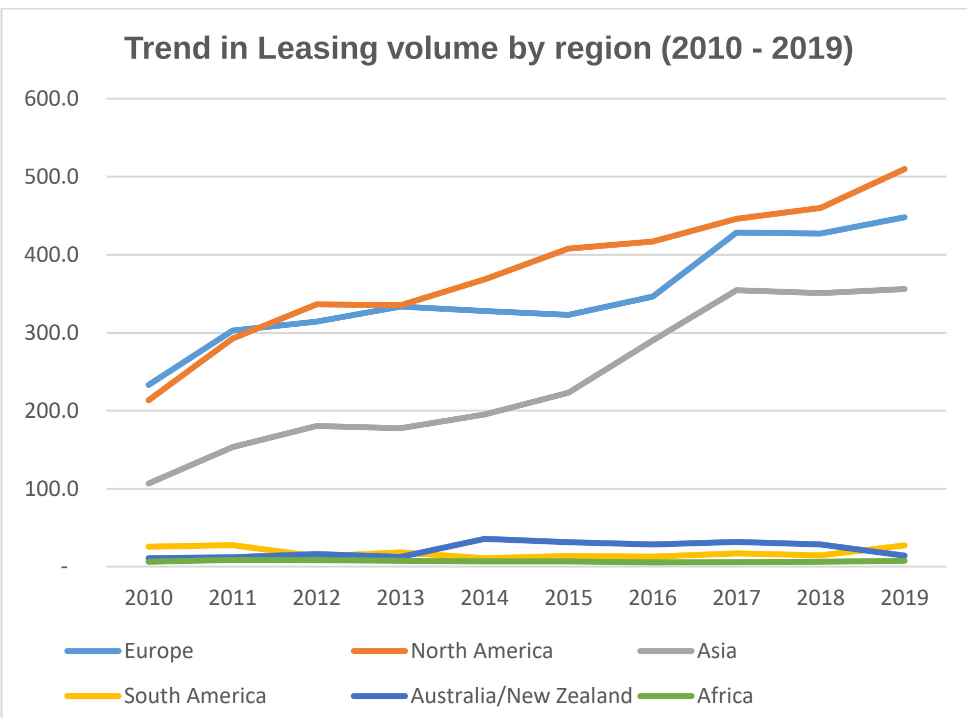
The global leasing industry contribution to world's economy remains impressive with the industry recording 10th year of continuous growth in 2019 before the pandemic in 2020. According to the World Leasing Yearbook 2021, the top 50 countries in 2019 reported growth in new business volume of 5.85%, rising from US$1,287.01bn in 2018 to US$1,362.38bn in 2019. The Report shows that the global leasing industry grew by 129% in the past decade. Three regions, North America, Europe and Asia, account for more than 96% of world volume. North America experienced growth of 10.8%, Europe was up 4.9% and Asia up 1.5%. South America declined 4.7% and Australia/New Zealand was down 4.1%. Africa was up 21.8%.

The outbreak of the COVID-19 acted as a massive restraint on the leasing market in 2020 as the need for services offered by lessors declined due to lockdowns imposed by governments. However, the industry remained resilient since the beginning of the pandemic, as Leasing continues to be an added value product, allowing flexibility in asset management. For instance, customers have been carefully managing their liquidity position and this has expanded the scope of funding solutions for lessors winning traction with some corporation that used to pay cash and are now more favourable looking at leasing solutions or payment plans.

As the world continues to recover from the ashes of the pandemic, the industry is set to accelerate its role of supporting global economic investment and development in 2022 and beyond. The global leasing market is expected to grow from $1.18 trillion in 2020 to $1.35 trillion in 2021 at a compound annual growth rate (CAGR) of 14%. The market is expected to reach $1.83 trillion in 2025 at a CAGR of 8%. With the dominant global car leasing market value expected to grow at a CAGR of nearly 15% between 2022-2027, due to the increasing demand for car leasing. The emergence of startups as major clients of leasing service providers is expected to drive the market.

TREND IN LEASING VOLUME BY REGION (2010 -2019)

Region	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Europe	233.0	302.7	314.0	333.6	327.8	322.8	346.3	428.3	427.0	448.0
North America	213.3	292.5	336.4	335.1	368.4	407.8	416.8	445.9	460.1	509.8
Asia	106.6	153.4	180.2	177.3	195.0	223.0	289.9	354.4	350.7	355.9
South America	25.4	27.5	13.2	18.0	10.7	13.8	12.9	17.0	14.6	27.3
Australia/New Zealand	10.8	12.0	16.1	12.5	35.6	31.2	28.4	31.5	28.5	13.9
Africa	6.4	8.6	8.2	7.5	6.8	6.7	5.4	5.7	6.2	7.5
Annual Totals	594.5	796.7	868.0	884.0	944.3	1,005.3	1,099.7	1,282.8	1,287.1	1,362.4



Source: World Leasing Yearbook 2021

The pandemic has also accelerated the tendencies in digitalisation. Digitalisation in itself is not a new concept to the leasing industry but covid 19 has increased the rate at which lessors are undertaking it to make their operation more flexible and resilient. Many businesses are increasingly moving their operation on line in short period of time on the need to support fast business changes. Leasing software package solutions to support end-end processing with automated origination/underwriting process, on line credit risk decision and after sale automated processes, which can be parametered to evolve rapidly as risk changes.

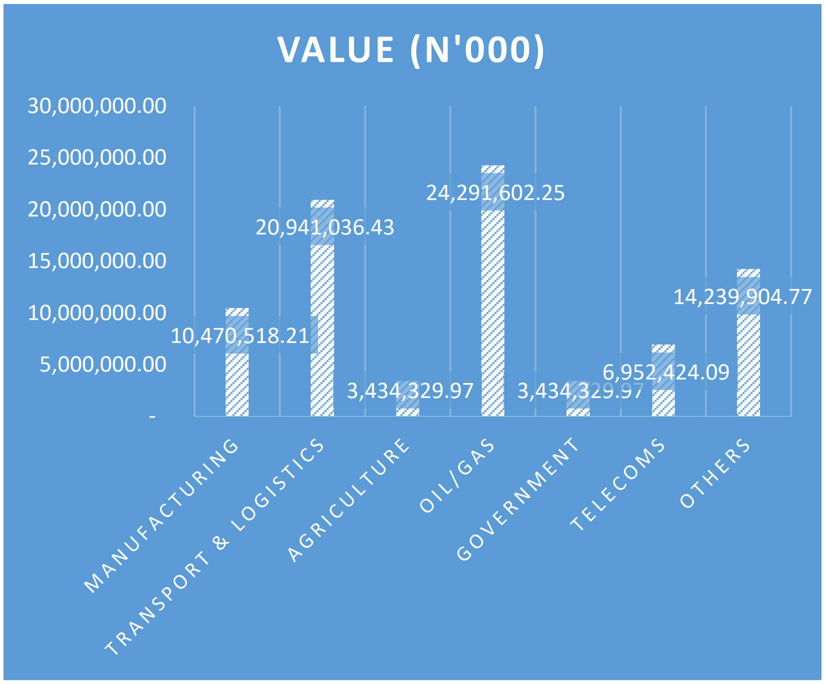
New assets are prompting up from emergence of technologies. It is imperative for lessors as broader solutions providers, to know and understand these assets and their specific dynamics, developing new expertise and asset knowledge. The emergence of new technologies has given rise to adoption and development of new uses cases such as collaborative platforms among professionals, telemedicine, remote work, video conference etc.

Essentially, the prospect of the global leasing industry in 2022, remains positive. The industry has shown resilience, embraced digitalisation of processes and maintained high level of services as it poised further to meet the world's equipment needs.

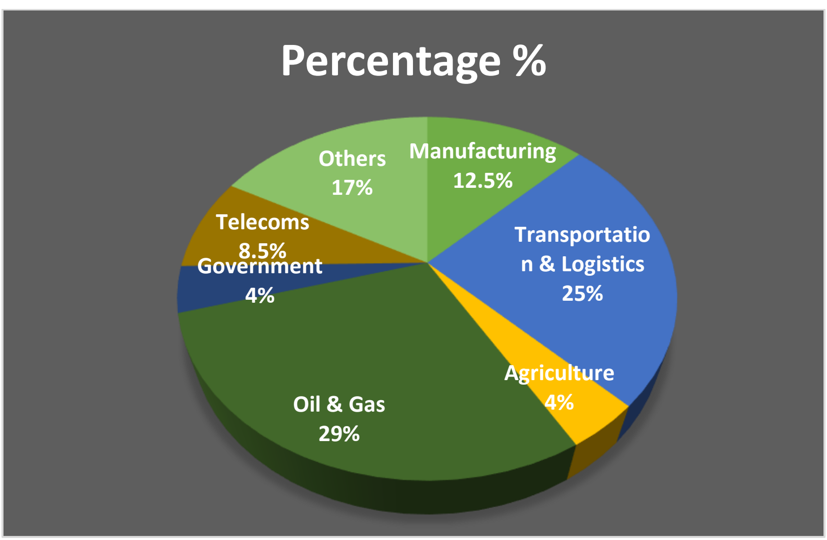
The Nigerian Leasing Industry

The Nigerian leasing industry reflecting the picture of the global industry, continued to navigate through the storm, making significant contribution to capital formation in the economy. In the height of the pandemic in 2020, the leasing industry recorded a marginal growth of 4.5%. Available statistics show that outstanding leases as at 2020 stood at N2.01trillion as against N1.91trillion in 2019. The oil and gas sector took the lead at 29% with N602 billion lease volume, followed by Transportation & Logistics sector taking N490billion (25%), Manufacturing N279billion (12.5%), Others (including Healthcare and Education accounted for N185billion (17%), while Agriculture, Telecommunications, and Government sectors, recorded considerable growth. Obviously, the decline in lease volume in 2020, was mainly as a result of the lock down and other restrictions to contain the pandemic, which adversely affected economic activities. The delayed rental payment, slow business activities; increased cost of assets and operations etc, impacted on new lease origination during the year.

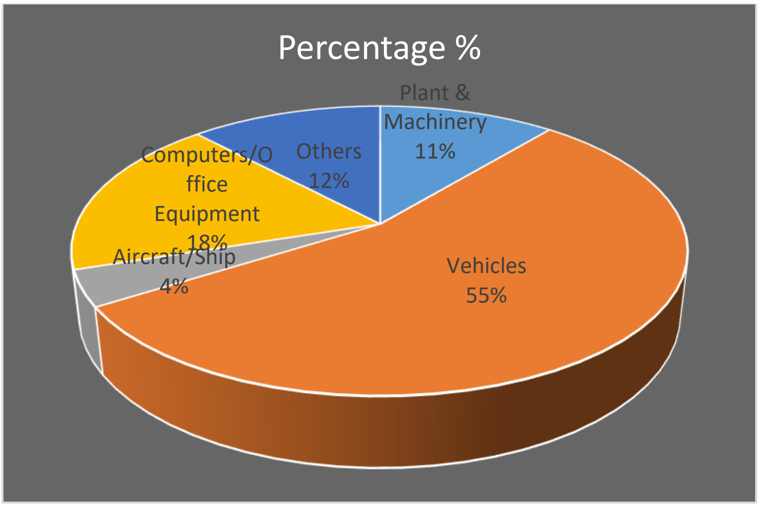
Distribution of Lease Volume by Sector (2020)



Distribution of Lease Volume by Sector



Analysis by types of Asset



Source: ELAN Research

With the lifting of lock down and restriction, the leasing industry picked up its momentum in 2021, despite the continued adverse impact of the pandemic on socio-economic fundamentals. We expect the industry to achieve close to pre-pandemic performance of double-digit growth, as figures are being concluded for the year. The growth was driven mainly by the resumption of economic activities, stable environment and demand, as businesses tried to do catch up. Essentially, the leasing terrain in 2021, was largely defined by spillover of the impact of the manifestation of conditions in 2020 and prevailing industry' specific factors.

Improved rate of rental payment and fulfilment of other obligations: arising from the improved stability of cashflow of customers due to resumption of business activities and re-structuring of lease transactions.

New business origination inched a bit but remained low, owing to the fear of portfolio risks and limited capacity to finance new transactions. Lessors pre-occupied themselves mainly with the task of managing existing portfolio and exercising caution in venturing into new transactions. Transactions that were consummated were dominated by the SMEs segment and provision of logistics for large corporates.

Continued shift from Finance lease, as a risk protective mechanism and in response to market dictates. Finance lease though still dominates the market**,** its share has been dwindling in recent years, especially with its associated risks and demand from corporate bodies for a leasing product, which allows more flexibility and convenience to enable them focus more on their core activities. This has seen some major lessors, shifting completely to operating lease to meet the outsourcing needs particularly in transport and logistics. In a bid to create further niche, some of these lessors have set – up workshop of their own, providing services to outside customers as well.

Vehicles remained dominant assets leased in terms of assets categorisation, representing about 55% of the leased assets. Vehicle leasing, basically trucks for haulage; staff buses, cars and operational vehicles, continue to be major attraction in the leasing industry.

Increasing interest of vendors in leasing, especially vehicle vendors. New entrants from multinational vehicle manufactures and major distributors, have set up vendor leasing schemes in recent times financing leases of their product on their own and most often with banks under various asset acquisition schemes. A major vehicle brand re-launched last year with available financing scheme for their range of product.

Maintenance of business and operational approach adopted in response to "the new normal". The lifting of restriction notwithstanding many lessors still maintained some limited measures of working from home leveraging on technology and dealing with external relations such as customers, through online and other non-physical modes of engagement. This has improved cost profile associated with physical engagement such as office administration - electricity, fueling and transport etc. and better time management. More than ever before, many lessors have equally developed and adopted technology applications to improve their processes in response to prevailing conditions.

Increased cost of assets and operations. The depreciation of the Naira in the Foreign Exchange market caused prices of goods and services to rise. This affected the capacity of leasing companies to finance new transactions where the opportunities were available to do so and equally maintained service - oriented leases. The increasing cost limited the acquisition of assets through outright purchase by consumers. While, this presented opportunity for leasing as alternative means of acquisition, it equally affected demand for leases as many businesses extended their replacement period.

The Regulatory Environment remained largely unchanged. The impact of the Financial Reporting International Standard (IFRS 16), on Leases is yet to fully manifest since it came into operation on the 1st January 2019. The Standard is aimed basically at eliminating off-balance sheet financing, which has been a major attraction of operating lease to companies seeking off -balance sheet financing. The IFRS 16 requires all leases to be on balance sheet except those exempted and by implication lessees will no longer classify leases as finance and operating lease. The introduction of the standard was expected to adversely impact the market dynamics, especially demand for operating lease. However, as it is, there is a partial off-balance sheet benefit depending on structure of the transaction, while some transactions are structured as service contracts to overcome the hurdle.

The industry was still faced with the challenges of full implementation of the Equipment Leasing Act 2015. ELAN sustained its engagement for the Equipment Leasing Registration Authority (ELRA) to be inaugurated and commence operation. The ELRA, a public-private partnership arrangement, is expected to give full effect to the intent and purport of the Act, ensuring certainty, stability and promote investment in the leasing industry.

THE LEASING LANDSCAPE IN 2022 - SUSTAINED RECOVERY AND GROWTH

In 2022, the leasing industry is expected to remain resilient and maintain its recovery and growth trajectory, in the face of economic challenges. However, the stability in the macro environment, devoid of any major disruption, will ultimately shape the outcome of the leasing industry. Essentially, many of the industry conditions in 2021, are expected to remain largely unchanged.

The Nigerian Leasing Landscape in 2022

- New business volume will inch further
- Consolidation of objective and strategic approach
- The absence of appropriate funding mechanism
- The Inauguration of the Equipment Leasing Registration Authority (ELRA)
- Increasing number of new entrants in the market
- The increasing cost of asset will slow demand for new assets and business volume
- More business opportunities abound from the Economy

New business volume will inch further due to momentum in economic activities and demand for capital assets, supported by supply of lease products by lessors within the scope of prevailing constraints.

Consolidation of objective and strategic approach by lessors to withstand shocks brought about by the pandemic*,* ensuring business survival and continuity. Lessors will still be on their guard, adopting effective cost control mechanism, improving processes and customer relations etc, to navigate through challenges to stay afloat and improve the bottom-line.

The absence of appropriate funding mechanism will continue to constrain the depth of leasing in the market place. The predominance of short -term funds which are even dwindling and expensive, cannot support more meaningful development of the industry thus, confining most leases to within 12-48 months to avoid mis-match. The limited sources and high cost of funds, have constrained the capacity of most lessors to finance more leases and engage in big ticket transaction, thereby limiting their scope to small and medium markets.

The Inauguration of the Equipment Leasing Registration Authority (ELRA*)* will be the game changer. The inauguration and commencement of operation of ELRA, is expected to take place this year with the renewed pursuit by ELAN, supported by other stakeholders. The ELRA, will provide the integral booster for the faster development of the leasing industry as it gives effects to the full implementation of the Equipment Leasing Act 2015. The ELRA, is saddled among other things, with the responsibility of determining eligibility of persons to practice leasing, register leases to mainly protect the proprietary rights of the lessor, and investigate the incidence of default. Indeed, these functions will bring sanity into the practice of leasing and certainty in understanding the legal nature of leasing as well as stimulating investment in the industry and increasing visibility and patronage.

Increasing number of new entrants in the market as the leasing industry continues to attract new investors, who want to benefit from the market opportunities. The number will increase considerably with the expected operation of ELRA. Already, foreign participants are waiting in the wings to cash in on opportunities of the Nigerian leasing market, while the number of active players estimated at 375 organisations (mainly ELAN members), will continue to grow. There is still wide gap in the market in terms of demand and supply of lease product. The level of competition in the industry, which is necessary to drive more volume and enhance value add in terms of better services and solution, is still low.

The increasing cost of asset will slow demand for new assets and business volume*,* while stimulating demand for fairly used assets especially vehicles. For instance, many lessors involved in provision of trucks for logistics, are opting for fairly used trucks as the cost of new ones are too expensive to be deployed and, in most cases, the customer is not willing to match it with corresponding rental increase. On the other hand, while the high cost might slow business volume for new assets, it will equally increase volume as other category of customers seeks alternative financing to outright purchase, which is becoming increasingly difficult. Some of these customers have even resorted to conversion of their vehicles to latest version to keep pace with their appetite for new brands.

More business opportunities abound but where will the business come from?

The Economy - Essentially, **the existing huge financing gap in the economy. With the onset of the Covid-19 pandemic, increasingly harsh economic conditions, unavailable and/or inadequate infrastructure and inflation, throw up several opportunities for lessors to benefit and impact the economy.** The opportunities cut across several facets of the economy both the traditional and emerging sectors including:

- **Oil and Gas,** where the enactment of the Petroleum Industry Act (PIA) is expected to overhaul and transform the Nigerian oil and gas industry to make it more attractive to investors, (though there are skepticisms whether it will be a game changer at a time where major oil producers are seeking to transit to clean energy). The "Decade of Gas" initiative is equally being implemented, aimed at bringing to focus the utilisation of the nation's huge gas resources. Already, ELAN members are being approached to fiancé conversion kits for vehicles. Also, the Dangote refinery is expected to commence operation this year. The further boost of activities in the sector, will equally expand leasing demand in the sector, where leasing culture is already entrenched.
- **Healthcare:** The Nigerian healthcare market is large and diverse with a potential of over $5bn USD. Its value chain comprises: Manufacturers, Health Service Providers, Medical Insurance, Retailers, Distributors, Health Financing Entities, and Medical Education Providers. A myriad of investment opportunities exists, especially in replacing outdated healthcare technology and addressing the deficiency in infrastructure.
- **Construction:** The industry is expected to post an average growth rate of 3.2% in real terms between 2022 - 2025. The demand for construction equipment and technology is huge as various projects are being undertaken across the nations. ELAN secretariat in recent times, has been receiving increased request in this direction.
- **Agriculture,** despite interventions from government, agriculture remains constrained by poor infrastructure. There are financing gaps across the value chain: Production, Processing, Packaging, Storage and Distribution.
- **Mining:** With mineral resources being discovered and exploited in various states and the active support of the Federal Government, this sector is an ever-growing one. Mining activities require the use of specialised and general equipment, which the mining firm, especially artisan miners may not have the capacity to acquire on their own.
- **Information and Communication Technology (ICT):** Developing Nigeria's Digital Economy has positively impacted the contribution of the ICT sector to National GDP. The sector has grown from less than 1% in 2001 to 17.92% of GDP in Q2 2021. The provision of telecom infrastructure and ancillary equipment provides a viable market for leasing.
- **Consumer/retail market** is where the most rapid transformations in the economy are taking place, everybody is generally involved - the consumer wants to participate, so also are SMEs, Banks, FINTECHs, HMOs, insurance, MFBs.

- **MSMEs Leasing -** although Nigeria's vibrant private sector has several large firms in all sectors. MSMEs, numbering more than 40 million, dominate Nigeria's enterprise landscape and Production in key sectors of the Nigerian economy is driven by them. However, the requirement for equipment is difficult to finance through conventional sources like bank-loans, particularly, due to the stringent formalities and collateral requirements.

Public sector - Government policy thrust and its developmental focus coupled with economic dictates based on current realities, further widens the role and scope for leasing. The expansive spending of government starting with this year's budget and the focus of the MTNDP 2022-2025 are, key areas of interest to watch. The pre-election spending for the 2023, is also significant to consider. For instance, huge investment is being made in infrastructure to address the gap, which the government alone cannot meet. Government intends strengthening the frameworks for concessions and public private partnerships (PPPs), to encourage private sector participation in capital projects. The Federal government's (and even some states like Lagos) intervention programs and investment in priority areas - infrastructure, power, food, security, works and housing, job creation, Information and Telecommunications (ICT) and the diversification efforts of the economy, with the persistent increase in the non-oil sector contribution to GDP, added together to underscore the scope of demand for capital asset.

While the opportunities are real, the leasing industry must position itself with the active support of other stakeholders to tap and exploit these opportunities to enhance its contribution to national economic growth. Government on its part should deepen its support for the industry, improving the regulatory and operating environment. This will involve: full implementation of Equipment Leasing Act 2015 to strengthen the capacity of the industry; facilitation of long-term financing including: access to intervention funds and establishment of a National Lease Fund, deepening the utilisation of leasing in public sector to achieve efficiency and cost savings, incentivizing lease investments in critical sectors such as agriculture, health and mining, through access to funds and tax rebates and more importantly, checking the spate of insecurity across the country as no meaningful economic activities can be achieved without adequate security.

The critical Success Factors

Generally, the macro-economic and industry situations, will continue to determine the level of performance of the leasing industry in 2022 and beyond. However, it is imperative for the leasing industry to sustain its resilience to sail through these testing times and this requires continued realignment of strategies and adoption of innovative approach. Specifically, driving success will require:

- **Broad and deeper funding structure** that would strengthen the capacity of lessors to expand their leasing activities and take advantage of emerging opportunities. “Money is the raw material for leasing” and the ability to attract adequate and cheaper funds will determine the extent of participation in the leasing industry. ELAN, has been advocating for lessors to gain access to potentially idle funds such as the National Pension Fund (NPF) and establishment of National Leasing Fund, in addition to engaging private financiers (local and international), to support the industry with necessary funds. While this is being done, non-bank/financial institution lessors especially, should adopt proactive approach in addressing the funding challenges, which include trade finance from their vendors and funding from their insurers. Also, lessors can collaborate for syndicate funding of lease equipment for large projects, such as the provision of transportation and logistics for the Oil and Gas sector, Mining etc. Collaboration also has the effect of mitigating risks.

- **Prioritising risk management and processes.** This will involves monitoring in-house vulnerabilities - assessing financial, operational risk and transaction risks. Lessors for instance .by bringing risk management to fore as part of the strategic planning process, they can routinely simulate how interrupting events as well as other variables could disrupt their businesses and use those insights to design their operations and resource distribution.

- **Enhancing internal capacity to improve processes and performance** through constant staff development, participating in capacity building programmes and ensuring adequate working infrastructure including right technology. Leveraging for instance on technology, can greatly improve processes in various areas of operation, including customers on-boarding, risk assessment and lease structuring as well as asset management functions and financials. Essentially, to reinvent processes, technology must be seen as a core factor in the business model.

- **Sound Corporate Governance,** has always been a major hall mark of any organisation that desires success. Embracing sound corporate governance, will enhance the profile, visibility and patronage of the organisation and endear it to potential investors.

- **Improved leasing infrastructure,** a favourable regulatory environment will create more visibility for the industry, support the promotion of the ideals of leasing, and more effective participation and contribution of the leasing industry. The ELRA, will be a major booster to leasing activities this year, when it comes into operation. ELAN, has been strengthening its advocacy - engaging with Government and other relevant stakeholders to achieve a healthier leasing environment.

- **Maintaining and improving portfolio quality while keeping the balance*:*** This requires understanding of the market dynamics, market intelligence, development of product and niche market, competitive pricing and adapting to market shifts, to grow portfolio within acceptable risk appetite.

- **Constructive engagement with market and relevant stakeholders** is necessary to secure support from customers, employees, suppliers, creditors, investors and regulatory authorities. It is particularly imperative, that lessors constantly engage with their customers, understand their challenges and reassuring them of having them in mind during whatever times. This will endear the customers to them and sustain the business relationship.

- **Controlled back-office costs.** Financial discipline and adopting cost saving mechanism to achieve a low back-office cost, will enhance profitability. This has been the main strategy in the industry over the past two years, cutting down on discretionary costs.

The overall summation, is that 2022, will be a better year for the Nigerian leasing industry and the economy at large compared to the last years. This is predicated mainly on the continued recovery and stability of the economy, though the challenges of the macro-economic and industry situations, remain obvious. ELAN as the umbrella body for the leasing industry, will continue to guide and create the platform that would facilitate the attainment of corporate objectives and the diverse interest of stakeholders.

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