ELAN

EQUIPMENT LEASING ASSOCIATION OF NIGERIA LTD/GTE

Creating Wealth & Growth Opportunities

2023 OUTLOOK

CONTINUED RECOVERY, AMIDST HEIGHTENED TURBULENCE

JANUARY 2023

GLOBAL ECONOMY

The global economy in recent times has been in dire strait following a series of interruptions in the macroeconomic environment. The story appears set to continue in 2023 with experts predicting even more precarious situation. The World Bank in its *Global Economic Prospect Report* slashed its global growth forecasts from projections it made in mid - 2022 on the back of what it sees as broadly worsening economic conditions. The Bank downgraded almost all of its forecasts for advanced economies in the world, cutting its growth outlook for the global economy to 1.7% for 2023 from its earlier projection of 3%. The downgraded estimates would mark "the third weakest pace of growth in nearly three decades, overshadowed only by the global recessions caused by the pandemic and the global financial crisis."

According to the World Bank, "Global growth has slowed to the extent that the global economy is perilously close to falling into recession," the ''1.3 percentage points below previous forecasts, reflect synchronous policy tightening aimed at containing very high inflation, worsening financial conditions and continued disruptions from the Russian Federation's invasion of Ukraine'. The world's three major engines of growth - the United States, the Euro area and China - are undergoing a period of pronounced weakness, with adverse spillovers for emerging market and developing economies (EMDEs), many of which are already struggling with weakening domestic conditions.

The combination of slow growth, tightening financial conditions, and heavy indebtedness is likely to weaken investment and trigger corporate defaults. Further negative shocks - such as higher inflation, even tighter policy, financial stress, deeper weakness in major economies, or rising geopolitical tensions - could push the global economy into recession, it added.

The International Monetary Fund (IMF) also sees conditions worsening significantly this year. It stated that it expects more than a third of the world's economy to contract, cutting its growth forecast to 2.7 percent from 2.9 percent - after falling from 6.0 percent in 2021 to 3.2 percent in 2022, as economic pressures collide, from the war in Ukraine, high energy and food prices as well as sharply higher interest rates. However, the IMF expressed some glimpse of hope based on the resilience of labor markets. "As long as people are employed, even if prices are high, people spend and that will continue to help performance". The slowdown in global growth is expected to "bottom out" and "turn around towards the end of '23 and into '24."

Against the background of predictions of another tough year in 2023, experts continue to proffer solutions to ameliorate the situations, involving proactiveness on the part of policy makers. The World Bank for instance stated that "in the near term, urgent global efforts are needed to mitigate the risks of global recession and debt distress in EMDEs. Given limited policy space, it is critical that national policy makers ensure that any fiscal support is focused on vulnerable groups, inflation expectations remain well anchored, and financial systems continue to be resilient. Policies are also needed to support a major increase in EMDE investment, which can help reverse the slowdown in long-term growth, exacerbated by the overlapping shocks of the pandemic, the invasion of Ukraine and the rapid tightening of global monetary policy. This will require new financing from the international community and from the repurposing of existing spending, such as inefficient agricultural and fuel subsidies".

TABLE 1.1 Real GDP[1]

(Percent change from previous year unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2022e	2023f	2024f
						Percentage point differences from June 2022 projections		
World	**-3.2**	**5.9**	**2.9**	**1.7**	**2.7**	**0.0**	**-1.3**	**-0.3**
Advanced economies	**-4.3**	**5.3**	**2.5**	**0.5**	**1.6**	**-0.1**	**-1.7**	**-0.3**
United States	-2.8	5.9	1.9	0.5	1.6	-0.6	-1.9	-0.4
Euro area	-6.1	5.3	3.3	0.0	1.6	0.8	-1.9	-0.3
Japan	-4.3	2.2	1.2	1.0	0.7	-0.5	-0.3	0.1
Emerging market and developing economies	**-1.5**	**6.7**	**3.4**	**3.4**	**4.1**	**0.0**	**-0.8**	**-0.3**
East Asia and Pacific	1.2	7.2	3.2	4.3	4.9	-1.2	-0.9	-0.2
China	2.2	8.1	2.7	4.3	5.0	-1.6	-0.9	-0.1
Indonesia	-2.1	3.7	5.2	4.8	4.9	0.1	-0.5	-0.4
Thailand	-6.2	1.5	3.4	3.6	3.7	0.5	-0.7	-0.2
Europe and Central Asia	-1.7	6.7	0.2	0.1	2.8	3.2	-1.4	-0.5
Russian Federation	-2.7	4.8	-3.5	-3.3	1.6	5.4	-1.3	-0.6
Türkiye	1.9	11.4	4.7	2.7	4.0	2.4	-0.5	0.0
Poland	-2.0	6.8	4.4	0.7	2.2	0.5	-2.9	-1.5
Latin America and the Caribbean	-6.2	6.8	3.6	1.3	2.4	1.1	-0.6	0.0
Brazil	-3.3	5.0	3.0	0.8	2.0	1.5	0.0	0.0
Mexico	-8.0	4.7	2.6	0.9	2.3	0.9	-1.0	0.3
Argentina	-9.9	10.4	5.2	2.0	2.0	0.7	-0.5	-0.5
Middle East and North Africa	-3.6	3.7	5.7	3.5	2.7	0.4	-0.1	-0.5
Saudi Arabia	-4.1	3.2	8.3	3.7	2.3	1.3	-0.1	-0.7
Iran, Islamic Rep. [2]	1.9	4.7	2.9	2.2	1.9	-0.8	-0.5	-0.4
Egypt, Arab Rep. [3]	3.6	3.3	6.6	4.5	4.8	0.5	-0.3	-0.2
South Asia	-4.5	7.9	6.1	5.5	5.8	-0.7	-0.3	-0.7
India [3]	-6.6	8.7	6.9	6.6	6.1	-0.6	-0.5	-0.4
Pakistan [3]	-0.9	5.7	6.0	2.0	3.2	1.7	-2.0	-1.0
Bangladesh [3]	3.4	6.9	7.2	5.2	6.2	0.8	-1.5	-0.7
Sub-Saharan Africa	-2.0	4.3	3.4	3.6	3.9	-0.3	-0.2	-0.1
Nigeria	-1.8	3.6	3.1	2.9	2.9	-0.3	-0.3	-0.3
South Africa	-6.3	4.9	1.9	1.4	1.8	-0.2	-0.1	0.0
Angola	-5.8	0.8	3.1	2.8	2.9	0.0	-0.5	-0.3
Memorandum items:								
Real GDP[1]								
High-income countries	-4.3	5.3	2.7	0.6	1.6	0.0	-1.6	-0.4
Middle-income countries	-1.2	6.9	3.2	3.4	4.3	-0.1	-0.8	-0.2
Low-income countries	1.6	3.9	4.0	5.1	5.6	0.0	-0.1	0.0
EMDEs excl. China	-3.9	5.7	3.8	2.7	3.6	1.1	-0.7	-0.4
Commodity-exporting EMDEs	-3.7	4.9	2.8	1.9	2.8	1.6	-0.7	-0.4
Commodity-importing EMDEs	-0.4	7.6	3.6	4.1	4.8	-0.8	-0.8	-0.2
Commodity-importing EMDEs excl. China	-4.2	6.8	5.0	3.8	4.5	0.4	-0.7	-0.4
EM7	-0.4	7.4	3.0	3.5	4.5	-0.3	-0.8	-0.2
World (PPP weights) [4]	-2.8	6.1	3.1	2.2	3.2	0.0	-1.2	-0.3
World trade volume [5]	**-8.2**	**10.6**	**4.0**	**1.6**	**3.4**	**0.0**	**-2.7**	**-0.4**
Commodity prices [6]						Level differences from June 2022 projections		
Energy price index	52.7	95.4	151.7	130.5	118.3	7.1	4.4	7.2
Oil price (US$ per barrel)	42.3	70.4	100.0	88.0	80.0	0.0	-4.0	0.0
Non-energy commodity price index	84.4	112.0	123.7	113.7	113.0	-8.4	-7.6	-4.6

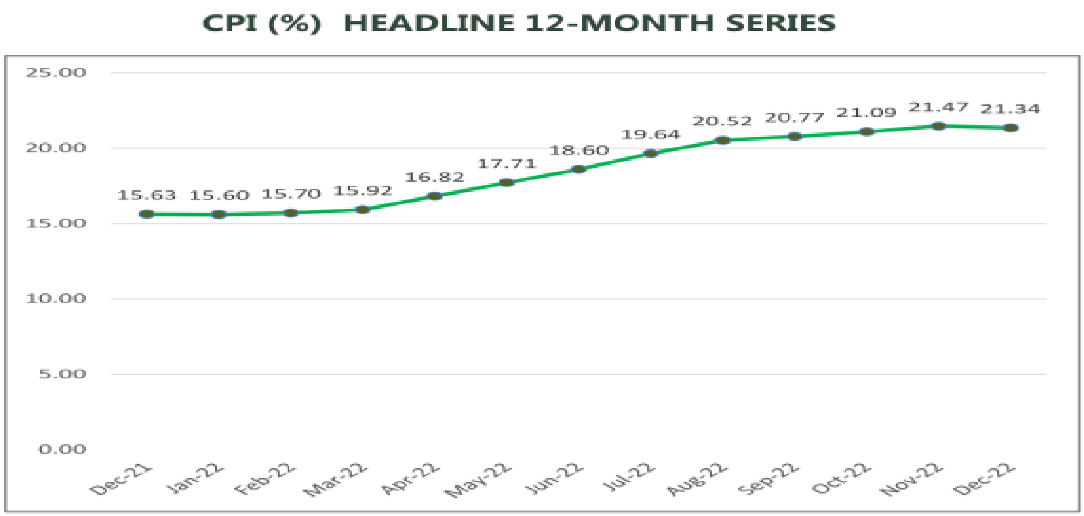
Source: World Bank

THE NIGERIAN ECONOMY

The turbulence in the Nigerian economy is expected to continue in 2023, as major indicators are showing adverse projections against the background of global slowdown and increasing domestic macro-economic vulnerability. The World Bank for instance, has lowered its economic growth forecast for Nigeria in 2023 to 2.9 per cent from 3.3 per cent, citing slowdown in global growth, the war in Ukraine and including declining demand from China for commodities produced in Africa. Equally, the IMF projected that Nigeria's economic growth will slow to 3.0 per cent based on same reasons given by the World Bank.

The Nigerian economy is being bartered at all fronts. For instance, according to the National Bureau of Statistics (NBS), Nigeria's inflation on YoY basis closed at 21.34 percent in December 2022 as against 15.63 percent December 2021 representing a 5.71 percent increase. This increase is attributed to rising cost of importation due to the persistent currency depreciation and general increase in the cost of production. Food inflation, a closely watched index, rose to 23.75 percent on YoY basis which was 6.38 percent higher compared to 17.37 recorded in 2021. The rise in food inflation was caused by increases in prices of bread and cereals, oil and fat, potatoes, yam and other tubers, food products, fish.

Figure 1: Consumer Price Index (CPI) Headline 12-month series



Source: National Bureau of Statistics (NBS)

Fiscal deficit continues to widen on the back of a higher revenue shortfall of the government. The Federal Government of Nigeria (FGN's) 2023 aggregate revenue of N7.84 trillion is 25.3 percent below its estimated revenue of N10.49 trillion. Similarly, the FGN's oil revenue estimate of N1.25 trillion is 43.9 percent lower than the government's assumption of N2.23 trillion but 95.4 percent y/y higher than 2022E (N640.05 billion). It does mean that the Government will rely heavily on debt financing which has already reached N44.06 trillion and with the "Ways and Means" to N77trillion according to the Debt Management Office (DMO). The Government has spent $9.6 billion to service foreign debts in 12 years, from 2010 to 2021 even as the World Bank expects debt servicing to gulp 123.4 percent of FGN's revenue in 2023.

Table 2: Nigeria's total public debt portfolio as at 30th September 2022

	Debt Category	Amount Outstanding (US$'M)	Amount Outstanding (N'M)	% of Total
A.	**Total External Debt**	**39,661.72**	**17,148,537.88**	**38.87%**
B.	**Total Domestic Debt**	**62,251.71**	**26,915,772.91**	**61.08%**
	FGN Only	49,846.02	21,551,924.51	**48.91%**
	States & FCT	12,405.69	5,363,848.40	**12.17%**
C.	**Total Public Debt(A+B)**	**101,913.43**	**44,064,310.79**	**100%**

Source: Debt Management Office (DMO)

Also, foreign reserve has been on the down swing falling by $3.42 billion to $37.1 billion by December 2022, compared to $40.52 in December 2021. This basically is due to constant drawdown to defend the Naira which fell 5.7 percent at the official Import and Export widow and 23.1 percent at the parallel market. The volatile exchange rate and shortage of forex have devastating impact, fueling the inflationary pressure and hindering the productive capacity of the economy.

It is imperative for Government to make efforts at restoring macroeconomic stability through measures to reduce the domestic and external imbalances. This will require a coordinated mix of exchange rate, trade, monetary, and fiscal policies, notably including adopting a single, market-responsive exchange rate, eliminating the petrol subsidy, and increasing oil and non-oil revenues; boosting private sector development and competitiveness by eliminating structural constraints that hinder productivity; and expanding social protection to protect the poor and vulnerable.

One critical step the government intends to take, which has generated applause from economic watchers is the deregulation in the downstream oil and gas sector, which can improve overall fiscal condition. The withdrawal of subsidy will unlock funds that can be channeled to areas of most needs like healthcare and education, that have significant economic impact. Also, The Strategic Revenue Growth Initiative (SRGI), as part of efforts to strengthen Nigeria's macro-fiscal framework, is a welcome first step to reversing the previously declining trend in non-oil revenues as a share of GDP. This initial success needs to be sustained and built upon.

Also, the Central Bank of Nigeria (CBN) has lately been introducing various monetary policies aimed at crediting macroeconomic stability. Notably among, is the redesigning of the higher denomination Naira notes (200, 500, 1000) which was rolled out in December 2022. According to the CBN, the measure will enable the Bank to take control of the currency in circulation as the bulk of the nation's currency notes were outside the bank vaults. The CBN gave January 31st, 2023, as the deadline for changing the old notes to the new ones. Also, the apex bank reduced the maximum withdrawal limit of cash from over the counter to N500,000.00 and N5,000,000.00 weekly for individuals and organisation - a bid to reduce the money supply and encourage cashless forms of financial transactions in pursuit of its cashless policy.

Similarly, the CBN in consideration of the various economic headwinds, raised the Monetary Policy Rate (MPR) to 16.5 per cent; retained the asymmetric corridor of +100/-700 basis points around the MPR; retained the CRR at 32.5 percent; and the Liquidity Ratio at 30 per cent, mainly to curb inflation and maintain financial stability.

No doubt, the Nigerian economy remains clouded by uncertainties in 2023, given the seemly head winds. While Government continues to undertake measures in response to the challenges, it is almost certain that, the eventual outcome in 2023 asides global disruptions, will be determined by the extent at which the country is able to achieve a smooth transition of Government at the forth coming general elections and put an end to the perennial insecurity that has been ravaging the country.

THE LEASING INDUSTRY

The leasing industry continues to maintain a significant role in enhancing capital formation in the global economy. According to the World Leasing Yearbook 2023, the industry achieved 84% growth in the past decade, driven mainly by the developmental attribute of leasing as the creative financing alternative that meets the diverse needs of the equipment user. Also, the Business Research Company (TBRC), a London-based business intelligence firm, stated that the industry grew from $1.35 trillion in 2021 to $1.53 trillion in 2022 at a compound annual growth rate (CAGR) of 12.9%. This is mainly due to companies rearranging their operations and recovering from the impact of Covid-19, which earlier led to restrictive containment measures and the closure of commercial activities that resulted in operational challenges. The industry is projected to reach $2.4 trillion in 2026 at a CAGR of 12%. The automotive equipment leasing market is expected to be the fastest-growing segment, growing at a CAGR of 14.7% during the 2021-2026 period.

The global leasing industry is highly fragmented, with a large number of regional players operating in the industry. The top ten players in the market made up 7.99% of the total market in 2021. The major players include German-based Volkswagen leasing GmbH, US-based Enterprise Holdings Inc, Daimler, and US-based United Rentals Inc. Three regions, North America, Europe, and Asia, account for more than 96.5% of world volume with the United States of America as the largest single leasing global market followed by China in the second position. The United Kingdom and Germany are positioned as the third and fourth - largest leasing markets in the world and remain the dominant players in Europe.

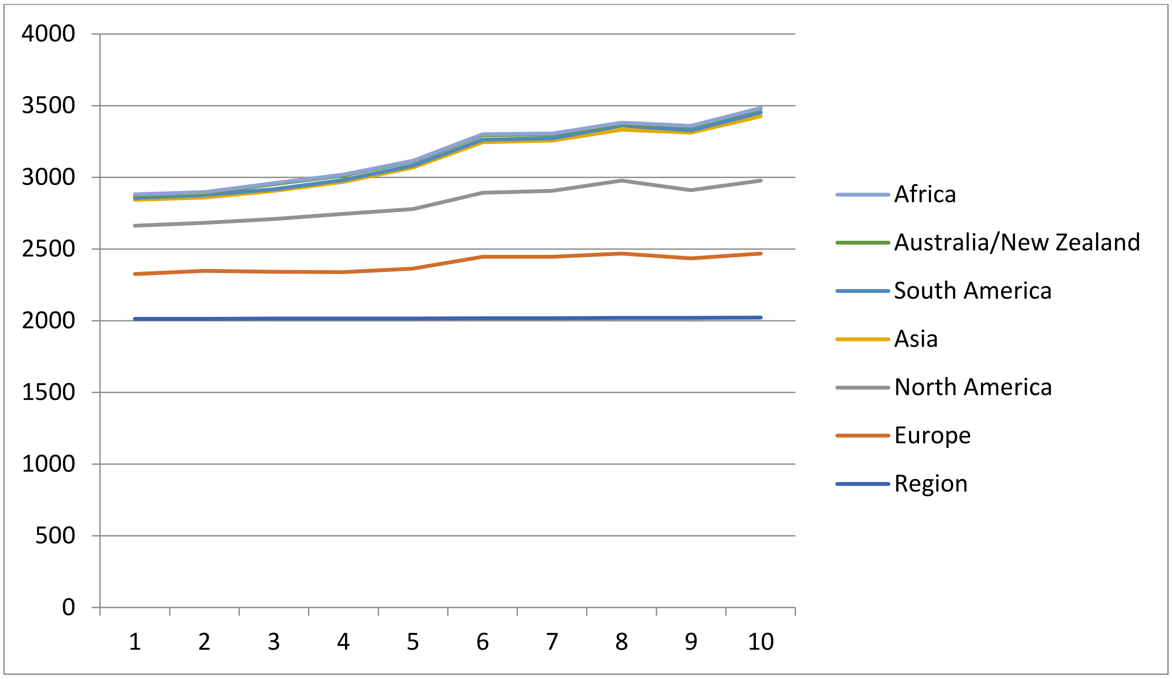
The equipment leasing industry will continue to support the development of the global economy providing finance solutions and connecting different players, while trying to transform itself in response to the accelerated pace of a changing world. The emerging trends including, the acceleration of digitisation occasioned by the Covid -19 pandemic across various segment of the economy, the continuation of fully remote or hybrid work practices and new regulatory environment especially, on climate change, will spur investment on asset finance and this gives opportunities for leasing.

Essentially, the increasing demand for asset finance across various sectors clearly gives ground for optimism in the global leasing industry in 2023 and beyond despite the headwinds being encountered by the global economy.

Table 3: Trend in Leasing Volume by Region (2012 - 2021)

Region	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Europe	314	333.6	327.8	322.8	346.3	428.3	427	448	414.4	446.5
North America	336.4	335.1	368.4	407.8	416.8	445.9	460.1	509.8	475.4	510.4
Asia	180.2	177.3	195	223	289.9	354.4	350.7	355.9	402.1	448
South America	13.2	18	10.7	13.8	12.9	17	14.6	27.3	15.3	26.7
Australia/New Zealand	16.1	12.5	35.6	31.2	28.4	31.5	28.5	13.9	26.4	26.7
Africa	8.2	7.5	6.8	6.7	5.4	5.7	6.2	7.5	4.5	4.9
Total	**868**	**884**	**944.3**	**1,005.30**	**1,099.70**	**1,282.80**	**1,287.10**	**1,362.40**	**1338.2**	**1463.2**

Figure 2: Trend in Leasing Volume by Region (2012 - 2021)



Source: World Leasing Yearbook 2023

The Nigerian Leasing Industry

The Nigerian leasing industry remains resilient, adapting and adjusting in the face of economic turbulence and making significant contribution to capital formation in the economy. The lingering impact of Covid -19 notwithstanding, the leasing industry continues to stay afloat, maintaining its growth trajectory. From a marginal growth of 4.5% recorded at the height of the pandemic in 2020, the industry returned to double digit growth of 28.65% in 2021 and sustained this momentum into 2022 with N2.629trillion as at Q1 ’22 and will remain at double digit growth as figures are being concluded for the year. The industry presently ranks 41st among the top 50 leasing markets globally according to the world Leasing Year Book (2023) ranking.

Available statistics show that outstanding lease volume as at Q1 2022 stood at N2.629trillion as against N2.587trillion in Q4 2021. The oil and gas sector grew by 22% with N748bn of the outstanding leases; followed by Transportation & Logistics sector which grew by 21% recording N622bn; Manufacturing 12% - N380bn; Telecoms taking 11% of the total volume arriving at N237bn. Others (including Healthcare and Education accounted for N300bn (14%), with Agriculture and Government recording considerable growth.

The growth can be well attributed to the business momentum that slightly picked up after the pandemic despite the continued adverse impact of the pandemic on socio-economic fundamentals. Obviously, the growth was driven mainly by the resumption of economic activities, stable environment and demand, as businesses tried to do a catch up.

Overall, the Nigerian Leasing Industry has consecutively and consistently recorded growth in business transactions in the past decade generating lease volume of over N14.3 trillion.

Figure 3: Distribution of Lease Volume by Sector (Q1 2022)

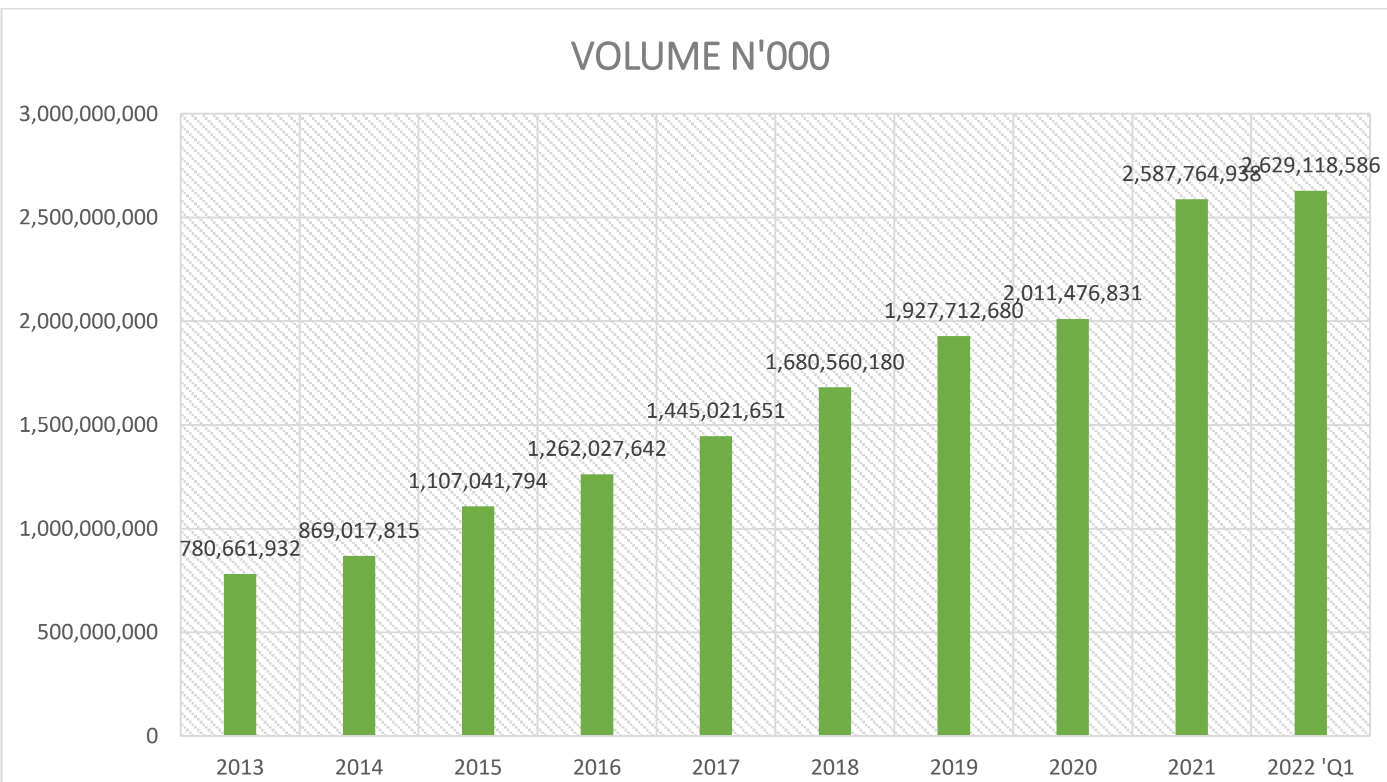


Figure 4: Distribution of Lease Volume by Sector (Q1' 2022)

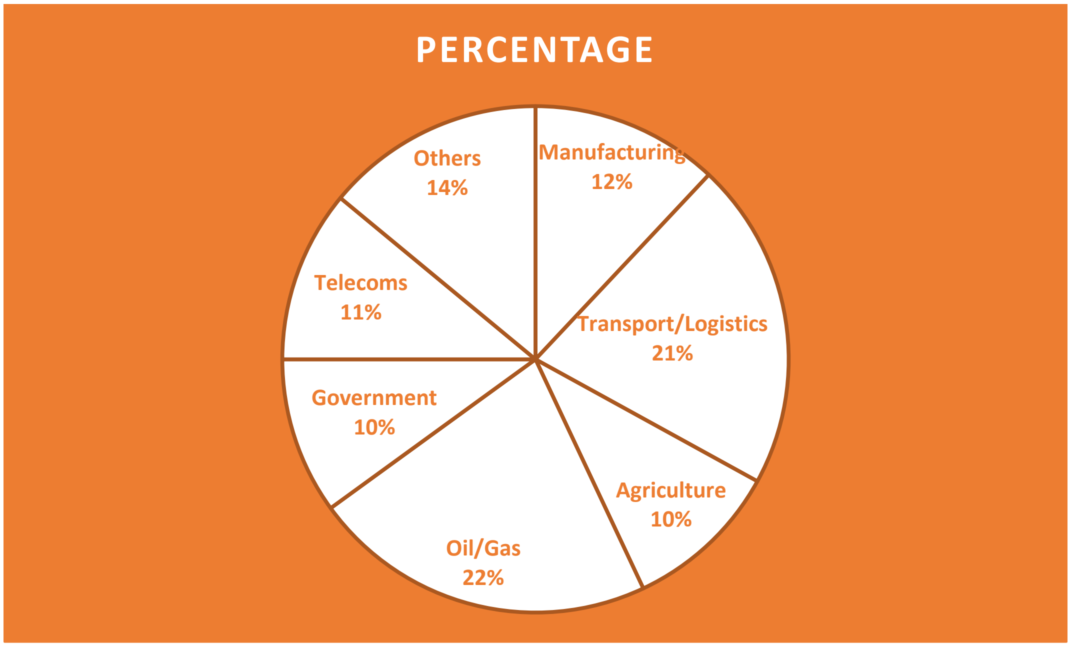
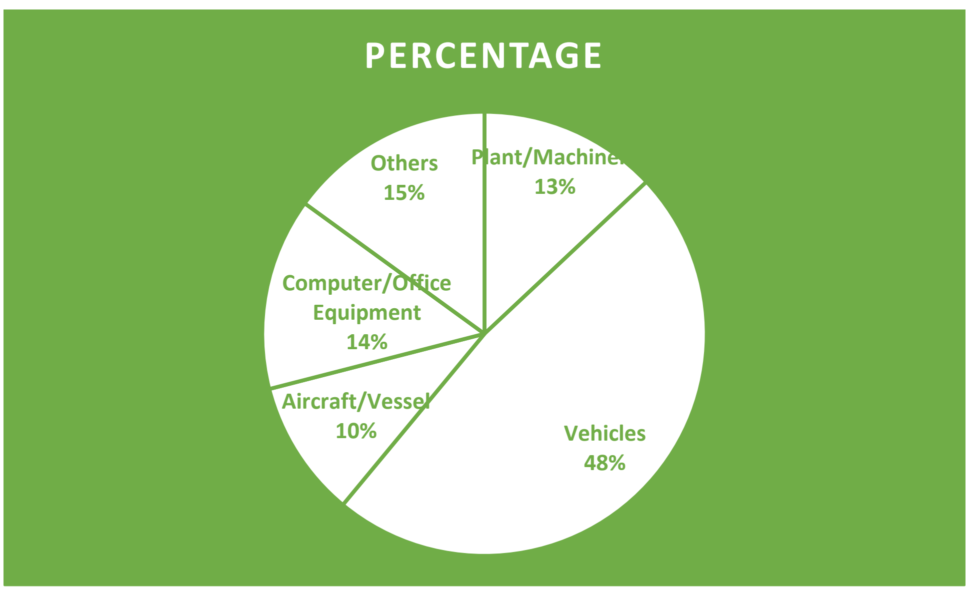


Figure 5: Analysis by types of Asset (Q1' 2022)



Source: ELAN Research

Essentially, the leasing terrain in 2022, was largely impacted by the spill over of the manifestation of conditions in the past two years and prevailing industry - specific factors.

Increased cost of assets and operations resulting from adverse macro-economic conditions. The depreciation of the Naira in the Foreign Exchange market and the scarcity of the US dollar caused prices of goods and services to rise. This situation has been aggravated by the Russian and Ukraine war that has caused significant disruption in the global economy. 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 continued to limit the acquisition of assets through outright purchase by consumers and this equally presented more opportunities for leasing as alternative means of acquisition.

The absence of appropriate funding mechanism, continued to constrain the depth of lease penetration in the market. 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 mismatch. 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.

Improvement in new business origination, **though constrained by operating environment**. The resumption of full economic activities and subsequent demand for asset financing, manifested itself in increased portfolio of leasing companies, though economic conditions hindered the capacity to fully expand lease offering.

Finance Lease maintained its lead position with 60% of the total transaction with operating lease increasing its market share in recent times, due to market dictates arising from preference of corporate bodies to focus more on their core activities, while outsourcing other operational functions such as transportation and other logistics services. Operating lease is equally increasingly becoming a risk mitigant and niche market for several lessors in the industry.

This has witnessed some major lessors, shifting completely to operating lease to balance their risk appetite and meet the outsourcing needs of clients. 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.

Vehicle leasing remained dominant as the largest leased asset segment constituting about 55% of the leased assets. Vehicle leasing, including staff shuttle, commercial buses, trucks for haulage, and operational vehicles, have been a major attraction in the recent times.

Increasing penetration of vendor leasing, especially from vehicle vendors. Several multinational vehicles manufactures and major distributors, continue to expand their product offering through leasing, setting up vendor leasing schemes or leasing companies. The financing of leases of their products are done either directly or most often with banks under various asset acquisition schemes while some have set up leasing companies that provide operating leases of their product range to selected corporate clients.

Maintenance of business and operational approach adopted in response to "the new normal". Many lessors still maintained some aspects of the measures adopted during the covid 19 pandemic such as working from home 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. Lessors have continued to leverage on technology to improve their processes in response to prevailing conditions.

No significant development in the regulatory environment. The lack of full implementation of the Equipment leasing Act 2015, continued to be a challenge to the industry. Specifically, the inauguration of the Equipment Leasing Registration Authority which is key to giving effect to the purport and intent of the Act, is yet to be done**,** despite persistent engagement since 2015, with the Ministry of Finance, Budget, and National Planning. The Act was enacted as part of the Government's support initiatives to stimulate the development and growth of the leasing industry, bringing sanity into the practice of leasing, certainty in terms of understanding the legal nature of leasing and promoting investment as well as increasing visibility and patronage.

Also, the impact of the International Financial Reporting Standard (IFRS 16), on Leases is yet to fully manifest since it came into operation on the 1st of 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, this has appeared not to be the case as customers are looking at other benefits of operating leasing beyond off balance sheet financing, while some leases are structured to achieve a partial off-balance sheet benefit, and as service contracts to overcome the hurdle.

THE LEASING LANDSCAPE IN 2023 - CONTINUED RECOVERY AMIDST HIGHTENED TURBULENCE

In 2023, the leasing industry is expected to remain resilient in its recovery and sustain its growth trajectory, in the face of economic challenges. However, the extent of disruption in the macro environment, especially the outcome of the general elections, will invariably shape the performance of the leasing industry. Essentially, many of the industry-specific conditions in 2022, are expected to remain largely unchanged.

The Nigerian Leasing Landscape in 2023

- *Expected growth in new business volume*
- *Continued adoption of strategic objective and approach*
- *Continued absence of appropriate funding mechanism*
- *Full implementation of the Equipment Leasing Act 2015.*
- *Expansion of new entrants into the market*
- *The rising cost will continue to impact volume and service delivery*
- *Increasing business opportunities*

Expected growth in new business volume due to growing appetite for asset finance by consumers in the face of tight cash squeeze and rising cost of assets.

Continued adoption of strategic objective and approach by lessors to withstand shocks brought about by the pandemic and prevailing economic conditions**,** 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 the challenges to stay afloat and improve the bottom-line.

Continued absence of appropriate funding mechanism, will remain an albatross for the leasing industry. Money is the raw material for leasing, its adequacy, availability and cost, is key to the success of the industry. This issue is becoming more challenging, with the prevailing economic conditions that have further tightened liquidity in the system. ELAN, continues to engage financiers locally and internationally for an appropriate funding mechanism for the industry

Full implementation of the Equipment Leasing Act 2015, especially the Inauguration of the Equipment Leasing Registration Authority (ELRA*),* will be a game changer. The inauguration and commencement of operation of ELRA, is expected to take place this year with the sustained 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.

Expansion 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.

The rising cost will continue to impact volume and service delivery. The rising cost of assets and dwindling funding, means reduced number of assets being financed. Also, it will continue to slow demand for new assets**,** while stimulating demand for used assets especially vehicles. Many lessors involved in provision of trucks for logistics, are opting for 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. Equally, the cost of maintaining service delivery especially in operating lease, is taking a huge toll on lessors. Cost profile, including energy, repairs and maintenance and other ancillary services have been very challenging.

Increasing business opportunities. No doubt, the wide financing gap in various sectors of the economy presents immense opportunities for leasing but the issue remains that of capacity of lessors to tap these opportunities. Essentially, the opportunities cut across several facets of the economy including:

- ***Oil and Gas*** **-** the backbone of the Nigerian economy, which has continued to account for the bulk of leasing volume as the sector has a deep penchant for leasing. The sector is expected to witness more robust activities with the enactment of the Petroleum Industry Act (PIA), intended to bring far reaching reforms and make the sector more attractive to investors. The "Decade of Gas" initiative is equally being implemented, aimed at bringing to focus the utilisation of the nation's huge gas resources. The further boost of activities in the sector, will equally expand leasing demand in the sector, where leasing culture is already entrenched. Lessors should continue to expand their activities by identifying new market niche across the value chain of the sector.

- ***Healthcare*****:** The recent covid 19 pandemic has re-echoed the importance of efficient health care delivery. Modern health care delivery is driven by technology through provision of hi-tech equipment and infrastructure. The Nigerian healthcare market is large and diverse with a potential of over $5bn USD. There are immense opportunities especially in replacing outdated healthcare technology and addressing the deficiency in infrastructure. Health leasing product can be developed to meet the diverse needs of the participants in the sector ranging from manufacturers, health service providers, insurance, to health education institutions etc.

- ***Construction*****:** This is one area, where Nigerian lessors are yet to be fully involved, despite the opportunities that abound. 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 there are not readily available to users because of the huge cost of acquisition. ELAN secretariat in recent times, has been getting almost on a daily basis, request for various types of construction equipment from contractors for the execution of projects in different parts of the country.

- ***Agriculture***. There are wide financing gaps across the value chain: Production, Processing, Packaging, Storage and Distribution. The Government, Development Partners and Financiers, are encouraging the sector through various support mechanisms. Lessors can key into these initiatives, partnering with these stakeholders to provide equipment to the sector.

- ***Mining*****:** The potential of the sector is huge. 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. Lessors can avail themselves of the huge opportunity to meet the diverse equipment needs such as sand mining equipment, which have great demand.

- ***Information and Communication Technology (ICT)*** **-** this emerging sector is one of the most impactful in our daily and national lives, growing from less than 1% in 2001 to 20.32% of GDP in Q3 2022. Nigeria's quest for digital economy has positively impacted the contribution of the ICT sector to National GDP and will continue to boost activities in the sector. The provision of telecom infrastructure and ancillary equipment provides a viable market for leasing.

- ***Consumer leasing*** - the most rapid transformations in the economy are taking place in the Consumer/retail market, everybody is generally involved - the consumer wants to participate, so also are SMEs, Banks, FINTECHs, HMOs, insurance, MFBs. For the leasing industry, this has been a ready market where lessors can deepen their participation, providing, for instance, household items to qualifying individuals to improve their comfort and quality of life.

- ***MSMEs Leasing* -** Micro, Small and Medium Scale Enterprises (MSMEs), are the backbone of the economy but are constrained by several challenges one of which is access to finance. Leasing has been established globally as the last resort, providing creative financing alternative for MSMEs. The over 40 million MSMEs in Nigeria, cutting across various sectors, provide an ample market for lessors.

- ***Public Sector Leasin*g -** government being the biggest spender presents opportunity, despite the bottle neck of doing business with government. Though activities are expected to slow being transition year of Government, at least for better part of the year, lessors should watch out for key policy thrust and developmental focus of government at all levels, to further expand their leasing activities. This year's budgets and the focus of the Medium, Term National Development Plan (MTNDP 2022-2025), are key areas of interest to watch. The various intervention initiatives 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, sum up the scope of demand for capital asset. The options for participation are wide and it is up to the lessor to identify which is best suited, based on its risk appetite and capacity.

Obviously, opportunities abound for leasing. However, these can only come into full fruition with the proactiveness of lessors and goodwill from other stakeholders for a more sustainable leasing industry. Specifically , the Government for instance can activate its support mechanism through: the 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; incentivising lease investments in critical sectors such as agriculture, health and mining, through access to funds and tax rebates etc.

For the leasing industry, it is important to remain on its guard and be proactive. This will require continued realignment of strategies and adoption of innovative approach to drive success which will involve:

- **Broad and deeper funding structure**, that would strengthen the capacity of lessors to expand their leasing activities and take advantage of emerging opportunities. 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 involve monitoring in-house vulnerabilities - assessing financial, operational risk and transaction risks. For example, Lessors can bring risk management to fore as part of the strategic planning process. Constantly simulating 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.

- **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 be part of the solution process. 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.

Overall, in 2023, the leasing industry will still maintain its growth trajectory, though in a more difficult terrain compared to previous years as the economy continues to head south. 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.