

LEASING FOCUS

ELAN

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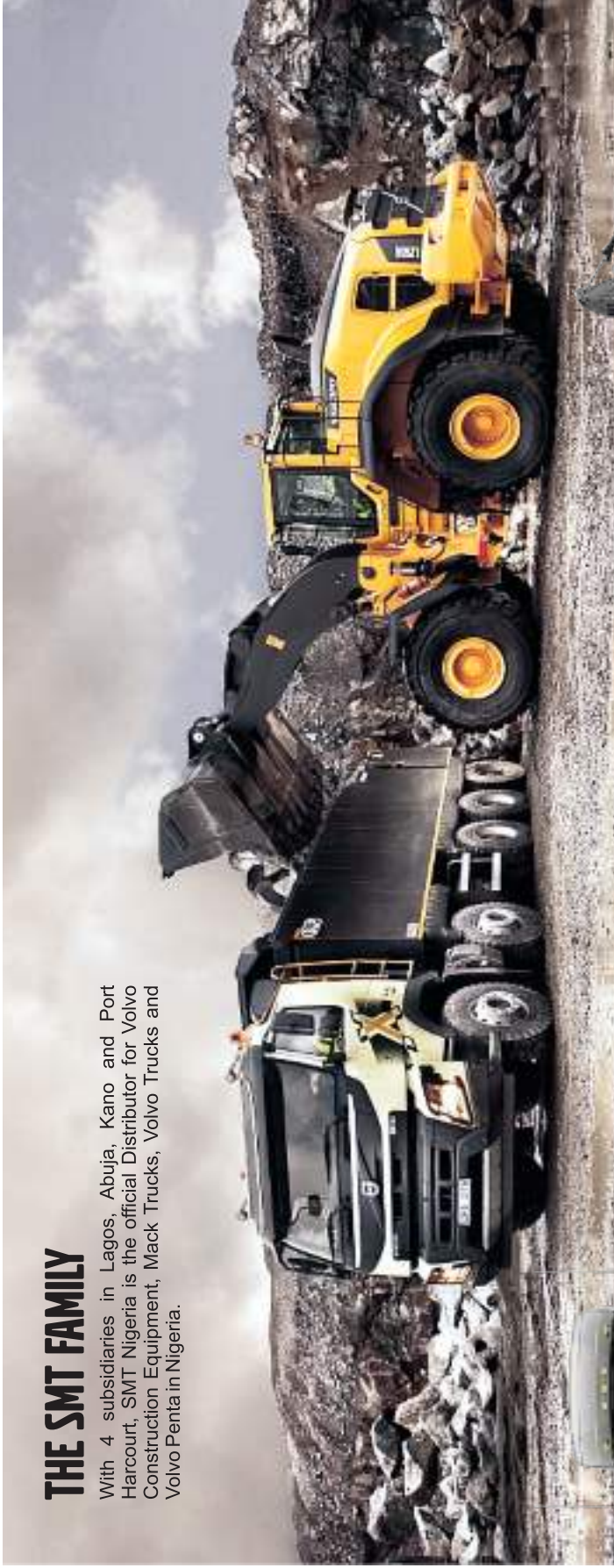


**PROMOTING ECONOMIC RECOVERY
AND GROWTH IN NIGERIA:
THE LEASING INITIATIVE**



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From the Editor's desk

Welcome to the first edition of the "Leasing Focus Journal" in 2024, Our focus for this edition is on the economy and the role of leasing to stimulate development aimed at revamping the Nigerian economy, which continues to be battered at all fronts - the scars of past and current economic turbulence are obvious, what is important at this stage is creative solutions to take the economy out of the woods, harnessing the instruments that can propel recovery, fostering a leap towards a more robust and inclusive economic activity, wealth creation, and entrepreneurial empowerment. Essentially, this beckons on exploring avenues beyond the conventional, to seek solutions that unlock untapped potential and empower diverse stakeholders. Leasing is one of such instrument that can be utilised in this regard.

As a financing alternative, Leasing is unique as it facilitates easy and convenient access to desired equipment needed for productive purposes, contributing to capital formation in the economy. Leasing reaches out and meets the diverse equipment needs of various categories of customers, be it large corporate organisations or small venture owners, providing them with affordable and quality services tailored to their needs. The overall essence of leasing is to enhance the planning, improvement, and development of any economy by building and supporting productive ventures.

No doubt, equipment leasing is very significant in facilitating economic recovery and growth of the Nigerian economy. For instance, it can play a major role in the actualisation of the "Renewed Hope" agenda of the Federal Government, and various developmental initiatives aimed at bringing succour to the people. Our Lead captioned, "Promoting Economic Recovery and Growth in Nigeria: The Leasing Initiative", takes the conversation further.

Also, the journal is spiced with other beneficial features, which are collectively packaged to represent important sources of leasing information and documentation.

We appreciate our partners for supporting us in the publication of the Leasing Focus and invite you to take advantage of the wide readership base of the journal to reach your target markets, through advert placement and supplements.

Thank You!



YEMI ENIOLAWUN

Nigeria ranked 42nd as the Global Leasing Industry continued to maintain impressive growth

With an outstanding lease volume of N3.1 trillion in 2022 and a growth rate of 23.2 percent, the Nigerian leasing industry was ranked 42nd in the global leasing industry among the top 50 leasing markets, according to the Solifi Global Leasing Report and published in World Leasing Yearbook 2024. This is an improvement on the 50th position the industry occupied in the 2021 report. The growth was driven basically by sustained stability in the economy, following a rebound out of the ravaging COVID-19 pandemic, increasing innovations and strong resilience by industry players, and increasing levels of awareness of the benefits of leasing among the investing public.

The global leasing industry continued to maintain impressive growth in new business volumes. According to recent statistics published in the World Leasing Year Book 2024, the global leasing industry reported a rise of 0.5% in new business volumes in 2022 and the outlook for the industry is optimistic. The top 50 countries recorded new business volume of US\$1,470bn in 2022 which is up from US\$1,463bn in 2021. The report shows that the global leasing industry has grown 70% in the past decade.

Table 1: Volume and growth by region (2021-22)

Rank by volume	Region	Annual volume (US\$bn)	Growth 2021-22 (%)	Percentage of world market volume 2021	Percentage of world market volume 2022	change in market share 2021-22
1	N. America	546.06	7.0	34.88	37.15	2.3
2	Europe	441.73	-1.1	30.52	30.05	-0.5
3	Asia	425.44	-5.0	30.62	28.94	-1.7
4	Aus/NZ	26.50	-0.8	1.83	1.80	0.0
5	S. America	25.33	-5.0	1.82	1.72	-0.1
6	Africa	4.94	0.2	0.34	0.34	0.0
Total		1,470.00				
Source: Solifi Global Leasing Report						

Three regions, North America, Europe and Asia, account for 96% of world leasing volume. North America experienced an increase in new business of 7%, Europe was down 1.1%. Business in Asia was down 5% making it the third largest region after North America. Elsewhere, South America was down 5%. Australia/New

Zealand was down 0.8%, and Africa was unchanged.

North America. The North American region consists of the US, Canada, and Mexico. The sector maintains its position as the world's biggest leasing market, with new business

volume of US\$546.1bn, representing 37% of the total global market share in equipment leased.

Europe. Europe reported a decrease in new business of 1.1% in 2022 when expressed in US dollars bringing total new business to US\$441.7bn. Europe accounts for 31% of total world volume, as the second largest region in the world. Most of the national European leasing markets enjoyed positive growth. The leading five European countries (UK, Germany, France, Italy, and Sweden) feature in the world's top 10 countries for new business, contributing 67% of the total European volume. 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. They accounted for 40% of the European market and 12% of the world market in 2022.

Asia. The performance of the Asian leasing market was stable in 2022 and new business volume in Asia decreased by 5% to US\$425bn when expressed in US dollars. Asia has a 28.94% share of the world market. China remains the 2nd largest leasing market in the world by a considerable margin. New business

stood at US\$318.42bn in 2022 with growth of 1.4% over 2021, which reflects the overall slowing of the Chinese economy and changes to the regulation of the leasing markets. Japan, which is the 5th largest leasing market in the world, experienced an increase in lease transaction volume in 2022 of 11.9% with new business volume of US\$63.8bn. It remains the second-largest market in Asia after China.

Rest of the world. Australia ranks in ninth place in the Top 50, with new business volume of US\$26.5bn in 2022. We have no reliable data for New Zealand. Australia and New Zealand represent a 2% share of global leasing volume.

Africa accounts for only 0.3% of the world market in leasing, with three African countries ranking within the top 50: South Africa, Morocco, and Nigeria. The region accounted for US\$4.9bn new business in 2022.

Table 2: Global Leasing Report 2023

Ranking	Continent Code	Country	Annual volume (US\$bn)	% Growth 2020-21	% Market penetration	Source
1	NA	United State	502.77	6.30	22.0	(8)
2	A	China	318.42	1.38	9.6	(9)
3	E	United Kingdom	96.89	9.47	40.0	(2)
4	E	Germany	78.96	1.64	25.0	(2)
5	A	Japan	63.76	11.96	4.2	(1)
6	E	France	62.43	4.82	33.0	(2)
7	E	Italy	35.64	9.72	20.0	(2)
8	NA	Canada	30.68	7.20	39.0	(1)
9	ANT	Australia	26.50	6.28	n/a	(1)
10	E	Sweden	23.94	-0.50	41.0	(2)

11	A	Taiwan	23.66	13.64	11.0	(1)
12	E	Poland	20.12	0.62	44.0	(2)
13	E	Russia	16.00	n/a	n/a	(8)
14	E	Switzerland	14.80	11.76	20.0	(2)
15	A	Korea	14.68	9.08	9.0	(1)
16	NA	Mexico	12.61	86.00	n/a	(4)
17	E	Denmark	12.42	13.31	34.0	(2)
18	E	Spain	12.15	8.24	19.0	(2)
19	E	Austria	9.57	6.08	17.0	(2)
20	SA	Colombia	9.29	5.00	n/a	(4)
21	E	Belgium	9.00	13.89	29.0	(2)
22	E	Norway	8.36	4.53	28.0	(2)
23	E	Netherlands	7.81	0.29	29.0	(2)
24	SA	Brazil	7.36	24.00	n/a	(4)
25	E	Czech Republic	5.32	13.38	15.0	(2)
26	SA	Chile	4.19	-15.00	n/a	(4)
27	E	Finland	4.00	0.00	n/a	(9)
28	E	Turkey	3.62	36.90	n/a	(2)
29	E	Slovakia	3.46	20.18	30.0	(2)
30	E	Portugal	3.38	-1.50	17.0	(2)
31	A	India	3.38	41.73	1.2	(9)
32	E	Hungary	2.60	8.07	11.0	(2)
33	SA	Puerto Rico	2.32	-48.00	n/a	(4)
34	E	Lithuania	2.28	-2.70	35.0	(2)
35	E	Slovenia	2.13	13.59	14.0	(2)
36	AF	South Africa	1.85	-5.40	n/a	(8)
37	E	Bulgaria	1.75	28.14	24.0	(2)
38	AF	Morocco	1.75	8.64	n/a	(2)
39	SA	Peru	1.70	-4.00	n/a	(4)
40	E	Croatia	1.50	29.47	20.0	(2)
41	E	Estonia	1.44	7.94	31.0	(2)
42	AF	Nigeria	1.34	4.39	n/a	(1)
43	A	Malaysia	1.12	0.00	n/a	(1)
44	E	Latvia	0.86	8.79	15.0	(2)
45	E	Serbia	0.75	26.91	n/a	(1)
46	E	Greece	0.55	-10.09	3.0	(2)
47	SA	Argentina	0.39	1.00	n/a	(4)
48	A	Uzbekistan	0.28	20.14	1.1	(1)
49	A	Hong Kong	0.14	30.48	n/a	(1)
50	SA	Costa Rica	0.08	-43.00	n/a	(4)

Total 1470.00

Market penetration rates quoted by Leaseurope appear as those reported and defined in the Leaseurope's 2021 Annual Survey. Country growth figures display the figure reported by each country i.e. it is unaffected by the vagaries of currency fluctuations. It is intended to display true growth as experienced on the ground.

Key to Sources: (1) National Leasing Association (4) Alta Group (7) Central Bank Data
 (2) Leaseurope (5) Other Trade Associations (8) Author's Estimate
 (3) Asian Leasing Association (6) Government Statistics (9) Other's Data

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Source: World Leasing Yearbook 2024

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2024 Outlook - Navigating Uncertain Waters with Resilience

The Nigerian leasing industry is expected to remain resilient, in the face of the perennial economic challenges and making significant contributions to capital formation in the economy.

Since its inception in Nigeria, leasing has been supporting economic development. Today, the impact of leasing is pronounced in all sectors of the economy, enhancing capital formation, generating employment, and creating wealth. The Nigerian leasing industry has maintained its growth trajectory over the years navigating complex economic terrain. Outstanding leases in Nigeria in 2022 amounted to N3.18trn as against N2.58trn in 2021 representing 23.2% growth. This growth was driven basically by sustained stability in the economy, following a rebound out of the ravaging Covid - 19 pandemic and its long side effects, increasing innovations and strong resilience by industry's players, and increasing level of awareness of the benefits of leasing among the investing public.

The oil and gas sector took the lead share of the outstanding leases with N877bn, representing 23 percent, followed by the Transportation and logistics sector with N746bn - 22 percent, Manufacturing N466bn (15 percent), Telecoms – N292bn representing 10 percent. Agriculture and Government equally made positive growth showing N218bn (7 percent) and N190bn (6 percent) respectively, while others (including Healthcare and Education) generated N396bn accounting for 17 percent of the volume. The growth for 2023 is projected at 26% (when the figures finally come in) and the trend is expected to continue in 2024 given the growth potential of the industry.

In the last decade, leasing contribution to capital formation in the economy is over N16.3 trillion and it is becoming more relevant in our prevailing economic situation, especially to Micro Small and Medium Scale Enterprises (MSMEs) given the high cost of assets.

Figure1: Distribution of lease volume by sector (2022)

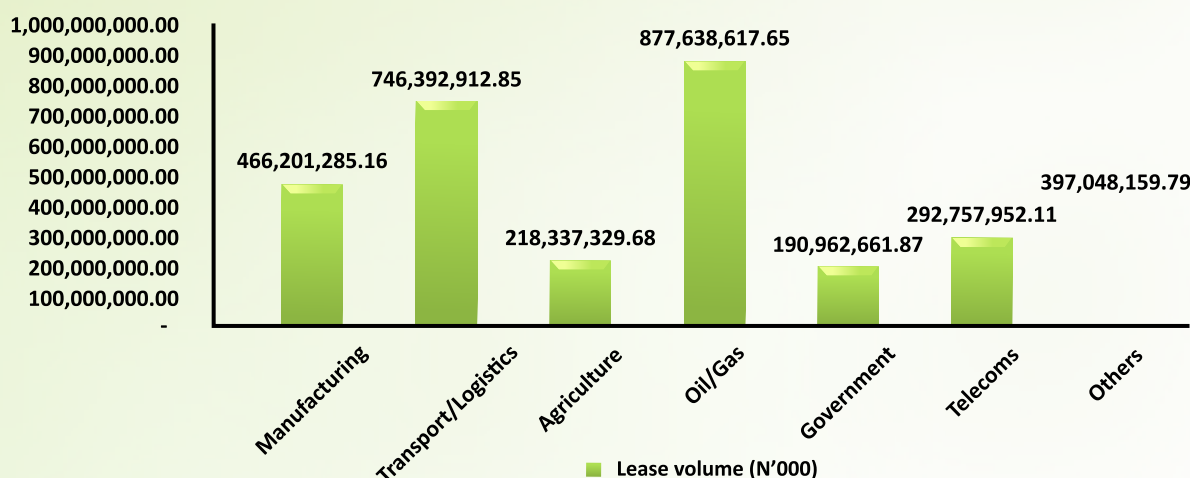


Figure 2: Distribution of lease volume by sector (2022)

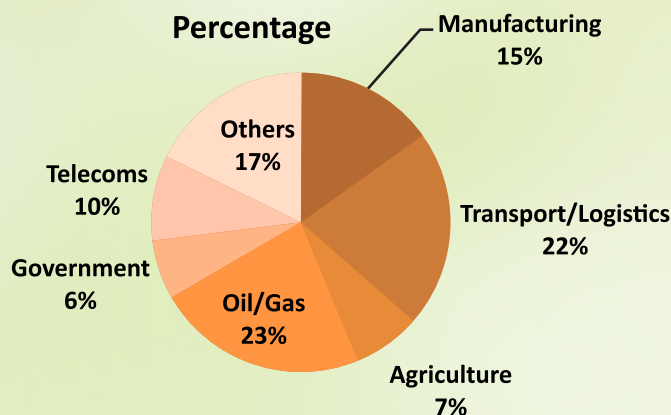
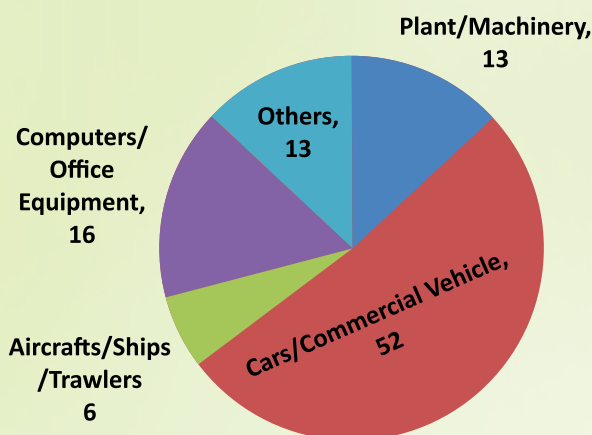


Figure 3: Analysis by type of Asset (2022)



Source: ELAN Research

Essentially, the leasing terrain in 2023, was significantly impacted by the difficult macro-economic conditions, which became more weighing with the tough government reforms initiated by the new administration during the year. Some of the major developments include:

Volatility in prices of assets and cost of operations resulting from adverse macroeconomic conditions. The depreciation of the Naira in the Foreign Exchange market exacerbated by the policy reform to merge the Naira in the FX market and the scarcity of the US dollar, caused prices of goods and services to rise astronomically, especially in the second half of the year. This affected the capacity of leasing companies, to finance new transactions where the opportunities were available and equally maintain service-oriented leases. Cost profile, including energy, repairs and maintenance, and other ancillary services have been very challenging. The increasing cost continued to limit the acquisition of assets through outright purchases by consumers who now go for cheaper alternatives including fairly used assets. This equally presented more opportunities for leasing as an alternative means of acquisition.

Scarce and High cost of borrowing. The absence of an 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 (Interest rate around 25 - 30 % per annum (MPR at 18.75 as of August 2023,) 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 transactions, thereby limiting their scope to small and medium markets.

Increased incidence of default arising mainly from difficult economic environment and consequent difficult repossession process.

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

Continued shift from Finance lease, as a risk protective mechanism and in response to market dictates. Finance lease still dominates the market, but its share has been dwindling in recent years, especially with its associated risks and demand from corporate bodies for a leasing product, that allows more flexibility and convenience to enable them to focus more on their core activities. This has seen some major lessors, shifting completely to balance their risk appetite and meet the outsourcing needs of customers. Operating leases remain the main attraction and dominant in the Oil and Gas and Maritime sectors for the financing of large ticket transactions involving operational assets like vessels, barges and other heavy-duty equipment.

The growing attraction of vehicle leasing. Vehicles including staff shuttles, commercial buses, trucks for haulage, and operational vehicles, remained dominant as the largest leased asset segment constituting about 60% of the leased assets. Aside from vehicles, a wide range of equipment is leased in Nigeria, including Construction equipment: excavators, bulldozers, cranes, etc.; Industrial equipment: generators, compressors, forklifts, etc.; Agricultural equipment: tractors, harvesters, irrigation systems, Health care equipment for diagnosis and treatment, Office equipment: computers, printers, copiers, etc and general household assets to other heavy duty and specialised equipment in Oil and Gas and Maritime Sectors.

Expansion of SMEs Market. Small and medium-sized enterprises (SMEs) often lack the

capital to purchase expensive equipment outright, making leasing a more accessible option. This segment continued to represent a significant market for many leasing companies who tap into the opportunity of better margins, though with higher risk.

Continued interest in vendor leasing, especially from vehicle vendors. Several multinational vehicle manufacturers and major distributors, continued to expand their product offerings through leasing, setting up vendor leasing schemes or leasing companies. The financing of leases of their products is 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 and individuals.

More new entrants into the leasing industry from various sectors ranging from financial services to service providers in telecommunications, construction, transport, and logistics as well as oil and gas. The market potential and ease of entry are major drivers attracting investors to the industry.

Increased leveraging on technology, to enhance business operations and processes in response to prevailing conditions.

Inauguration of the Equipment Leasing Registration Authority (ELRA). This was a major development as it set the stage for the full implementation of the Equipment Leasing Act 2015, aimed at bringing certainty, and sanity and promoting investment in the leasing industry. ELRA was established by the Act, to give effect to the intent and purport of the Act and under the supervision of the Ministry of Finance. The quest for more visibility for leasing and a distinctive recognition from other financing options with a specific Law and regulator, appears to be finally realised.

2024 has been described as a year of cautious optimism given the uncertainties in the macroeconomic environment. For the leasing industry, one certain thing is the industry's continued resilience to stay afloat in the waters of economic turbulence and maintain the growth trajectory. Ultimately the performance of the industry will be greatly impacted by developments in the macroeconomic environment. Key influencers and watchers in 2024 will include:

The inflationary pressure on liquidity as rising costs will continue to impact volume and service delivery. The rising cost of assets and dwindling funding means a reduced number of assets being financed. The high cost of assets and operations are not likely to abate, especially against the continued volatility of the Naira, which makes imports more expensive. Already, the free fall of the Naira has continued into the new year. Though it is believed that the Naira will be stable with the injection of \$10 billion intervention funds and commencement of the Port-Harcourt and Dangote refineries which will conserve FX, Lessors will continue to require more funds to finance the same kind of assets and maintain operations due to persistent sharp increases in cost.

High cost of borrowing to compensate for rising inflation as funding challenges persist. The continued absence of appropriate funding mechanisms will remain an albatross for the leasing industry. Money is the raw material for leasing, its adequacy, availability, and cost, are key to the success of the industry. ELAN continues to engage financiers locally and internationally for an appropriate funding mechanism for the industry.

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. Also, many new participants will be attracted to the industry to invest to cash in on the opportunities and other market potential of the industry.

Continued adoption of strategic objectives and approaches by lessors to withstand shocks of the prevailing economic conditions, ensuring business survival and profitability. 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.

Full implementation of the Equipment Leasing Act 2015 especially the commencement of the Equipment Leasing Registration Authority (ELRA), will be a game changer. The commencement of operation of ELRA is expected to begin in January. 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 the 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 in the Nigerian leasing market.

Increasing business opportunities. No doubt, the wide financing gap in various sectors of the economy presents immense

opportunities for leasing. Also, the economic agenda of the Government if implemented is another major area of interest to watch. Indeed, equipment leasing is very significant to achieving the Government's economic agenda with a direct bearing on all the eight priority areas. Definitely, there is enough for everyone and it all depends on the individual lessor to choose which part of the pie is best suited for the organisation, whether in terms of assets, sector, customer base, or geographical location. The menu of opportunities is diverse and includes:

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 following a rebound from a two-year recession. The government's recent push towards gas based industrialisation and increased domestic LPG penetration could lead to significant investment in gas infrastructure and processing facilities. 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 niches across the value chain of the sector.

Construction: The demand for construction equipment and technology is huge, as they are not readily available to users because of the huge cost of acquisition. Rapid urbanisation and the growing demand for housing, commercial and educational facilities across major cities will likely fuel construction activity. Also, the government's focus on infrastructure development is creating a strong demand for construction equipment.

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. For instance, the renewed government emphasis on agriculture, aiming to achieve food security and boost economic diversification will galvanise activities in the sector. Lessors can key into these initiatives, partnering with these stakeholders to provide equipment to the sector.

Healthcare: The Nigerian healthcare sector presents a multitude of leasing opportunities. Modern healthcare delivery is driven by technology through the provision of hi-tech equipment and infrastructure. The Nigerian healthcare market is large and diverse, projected to reach USD 24.4 billion by 2026, growing at a CAGR of 8.4% from 2021 to 2026. There are immense opportunities especially in replacing outdated healthcare technology and addressing the deficiency in infrastructure. Digital health solutions - the adoption of electronic medical records, telemedicine platforms, and health-monitoring apps, are emerging areas. Health leasing products can be developed to meet the diverse needs of the participants in the sector ranging from manufacturers, health service providers, and insurance, to health education institutions, etc.

Power: there is a renewed government focus on improving the power sector, with plans for sector reforms and increased investments in renewables. For instance, the decentralisation of the sector will see more participants from state governments and the Private sector in the generation, transmission, and distribution of electricity. Also, the Nigerian Energy Transition Plan (ETP), aims to diversify the energy mix and increase renewable energy generation, which could address gas supply limitations and help Nigeria meet its climate change commitments. Renewable energy is now taking root against the background of the rising cost of fuel and the campaign for clean energy to protect the environment. Certainly, leasing will benefit immensely from all these.

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 diverse equipment needs such as sand mining equipment, which have great demand.

Information and Communication Technology (ICT) – Nigeria is Africa's largest ICT market: accounting for 82% of the continent's telecoms subscribers and 29% of internet usage. The sector contributed 11.57% to the total Nominal GDP in Q3 2023 making it one of the main drivers to the non-oil sector contribution to GDP. Nigeria's quest for a digital economy has positively impacted the contribution of the ICT sector to the National GDP and will continue to boost activities in the sector. The demand for 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, and so are SMEs, Banks, FINTECHs, HMOs, Insurance, and 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. This is expected to get further impetus with the government's promotion of consumer credit as part of its priority area. The 2024 budget introduced consumer credit funds of N100bn. This is something industry watchers should follow and advocate including leasing in the implementation plan.

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 a creative financing alternative for MSMEs. The over 40 million MSMEs in Nigeria, cutting across various sectors, provide an ample market for lessors. Again, lessors should follow the policy initiatives of the government to promote access to finance, poverty eradication, economic growth, job creation, and inclusivity, which may translate to further opportunities for the industry.

Public Sector Leasing – The government being the biggest spender presents an opportunity, despite the bottleneck of doing business with the government. The various intervention initiatives and expected huge investment in priority areas not just at the Federal but also at the State and local government levels, sum up the scope of demand for capital assets.



Indeed, the options for participation are wide and it is up to the lessor to identify which is best suited, based on the individual risk appetite and capacity. However, to fully tap into these opportunities requires proactiveness on the part of the lessor, building capacity in areas of interest which will involve total knowledge of the assets, sectors, and customers to mitigate risk and of course, having access to finance to participate effectively.

The Critical Success Factors

Generally, the macroeconomic and industry situations will continue to determine the level of performance of the leasing industry in 2024 and beyond. However, it is imperative for the leasing industry to sustain its resilience, remain on its guard, and be proactive to sail through this testing time. This requires continued realignment of strategies and the adoption of innovative approaches. Specifically, driving success will require:

Expansion of the funding structure to strengthen the capacity of lessors to increase their portfolio and take advantage of emerging opportunities. Access to adequate and cheaper funds determines the level of participation in the leasing industry. ELAN has been advocating for lessors to gain access to various intervention funds and establishment of a 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 a 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 to meet the needs of the customer while equally mitigating risks for the lessors.

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

Strengthening internal capacity to improve processes and performance through constant staff development, participating in capacity-building programmes, and ensuring adequate working infrastructure including the right technology. Leveraging for instance on technology can greatly improve processes in various areas of operation, including customer onboarding, 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, which has become a major hallmark 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.

Favourable Regulatory Environment to support the development of the industry, create more visibility and encourage more effective participation and contribution. The ELRA will be a major booster to leasing activities in this regard. ELAN has been strengthening its advocacy - engaging with Government and other relevant stakeholders to achieve a healthier leasing environment.

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

Cost Reduction Strategy: Financial discipline and adopting cost saving mechanism in operations especially in providing services for customers as in the case of operating lease and general back-office operations, will

enhance profitability. This has been the main strategy in the industry in recent times.

Building Strategic Partnership. Constructive engagement with market and relevant stakeholders - customers, employees, competitors, manufacturers, suppliers, creditors, investors and regulatory authorities, etc to gain their support to facilitate the attainment of the overall corporate objective.

CONCLUSION

From all indications, the leasing industry will continue to thrive in 2024 and beyond though the challenges are obvious. This is predicated mainly on its large and growing market, potential, diverse range of equipment, increasing awareness of the benefits of leasing, and of course the expectation of a successful implementation of the various economic reforms by the government. The point to stress is the goodwill from all stakeholders to sustain the development and growth of the industry. Equally, lessors need to stay ahead of economic forces and industry trends through realignment of strategies and innovation to continue to deliver value for customers, while positioning themselves for growth. Lessors that strategically adopt this approach, will be best equipped to thrive in the equipment leasing industry.

Indeed, 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 interests of stakeholders.



PROMOTING ECONOMIC RECOVERY AND GROWTH IN NIGERIA: THE LEASING INITIATIVE

The Nigerian Economy

The Nigerian economy has been walking on its knees for some time now, as major indicators showed adverse performance, against the background of global economic uncertainties, geopolitical tensions, and the aftermath of the COVID-19 pandemic as well as increasing domestic macroeconomic vulnerability. Essentially, the economy is characterised by:

Inflationary pressures: High inflation, driven by global supply chain disruptions, currency depreciation, rising food prices, and transport costs due to the removal of petrol subsidy eroding purchasing power and impacting livelihoods. In December 2023, the headline inflation rate peaked at 28.92%, and climbed further to a near 28-year high of 29.9% in January 2024. Food inflation, which accounts for the bulk of Nigeria's inflation basket, quickened again to 35.4% in January from 33.9% a month earlier, with higher prices across a broad range of items including bread, fish, meat, fruit and eggs. On a monthly basis, consumer prices inched up by 2.6% in January, the most in five months, following a 2.3% rise in the previous month.

Oil dependence: The economy remains heavily reliant on oil, making it vulnerable to fluctuations in global oil prices. Diversification into other sectors is crucial for long-term sustainability.

Security concerns: Insurgency, banditry, and kidnapping continue to pose security threats, hindering investment and economic activity in many parts of the country.

Unemployment: Youth unemployment remains a significant challenge, requiring concerted efforts in education, skills development, and job creation.

Infrastructure deficit: Inadequate infrastructure, including power, roads, and transportation networks, hampers economic growth and development.

Currency depreciation: The Naira has depreciated against the US dollar in recent years, making imports more expensive and increasing inflation. The Naira closed 2023 on the official exchange window at N 899.893 to the US Dollar and N1,170 at the parallel market as a result of flexibility adopted by the Federal Government in the FX market in June 2023. The free fall of the Naira continues despite various policies by the Central Bank of Nigeria (CBN), which are being rolled out almost daily to checkmate the situation. Since February this year, the Naira has been trading between N1,300 to as high as N1500 in both markets.

Increasing debt profile: Public debt stock which includes external and domestic debt stood at N87.91 trillion (US\$114.35 billion) in Q3 2023 from N87.38 trillion (US\$ 113.42 billion) in Q2 2023, indicating a growth rate of 0.61% on a quarter-on-quarter basis. Total external debt stood at N31.98 trillion (US\$41.59 billion) in Q3 2023, while total domestic debt was N55.93 trillion (US\$72.76 billion). The increase was, largely, driven by the exchange rate revaluation and FGN securitisation of Ways and Means Advances.

Rising interest rates: CBN started its monetary policy tightening cycle in May 2022, with its benchmark interest rate rising from 11.5 percent to 18.5 percent in May 2023 and again in August at 18.75 percent, now 22.75 percent in February 2024. The increase in MPR was to curb rising inflation. The Average prime and maximum lending rates rose marginally by 0.2 and 1.2 percentage points to 14.1 and 28.6 percent in Q3, 2023, as against 13.9 and 27.4 percent, respectively, in the preceding quarter.

Figure 1: CPI (%) Headline 12-month series



Source: National Bureau of Statistics (NBS)

These notwithstanding, there are some positive developments including:

Gradual GDP growth: Despite global economic headwinds, Nigeria's Gross Domestic Product (GDP) grew by 2.54% (year-on-year) in real terms in the third quarter of 2023. This growth rate is higher than the 2.25% recorded in the third quarter of 2022 and is projected to grow by 3.2% in 2023. While slower than initial expectations, GDP growth is projected to reach around 3.88% in 2024. The GDP growth is driven by several factors including rising oil prices, increased non-oil exports, and improving agricultural output. The non-oil sector, particularly agriculture, telecommunications, and services, continues to be a bright spot, showing promising growth potential.

Digital transformation drive: The government's focus on digitalisation initiatives, including the National Digital Economy Policy and Strategy, is fostering innovation and creating new economic opportunities.

Social safety nets: The expansion of social safety net programmes like the Conditional Cash Transfer programme is helping to alleviate poverty and improve the well-being of vulnerable groups.

Indeed, successful governments have been twinkling with various policy initiatives to address the barrage of challenges. The new administration on assumption of office took important reform decisions - two of the major ones were the removal of fuel subsidies and the floating of the Naira essentially to avoid a fiscal cliff. These two critical policy decisions have resulted in price and exchange rate adjustments in the second half of 2023, impacting adversely on the cost of living as inflation surged further. The Federal Government under the new Administration has been under pressure to ease the economic hardship and is responding

through palliatives and several measures to cushion the effects.

Perhaps in recognition of these challenges, the Government made a pronouncement of its eight priority areas for moving the Nigerian economy forward and bringing relief to Nigerians under the Renewed Hope Agenda. These are food security; poverty eradication; economic growth; job creation; access to capital, especially consumer credit; inclusivity in all its dimensions, particularly as regards youths and women; rule of law, and fighting corruption.

Also, the President has signed the 2024 Appropriation Bill into Law as passed by the National Assembly. The 2024 budget of N28.77 trillion reflected the Renewed Hope Mantra of the government, focusing on the priority areas as contained in the agenda. The budget highlights include:

- Projected revenue of N18.32 trillion, with higher expectations from government-owned enterprises and a weaker exchange rate boosting export income.
- Deficit estimated at N9.18 trillion, a 3.9% of GDP.
- Expenditure increased to N28.77 trillion, with N8.76 trillion allocated for recurrent (non-debt) expenditure and N9.99 trillion for capital expenditure.
- Oil benchmark increased to \$77.96 per barrel from the initial \$73 per barrel.
- Exchange rate pegged at N800 per dollar, reflecting the current market value.
- GDP growth projected at 3.88%.

The 2024 budget is a significant document with implications for the country's economy and development. It will be interesting to see how the budget is implemented and what its impact will be as we already approaching Q2 '24, even as the pains linger on.

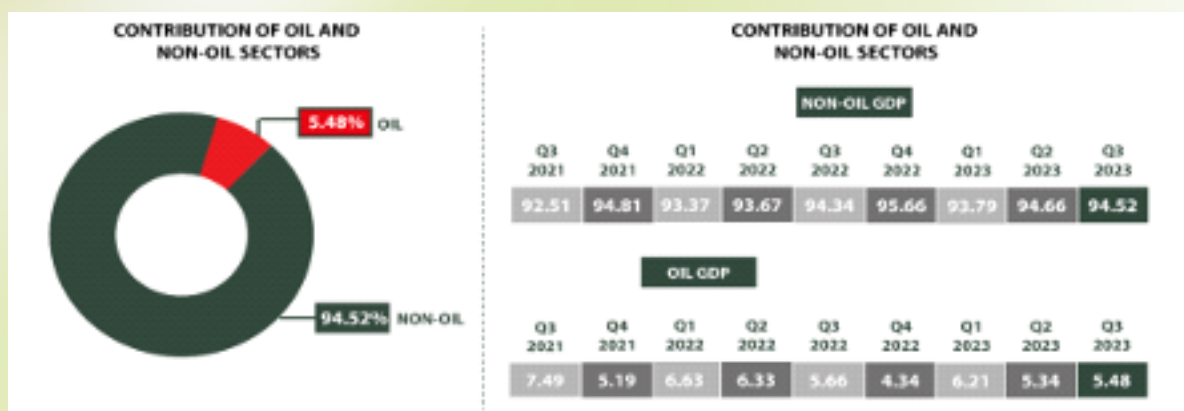
Obviously, the country is at a critical stage and it is important for the Government not to tread the path of the past, of non-implementation of its policy initiatives. The economic outlook for Nigeria in the short to medium term hinges on the continuation and effectiveness of its macroeconomic stabilisation agenda.

According to the World Bank, successful implementation of the initiated reforms will be the first step towards improving Nigeria's growth prospects. The government must therefore take urgent actions, and develop new and improved implementation models and solutions that would ensure the attainment of the agenda and improve the quality of lives of Nigerians.

Essentially, the near-term priority should be to enhance the reform effort with a closely coordinated mix of fiscal, monetary, and FX policies to reduce inflation and achieve macroeconomic stabilisation.

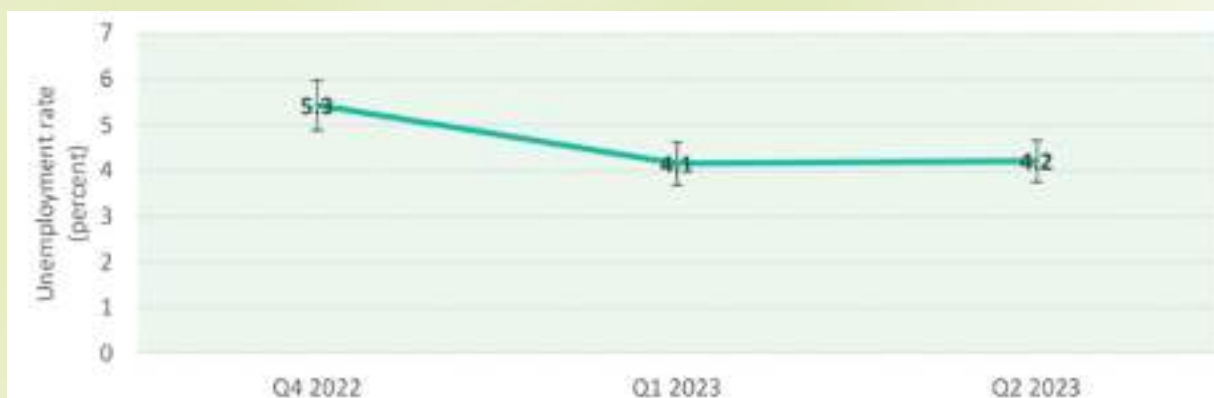
The Continued efforts to address inflation, diversify the economy, improve security, and invest in infrastructure, will be crucial for sustained inclusive economic growth and development. Good governance and a focus on domestic demand are also crucial for long-term success in addition to capitalising on opportunities like the Dangote refinery and non-oil sector growth, which are equally key to unlocking Nigeria's economic potential.

Figure 2: Contribution of Oil and Non-Oil sectors to GDP Q3 2023



Source: National Bureau of Statistics (NBS)

Figure 3: Trend of Unemployment in Nigeria as at Q2 2023



Leasing as a catalyst for Recovery and Growth

Equipment leasing globally has been established over the years as a creative financing alternative, facilitating easy and convenient access to desired equipment needed for productive purposes thereby, contributing to capital formation in the economy. The industry generates over \$1.5 trillion annually in new leases and accounting for 20% of total investment in equipment, contributing about 1.5% to global GDP. The beauty of leasing lies in the fact that it delivers a multiplicity of benefits to

those who choose to lease. It helps all types and sizes of businesses to conveniently acquire the much-needed equipment to conduct their business operations seamlessly and increase the bottom - line. Governments are also utilising leasing in their developmental initiatives. The leasing industry supports investments in key sectors of the economy in many developing countries including, Egypt, South Africa, Morocco, Algeria, Ghana and Zambia. The whole essence of leasing is to enhance the

planning, improvement, and development of any economy by building and supporting productive ventures.

In Nigeria, since its inception, leasing has been facilitating economic development and today, the impact of leasing is pronounced in all sectors of the economy, enhancing capital formation, generating employment, and creating wealth. The contribution of leasing in the past 10 years is over N16.3 trillion and is becoming more relevant in our prevailing economic situation, especially to Small and Medium Scale Enterprises (SMEs), given the high cost of assets.

For businesses and individuals, leasing offers several key benefits:

Leasing is less burdensome on liquidity. This is perhaps the most important reason for using leasing, particularly in a developing country like Nigeria where the means of acquiring productive asset through outright purchase is almost impossible due mainly to high cost. Indeed, there are several reasons for a lessee's desire to lease equipment, as opposed to other methods of financing the acquisition of productive assets. These include:

- Provision of additional source of credit to lessees. It releases credit lines that can be used for other purposes, allowing for full use of borrowing capacity.
- Conservation of working capital by freeing up cash for other productive ventures through financing assets that would have otherwise been purchased through cash.
- Diversified financing source base, particularly during tight liquidity periods.
- Little or no capital outlay is required from the lessee which makes it affordable.
- Increase in tax-deductible expenses and improved cash flow where the rent expense is greater than the possible depreciation expenses if the equipment were owned.
- Longer payment terms which allow the lessee the opportunity of reducing financial commitments, particularly in times of distress and stabilising his equipment usage cost over several years.
- Overcoming capital budget restrictions for the acquisition of equipment not complemented by capital expenditure budget. Rental payments can be appropriated from the operating budget.
- Greater flexibility than other forms of asset financing in the structuring of rental payments. Payments can be structured in such a way as to suit the peculiarities of the lessee including his cash flow pattern and any seasonal or cyclical business conditions to which it is exposed. These payments may be level/even, skipped, stepped-up or stepped-down plans that may not be available with other financing alternatives.
- Hedge against obsolescence, particularly in an industry that is vulnerable to rapid technological change. Leasing helps the lessee to avoid the risk of obsolescence associated with the leased asset by initially transferring the risk to the lessor. This is a major advantage in cases where

- the lease is cancelable before the expiration of the lease tenor.
- Easier to arrange than a conventional term loan in terms of the time and costs involved in negotiating terms and conditions of each financing alternatives.
- Lower Cost as the present value of the after-tax lease rental payments is usually lower than the cost of purchasing equipment outright, particularly when borrowed funds are used to acquire the equipment.
- Easy prediction of pattern of cash flow for budgeting purposes, since lease rentals are generally fixed outflows over the tenor of the lease.
- Feasible method of acquiring the use of assets either because such assets are too expensive, not available for purchase at all or cannot be bought piecemeal. Such assets include earth satellite stations, transmitters or large-scale IT systems. Since a firm really needs only a fraction of the services of this equipment, its best option will be to lease a part for a period at a stretch.
- Generally, no additional collateral is required as the leased equipment, serves as security for the transaction.
- Convenience in terms of additional services which are bundled into the lease to provide a “one-stop shopping” for the lessee to procure all services including financing under one roof.



Leasing and Economic Development

The value proposition of leasing to a country's economic development cannot be over-emphasised. Leasing provides significant support through contribution to capital formation. The link between leasing, capital investment, and economic growth has been established globally.

Leasing stimulates capital investment, by enabling businesses and even governments at all levels, to acquire capital assets for production. The acquisition and use of productive assets lead to productivity, income generation, job creation and directly contribute to the GDP.

Essentially, leasing contribution takes place through the following:

- **Access to Financing**

Leasing increases the range of financial products in the marketplace and provides a route for accessing finance to businesses that would otherwise not have it, especially to Micro, Small and Medium Scale Enterprises (MSMEs), to promote consumer credit and inclusive growth. The result can be more business, expanded employment, more tax revenue and increased overall economic growth.

- **Increase in Domestic Capital Base**

As a financial product, leasing needs its funding which tends to further mobilise domestic capital. A significant portion of this comes from lease companies' bank lines, which necessitate an increase in banks; own borrowings, with a consequential increase in domestic capital base.



- **Competition to Traditional Financing Methods**

Leasing provides an additional source of financing in the marketplace and a product in competition with traditional bank products.

- **Financial Product Innovation**

Since leasing companies are very capital consumptive in their expanding purchases of more equipment for lease to their customers, leasing companies also tend to be at the forefront of new capital market financial product development to meet such capital needs. Leasing companies for example in addition to promoting the issuance of commercial paper, bonds, stock offerings, and similar capital products, can encourage the introduction of non-recourse lending, securitisation and other more sophisticated investing vehicles - all of which can help the country attract not only domestic capital but also foreign capital.

- **Development of Secondary Market**

Leasing develops a steady supply of used equipment, and this can facilitate the development of an organised secondary market for a variety of goods, vehicles and other transportation equipment, because of their high residual values and ready salability are typically the type of assets that lead the way.



In many developing countries, such as Brazil, Zambia, Pakistan, South Africa, leasing is at the forefront of investment in the extractive industries, transportation, agriculture, telecommunications, roads, and other infrastructure. Government at all levels can take a cue from this by utilising leasing in their various developmental initiatives aimed at bringing succour to the people. No doubt, equipment leasing is very significant to achieving the Government's economic agenda. For instance, it has direct bearing on all the eight priority areas of the Federal Government and other developmental initiatives.

Specifically, the benefits of the leasing intervention at this dire period will include:

- *Enhancing capital formation to drive job creation, revenue, improved quality of life, and economic growth.*
- *Supporting major sectors - transportation, agriculture, healthcare, manufacturing, etc through the provision of necessary assets across their value chain, to deliver enhanced value to the economy and citizenry.*
- *Promoting cost savings and elimination of wastages/leakages in public procurement operations.*
- *Conservation of scarce resources through acquisition of essential assets with minimum cash outlay which frees up capital for other developmental initiatives. This can be especially beneficial at this period of scarce resources and limited budget.*



The attributes of leasing which center on easy and convenient access to capital equipment, can be brought to bear to address the financing gaps in the economy and support the drive of government to improve national growth and development.

“



The leasing initiative in Nigeria represents a powerful tool for promoting economic recovery and growth. Government can leverage its advantages, to stimulate job creation, empower businesses, and economic growth and propel the nation towards recovery, and a more prosperous future. Nigeria can indeed unleash the transformative power of leasing as part of the solutions in addressing existing challenges and write a new chapter of economic success.

”

Customer Management

“Every company’s greatest assets are its customers because without customers there is no company”. - **Michael LeBoen**

If You Want to Stay in Business,
You Better Start 'Hugging' Your Customers".

-**Anonymous**

Excellent customer service means - Anticipating, Meeting and exceeding customers' expectations – about their idea of good service, not yours.

What You Need To Understand About Your Customers:



Fundamental Needs of Customers

1. Sense of security
2. Sense of trust and confidence
3. Desire to be associated with the service provider
4. Sense that everything will be legal and ethical
5. Confidence that the company will take care of them and theirs over time

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What Customers Really Want:

1. Attention
2. To be treated as an individual
3. Someone to show he/she cares
4. Everyone to be helpful
5. Solutions, not problems
6. Someone to help him understand the processes
7. Regular feedback

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Desires

Desires are the 'latent expectations' of a human being. They are value-added service components that, once offered a first time, might become a want over time. Some examples of desires include personalised services, which may include; personal visits to customers, birthday greetings, special events greetings, etc.

What can your team and organisation do to meet desires of customers?

Customer Needs, Wants and Desires

Once your customers' needs, wants and desires are clear, you are faced with decision regarding the level at which your organisation desires to perform. Typically, satisfying desires is expensive.





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Pros

- **Fosters strong team culture:** Servant leaders give ownership to their team members to increase their motivation, courage, and creativity.
- **Creates people-focused culture:** Servant leaders establish a people-focused culture by fostering deep, trusting relationships with and between their teammates. This level of trust and connection allows teams to make decisions in the best interest of the organisation and everyone involved.
- **Boosts team morale:** A team that feels seen and valued by their leader tends to have stronger integrity and show a higher level of pride in their work. Servant leaders can boost team morale across teams and help develop future leaders by giving them opportunities to shine.

Cons

- **Formal authority may be lost:** Because servant leaders get down on such a personal level with their teams, their formal authority is easily lost. This can become difficult when individuals take advantage of their leader's transparency. It can also cause confusion when other leaders in the organisation take a different approach.
- **Time intensive leadership style:** Servant leadership requires a lot of time, energy, and experience. Servant leaders have to know their team members on a professional and personal level so they can support them to the fullest.

- **Team members may struggle with decision making:** By giving their team members opportunities to prove themselves, servant leaders also risk overestimating and overburdening their teammates. Individuals that don't have the courage or confidence for decision making on their own yet may feel discouraged and lost in a work environment that provides them with this much executive power.

Finally, keep in mind that the servant leadership style may not align with your corporate performance management or incentive systems, which are often focused on short-term goals. However, you can still implement the servant leadership approach by leading with authenticity, providing direction for your teammates, giving them opportunities to grow and develop their skills, and building a strong community within your team. Serve your team by being the best leader for them. Whether you choose the servant, transformational, or laissez-faire leadership style as the right approach for yourself (or something entirely different), is ultimately up to you.

We believe that the best leaders are capable of adjusting their leadership style depending on the situation, their teammates, and the need of particular projects. The best thing a leader can do is to identify the motivators and needs of their team to support them in a way that allows them to thrive.

Article by:

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