

# 2015 ELAN Conference

ECONOMIC IMPACTS OF A VIRILE LEASING INDUSTRY:  
A Case Study of SME Development in Nigeria

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Your Bank

# Storyboard

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Structure of the Nigerian Leasing Industry

Channels of Economic Impact

Impact of Leasing on SMEs and the Economy

What are the Needed Growth Catalysts?

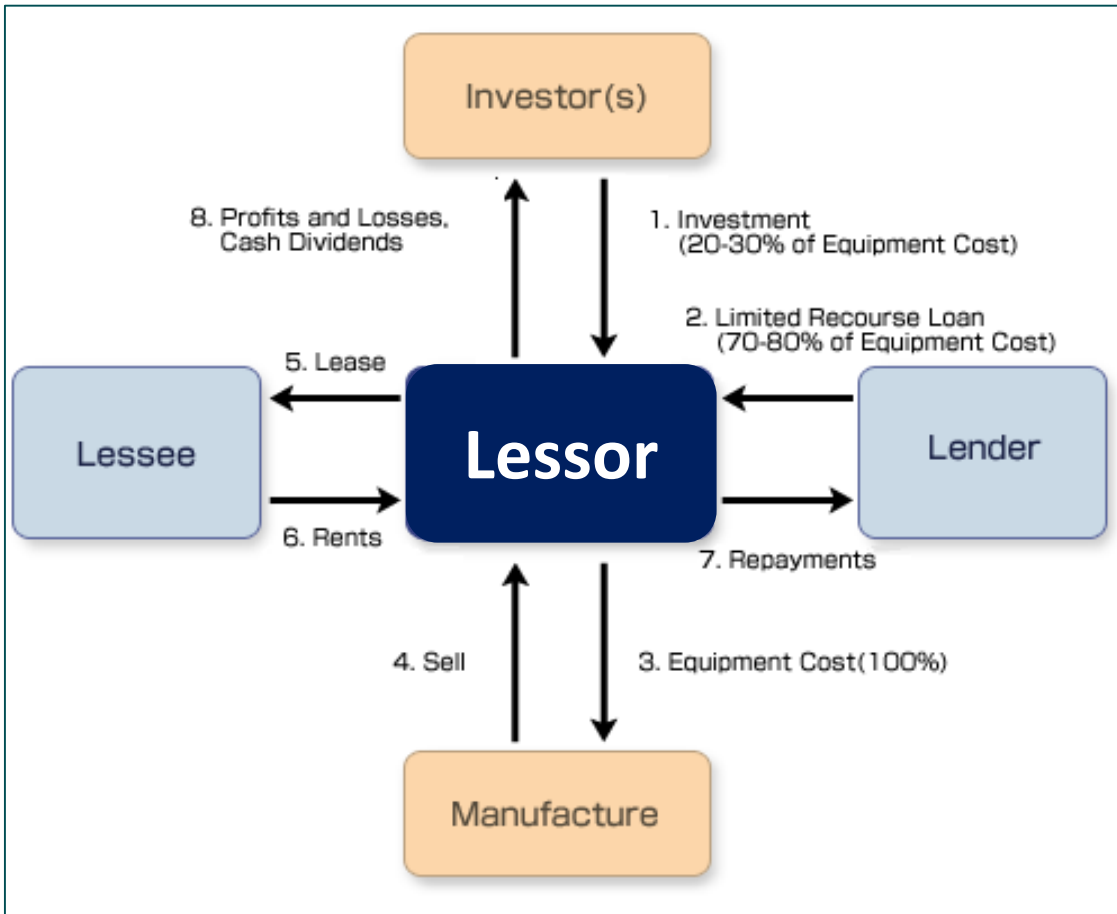
Diamond Bank Strides on the SME/Leasing Sector

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## Structure of the Nigerian Leasing Industry

# The Leasing Industry



Equipment leasing is used as a form of financing by organizations to acquire equipment for use and purchase

Leasing covers vast and expanding assets, from properties to machineries and diverse sectors:

- Manufacturing and mining machinery,
- Vessels and containers,
- Construction and off-road equipment,
- Medical technology and equipment,
- Agricultural equipment,
- Aircraft, rail cars and rolling stock, trucks and transportation equipment,
- Business, retail and office equipment, IT equipment and software

In Leasing, lines of credit stay freed up because the leases are not bank loans, and lease payments can potentially be deducted as a business expense

# Recent Industry Trends

1

## Products

- Assume/Manage more Risk
- Solution Packages
- Leases with Other Financing Packages
- Venture Leasing

2

## Customers

- Smarter
- Diverse
- Seek more Alternatives
- Service Conscience
- Understand Asset Management
- Trending to Technology

3

## Leasing Companies

- Specialization
- Diversification
- Consolidation
- Globalization
- Branding, Relationship, Image Building

4

## Regulations

- A distinction between lease and loans
- An expanded public official understanding, and
- Global harmonization of accounting

Collaboration

Innovation

Efficiency

Profits

# Why has Leasing Grown so Fast?

## For Lessee:

- Fewer requirements about balance sheets.
- No outside security/collateral needed
- Low documentation cost
- Leasing can finance a higher % of equipment than bank loans
- Leasing may be the only source of financing
- Governments allow lessees to deduct full lease payments from their income before tax.

## For Lessor:

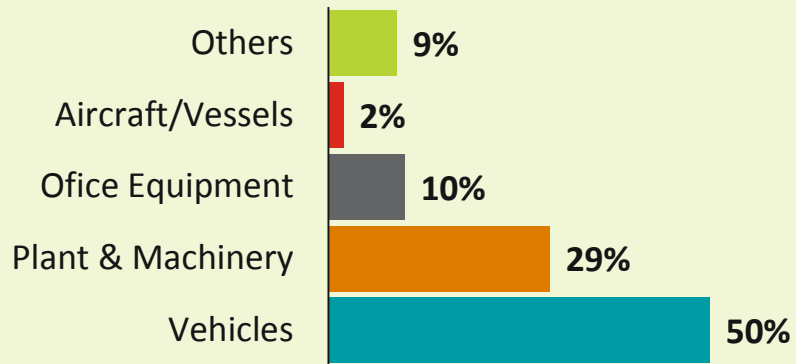
- Ownership of asset
- Transaction costs lower
- Lighter regulations, because they are not deposit taking institutions.
- Tax incentives, although they are eroding.
- Better control on utilization of funds.

## For the Market:

- Leasing companies have helped develop capital markets by increasing financing options for segments of the market which previously relied on informal financing, supplier credit, and internal cash generation
- As leasing firms grow, their needs for diversified funding sources becomes eminent – leading to the use of securitization, issuances of bonds and other capital market instruments.

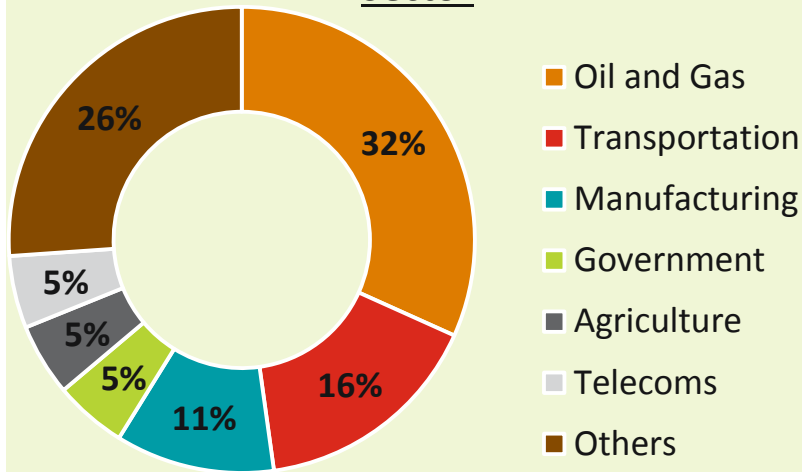
# The Nigerian Leasing Industry

## Performance by Asset Leased



“Estimated at  
**₦0.87TN**  
in 2014”

## Lease Performance by Economic Sector



- ELAN boasts of about 98 Corporate Members, 18 Associate Members, and 162 members in the Individual category
- Outstanding lease volume grew by 11.3% in 2014, down from 16.8% recorded in 2013
- Finance leases contributed about 75% of total lease transactions while operating lease accounted for 25%
- Growth prospect remain promising as more businesses explore outsourcing non-core functions

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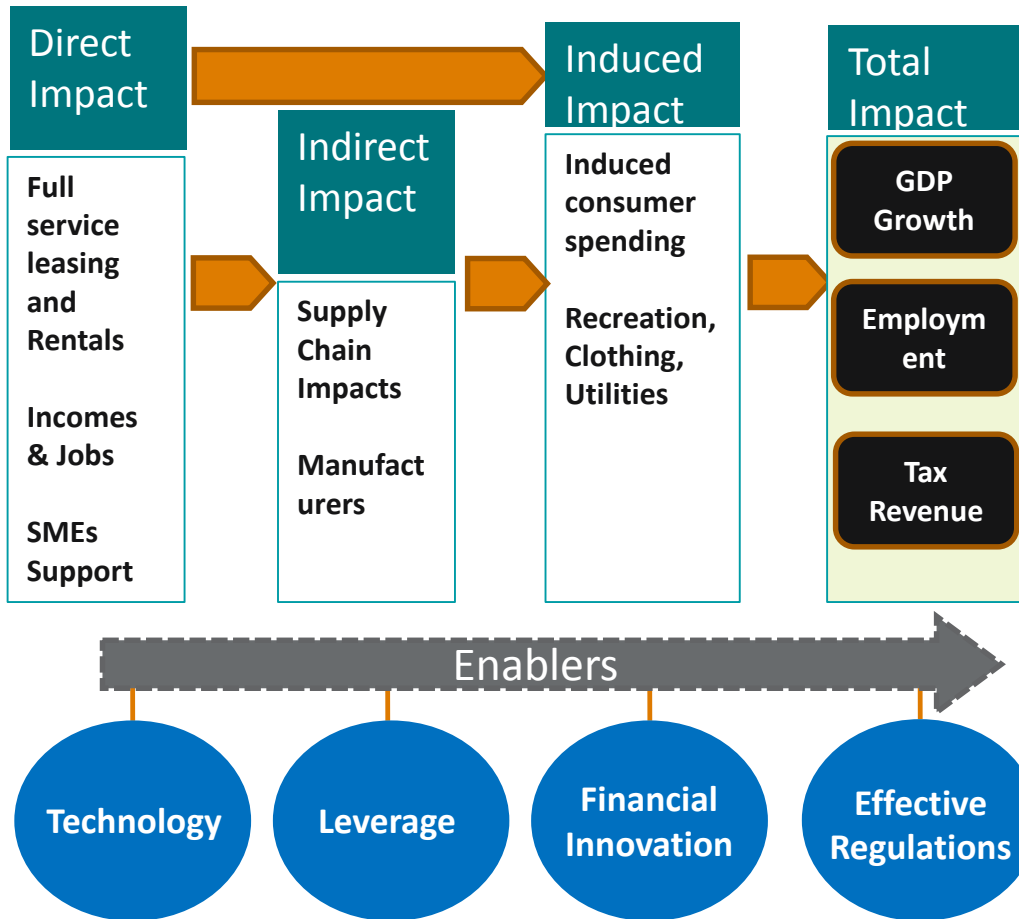
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Channels of Economic Impact



# Channels of Economic Impact

## Channels of Economic Impact



The industry is critical to the economy for the following reasons:

1. Leasing is a crucial approach to acquiring a variety of equipment types, especially high-tech equipment, which is so vital to innovation and growth
2. Leasing arrangements are used by all sizes of businesses, even though their capital requirements may differ.
3. Leasing is non discriminatory and cuts across goods-producing and services-producing industries in the economy
4. Leasing increases the market for capital goods at a margin facilitates greater growth in new capital goods production and investment
5. Leasing creates employment and facilitates the growth of entrepreneurship and small businesses.

**Leasing is suitable for new MSMEs without a long financial credit history of financial**

The key contribution of the leasing industry lies in providing access to capital

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Impact of Leasing on SMEs and the Economy

# Impacts of Leasing on SMEs Globally

Country	MSMEs % of Total Enterprise	SME as % formal employment
Algeria	99	60
Egypt	99	55
Mali	99	45-55
Morocco	93	50-55
Mozambique	90	45-55
Nigeria	96	50-55

Source: World Bank Group SME Department

**SMEs represent over 90% of the manufacturing/ industrial sector in Nigeria in terms of number of enterprises**

## Why is Leasing attractive to SMEs?

- **Credit Financing:** Leasing provides many advantages to SMEs that do not have a lengthy credit history or a significant asset base to purchase equipment or collateral to secure a loan.
- **Unique Cash flow Assumptions:** Leasing companies evaluate a potential lease based on the lessee's ability to expand the business from revenues generated through use of the asset. Banks on the other hand evaluate client based on prior credit history and financial statements
- **No credit History? No Problem:** Leasing may be the only source of financing as access to capital markets or bank loans is difficult given the small size of these companies and/or their unproven track record.
- **Encourages Competition:** The entry of leasing firms in financing the MSME has encouraged competition in many markets, whereby some of the banks started to go down-market in order to serve the smaller clients.
- **Technical Progress:** A number of SMEs struggle with inadequate access to the medium or long-term financing to invest in newer, better technologies and improved equipment as well as to finance agricultural production.

# Impacts of Leasing on SMEs and the Nigerian Economy

## How does Leasing Industry Impacts SMEs in Nigeria?

- 1 Asset Acquisitions and Upgrade**
  - Acquisition and upgrades of equipment for SMEs (with relatively little or no credit history) is made possible by leasing.
  - Lease financing can be structured to match the length of the equipment's operating life. When the equipment is obsolete, SMEs can upgrade with a new piece of equipment on a new lease.
- 2 Frees Cash for Other Businesses**
  - With an upfront purchase, SMEs are limited by cash on hand, but with leasing, that upfront equipment cost is split between manageable payments.
  - SMEs are able to access new or used equipment they require and still have cash available for other business opportunities.
- 3 Tailored Lease Payments**
  - SME's cash flow is unique. Whether the entrepreneur is a construction contractor or a cash crop farmer, payments can be structured to meet monthly, seasonal, semi-annual or even annual business cycles.
  - Practically any type or equipment can be financed under a lease agreement.
- 4 Tax Benefits**
  - Leasing not only provides businesses with a full deduction of lease payments against current earnings, but also preserves working capital that SMEs wouldn't have access to if they had to purchase the equipment up front.
  - SMEs should however check with IFRS to determine specific leasing benefits for their business.



- **Approximately 96% of Nigerian businesses are SMEs**
- **The MSME sector employs over 59 million (84.02% of the total labour force) people in Nigeria.**
- **SMEs remain the engine of economic growth in Nigeria**

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What are the Needed Growth Catalysts?

# Unraveling Catalysts for Leasing Industry Growth

Leasing is an important source of funding for MSMEs, which are key drivers of economic development in developing countries.

- ✓ We must encourage an **appropriate legal and regulatory** environment, conducive for potential leasing players to enter and exit the leasing market
- ✓ **Market-oriented guarantees**, such as USAID's Development Credit Authority (DCA), can be used in conjunction with technical assistance to generate greater access to finance among leasing companies
- ✓ **Donor interventions** in the leasing industry should entail a combination of investment and technical assistance
- ✓ Leasing support services that serve rural and agricultural SMEs are more effective when **located in the areas where rural and agricultural SMEs operate**
- ✓ There is need for **more public awareness** and public education initiatives about leasing and its benefits and risks to effectively impact market supply and demand
- ✓ The industry needs to advocate **portfolio diversification** as an effective risk mitigation tool for leasing companies to safeguard against defaults
- ✓ We must build **sustainable national or regional leasing association** that provides legislative advocacy and capacity building to leasing companies and members.

The Nigeria Leasing industry faces financial, operational and regulatory challenges which must be addressed to promote its growth.

# Diamond Bank's Strides in the SME/Leasing Sector



# We provide SME Financing for Equipment Lease or Purchase



...Because we recognise the economic importance of capital as a factor of production



# We foster active partnerships to promote MSME Growth & Development in Nigeria



Our partners include:



# We reward viable ideas to promote Entrepreneurial Development

## Building Entrepreneurs Today (BET)

- Currently in its 6<sup>th</sup> season, BET series is an annual initiative where we bring together, young people with viable business ideas
- We challenge them to compete for an eventual prize of financial support valued at millions of naira.



Through our BET initiative, several Nigerians have become successful entrepreneurs across diverse sectors further creating employment for young people

# We offer Advisory Services and MSME Business Seminars

## Diamond Business Seminar

- MSME owners who are account holders of the bank are trained periodically with critical skills for business success
- Focus areas include Financial Planning, Bookkeeping and Budgeting amongst others.

*...applying business management skills gained at Diamond Business Seminars, my profit has soared tremendously...*

*Founder – Directions Apparel*

With 52 editions held across Nigeria to date, our MSME Business Seminars serve to contribute towards MSME development and address unemployment in our society

# We are committed to Women Capacity Building

## **Diamond Woman Proposition**

This initiative is aimed at scaling up financial access for adult females to enhance capacity for self-sufficiency their pivotal role in households and society at large.



Under the Diamond Woman Proposition, workshops are held frequently to empower women with critical skills for personal development as students, homemakers, professionals and business persons

Because we understand the economic importance systemic role of women towards fostering national human development

# We are passionate about deploying Innovative MSME Business Solutions



Our offerings are aimed at enhancing the business productivity of Nigerian MSMEs

In recognition of our support for Nigerian SME development...



**Diamond**

BEST SME-FRIENDLY  
BANK IN NIGERIA



Diamond, in 2014, was awarded “**Best SME-friendly Bank in Nigeria**” by Nigerian-British Chamber of Commerce & Industry

We understand the importance of SMEs towards creating jobs and stimulating economic growth...



“Our dedicated MSME team was set up to avail innovative tools that can help small business thrive and contribute more towards our national development”

**THANK YOU**