VEHICLE LEASING COMPANY DEVELOPMENT IN NIGERIA

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Abstract

The acquisition of asset (vehicle) in transport financing is capital intensive and beyond individuals, companies and government. This invariably brings about alternative methods of vehicle acquisition such as purchasing, financing and leasing. Of all methods, Vehicle Leasing (VL) has received lopsided attention in Nigeria transport research. The study examined the development of vehicle leasing, types, forms as well as challenges confronting its operation in Nigeria. Disaggregated volume of Vehicle Leasing Companies (VLC) was obtained from Corporate Affairs Commission, literature relating to types and forms of leases were reviewed and challenges faced by the operators were obtained from four prominent VLC (Cashlink Leasing Plc (CLP), NIKKY Taurus Ltd (NTL), C & I Leasing (CIL) and Sterling Asset Management Trustee Leasing Ltd (SAMTL) that are found in Lagos out of the 23 cities in Nigeria in 2018. VL originated in Lagos with Pine Hill Leasing in 1986. In 2018, VL gradually spread across 23 urban centres with 297 VLC in operation. The largest and lowest proportions of VLC are located in Lagos (59) and Maiduguri (2) respectively. Direct, leverage, wet and dry, lease purchase, sales and leaseback are forms of leases practice by the VLC under operating and finance lease types. The challenges however faced by the VLC include cost of maintenance and service, poor pricing of lease service, inadequate financing of vehicles and default in financial obligation. It is recommended that, VLC should be accessible to loans and debentures at low interest rate, avoid unhealthy competition, increase expert and professionals in VL operation, encourage the use of locally manufactured vehicles and provision of sustainable policy regulation by the government.

Key words: Development, Vehicle leasing, Financing, Leasing Companies, Nigeria.

JEL Classification: R40

1. INTRODUCTION

The role of transport in the movement of goods and services all over the globe is of unique economic and social importance and its role in the actualization of the desire of people to travel from one place to another regularly or occasionally is not in doubt. Transport industries fulfil one of the most important functions and are one of the most pervasive activities in any society or economy (Hoyle et al, 2000). Despite important functions of transport, future disruption in mobility will have profound implications on a range of connected industries, in which vehicle acquisition is key. Vehicle acquisition is emerging as a new battleground, situated at the crossroads between the automotive and finance sectors.

In the automotive and finance arenas, there are three main methods of acquiring vehicle in developed and developing worlds: outright purchase, financing and leasing. Purchasing has been referred to as doing "the five rights": getting the right quality, in the right quantity, at the right time, for the right price, from the right source which is a win-win situation. Solanke, Raji & Alli (2019), Durgee & O'Connor (1995) viewed purchase as an exchange involving ownership for money. In this form of exchange, ownership of the product goes from provider to the purchaser, and money (cost of product) goes from purchaser to provider.

Financing is a direct lending; whereby bank, finance company or credit union agreed to finance on buyer's behalf of an asset and the buyer agrees to pay, over a period, the amount financed, plus a finance charge. However, leasing on the other hand involves one party offering an item to another party for a fixed period in exchange for money and in which there is no change of ownership. Leasing of vehicle entails the right to use it for an agreed number of months and miles. At lease end, one may return the vehicle, pay any end-of-lease fees and charges, and "walk away." In another way, one may buy the vehicle for the additional agreed-upon price if there is a purchase option, a typical provision in lease agreements.

Solanke et al (2019) and Durgee & O'Connor, (1995) described both purchasing and financing as acquisition methods that involve change of ownership. In contrast, leasing does not involve a change of ownership. By leasing a product, people are only given the right to use the leased product. The monthly payment for leasing only covers the vehicle depreciation during the lease but not the cost of the vehicle (Solanke et al, 2019; Mannering, Winston & Starkey, 2001). More importantly, change of ownership does not occur in leasing as lessees are actually paying for the "consumption time" of a vehicle, not ownership (Solanke, et al. 2019; Durgee & O'Connor, 1995).

Vehicular leasing is an aspect of general leasing which is an arrangement and contract entered between a lessor and lessee, giving the lessee possession and usage of a vehicle on payment of rentals over a period of time. Meanwhile the lessor retains the ownership of the vehicle so that it never becomes the property of the lessee or any other related third party during the tenure of the lease. The key

difference is that, in (buying), the buyer arranges the financing, purchases the asset, and holds title to the asset while in (leasing), the leasing company arranges the financing, purchases the asset, and holds title to the asset. More so, the monthly payments on a lease usually are lower than monthly finance payments on the same vehicle because you are paying for the vehicle's expected depreciation during the lease period, plus a rent charge, taxes, and fees. But at the end of a lease, you must return the vehicle unless the lease agreement lets you buy it and you agree to the purchase costs and terms (Brealey, Myers & Marcus (2001).

The word leasing is used every now and then by professionals and practitioners to mean different form of buying options such as hire purchase, charter and even rent; without adequate knowledge of its origin. This study deals with the examination of the development of vehicle leasing companies in Nigeria and its challenges as transport finance option.

2. LITERATURE REVIEW

Vehicular leasing is an aspect of general leasing which is an arrangement and contract entered into between a lessor and lessee, giving the lessee possession and usage of a vehicle on payment of rentals over a period of time. The lessor retains the ownership of the vehicle so that it never becomes the property of the lessee or any other related third party during the tenure of the lease.

2.1. CONCEPTUAL REVIEW

Generally, Lessee and Lessor are major concepts in equipment leasing operation and are considered relevant in this study

CONCEPTS OF LESSEES AND LESSORS

Prospective Lessees: Any equipment user is a prospective lessee. The users can range from multinational corporations, to sole proprietorships, to individuals using equipment for personal reasons (Richard, 2002).

Potential Lessors: In theory, any company in the financing business can be a potential lessor of equipment because of the competitive nature of equipment leased and the expertise required. However, it involves only certain types of organizations that are active in the leasing market. Potential lessors can be categorised into five - individuals, independent leasing companies, lease brokers, captive leasing companies, and banks (Richard, 2002).

(i) Individuals: Wealthy individuals can be a competitive lessor because they often take greater business risks than a traditional leasing company during difficult financing situations. This has propelled few innovative equipment leasing companies and investment bankers to develop interesting investment programs for individuals which make them an increasing part of the equipment financing business. For example, some railcar lessors have set up individual investor programs to

provide individuals with opportunities to invest in short-term railcar leases (Richard, 2002).

(ii) Independent Leasing Companies: Independent leasing companies provide a major source of equipment lease financing, because leasing is their principal source of revenue. They are more aggressive in their dealing and, in some cases, willing to bend the rules for the lessee's benefit to win a transaction. For instance, some companies will give a lessee the right to buy the equipment at a low, predetermined fixed price when the lease ends, a practice that can run the risk of adverse tax consequences. The two types of independent leasing companies are those that merely buy and lease equipment to the user (finance leasing companies) and those that offer additional services such as maintenance and repair of the equipment (service leasing companies).

(a) Finance Leasing Companies: Finance leasing companies are lessors of millions of dollars of equipment each year and operate the same manner as banks or other financing companies. They do not maintain an equipment inventory, but, after agreeing on a lease with a lessee, they buy the specific equipment needed for the lease. The lessee orders and receives the equipment from the vendor. When it arrives, the finance leasing company pays for it, takes title, and leases it to the equipment user. Finance leasing companies typically write leases, called finance leases, that run from 70% to 80% of the equipment's useful life. The total amounts received under these leases, including the rents payable and the equipment residual value proceeds, are usually sufficient to provide lessors with a full return of their equipment investment and a profit. If the equipment purchase is leveraged with third-party debt, then the rents will generally be enough to cover the full repayment of the debt. This type of long-term lease is net to the lessee; that is, the lessee must assume substantially all the equipment ownership responsibilities such as maintenance, taxes, and insurance.

(b) Service Leasing Companies: Service leasing companies provide non-financial services to lessees in addition to the equipment financing. Services may include equipment maintenance and repair or advice on the equipment's operation and design. Service lessors typically limit their activity to a single type of equipment, such as computers, or to a single type of industry, such as the mining industry. The intense experience gained through the specialization enables them to reduce many leasing risks (Richard, 2002).

(iii) Lease Brokers: Lease brokers are also referred to as lease underwriters or syndicators, lease brokers package lease transactions for third-party accounts: They simply match up prospective lessees with prospective lessor-investors. Lease brokers charge a fee for their service, usually ranging from 0.75% to 8.0% of the leased equipment's cost, which is typically paid for by the lessor-investors (Richard, 2002).

(iv) Captive Leasing Companies: This is an arrangement whereby equipment vendors set up their own leasing companies, generally referred to as captive leasing companies, to service their customers. The purpose is usually to offer lease financing on equipment sold by an affiliated company, some captive leasing companies also may be willing to buy, and lease equipment sold by a non-affiliated company. The reason is when it markets its affiliated company's equipment, that company makes a sale profit, and the captive lessor can then work with a lower financing profit than other types of lessor (Richard, 2002).

(v) Banks: Many banks, particularly national and commercial banks, are actively involved in equipment leasing. They usually are lessors in net finance leases because of regulatory requirements and because those leases provide the least risk and most similarity to their lending activity. Banks are not generally inclined to take aggressive equipment residual value positions, thus resulting in potentially higher market lease rates. Their cost of funds, however, in many cases is lower than that of non-bank lessors, frequently offsetting their conservative residual value positions. Banks are not as dependent as most non-bank lessors on their leasing activities for revenues and so can afford to miss out on many deals.

There is a hidden risk in dealing with banks because leasing is not considered their main line of business, so if banks experience general financial difficulties, as they have in the late 1980s and early 1990s, their leasing departments are usually the first to go. Management's rationale is that they must go back to basics to get their financial house in order. A good example given by Richard (2002) was the sale of Chase Manhattan Bank's profitable leasing subsidiaries in 1991 which is the likely possibility when a bank experiences general financial problem.

These categories of lessors wholly form the status of the vehicle leasing companies examined in the study as they comprises of vehicle rentals, motors sales companies, cab services, logistics companies, hire purchase companies, transport companies and transport related services as identified by corporate affair commission in 2018 (CAC, 2018).

2.2. EMPIRICAL REVIEW

HISTORICAL GROWTH OF LEASING IN NIGERIA

The leasing evolution can be traced to mid-19th century based on some decided cases in the British House of Lords, where some form of leasing existed in the United Kingdom in the mid-19th century. The first London Railway-the London Greenwich is said to have been leased to the south eastern railway in 1844 for 999 years. There was however no organized leasing in Great Britain until 1860 when financial leasing was launched in the city of London as a new method of business finance. Modern leasing however is believed to have started in the United States of America in the 1950s from where it spreads to Europe and Japan in the 1960s and

rest of the world in the 1970s (Equipment Leasing Association of Nigeria (ELAN), 2016).

In Nigeria, prior to the imposition of the exchange control measures in the wake of the civil war in Nigeria (1967), Nigeria subsidiaries of British Companies had benefited from offshore leasing direct from British Lessor Companies. Given the level of industrialization in Nigeria at the time, the volume was predictably low, by 1972 however two locally incorporated companies – Bentworth Finance Ltd and NAL Securities Ltd (subsidiary of NAL Merchant Bank) were offering a limited amount of leasing facilities within Nigeria. With post-war reconstruction and increased earnings from crude oil exports as a result of the Arab-Israel conflict of 1973, the country embarked on an ambitious industrialization programme which required a heavy outlay on capital assets. Instead of outright purchase of the heavy equipment needed a large number of contractors, particularly the foreign companies, preferred to lease them (ELAN, 2016).

Fortunately, at this time new merchant banks were encouraged to establish in the country to provide the much needed medium term finance. As the dominant equipment lessors were merchant banks, the volume of assets on lease in the country grew in direct proportion to the number of merchant banks in operation therein. From available statistics, the net book value of equipment on lease in the country increased from N7.7 million in 1977 to N26.3 million in 1981.

When the Equipment Leasing Association of Nigeria (ELAN) was founded in 1983, the total leasing volume was estimated at N61 million and there were only six member companies. As at December 31, 1990, there were over 35 registered member companies of ELAN and outstanding leased assets owned by ELAN member companies was over N1.0 billion (ELAN, 2016).

Previous researchers have been able to explore the growing phenomenon of leasing based on their operations, its significance, items leased, ownership and consumption perspectives. Mannering et al, (2002) observed that consumers' growing attraction to leasing arose from their ongoing desire to upgrade their vehicles. This desire was reflected in consumers' vehicle choices. While consumers who paid cash, financed or leased were all influenced by certain vehicle attributes such as greater reliability, performance (as measured by turning radius and vehicle horsepower), lower fuel or purchase price, and higher residual value, consumers who leased were willing to pay considerably more for certain ''luxury'' attributes than those who purchased. The scholars revealed that lessees were willing to pay about twice as much for a passenger-side airbag and more than 80% for additional horsepower.

Trocchia, Beatty & Hill (2006) examined motor vehicle leasing based on economic and non-economic issues. They identified income and wealth as economic issues, and personal preference as non-economic issue. They further discovered five consumer segments of vehicle lessees and financers, based on motives for vehicle

leasing or financing. Two segments are lessees predominated, which are budget gourmets and automotive hedonists. The other two segments are financer predominated: utility seekers and basic transportation seekers while the final segment is mature luxury seekers. Meanwhile, Smith & Wakeman (1985) suggested eight reasons for increase in probability for a firm who lease and these include; (i) lease is engaged when the value of the asset is less sensitive to usage and maintenance decisions; (ii) the degree to which the asset is specified to the firm is high; (iii) the expected utilization period of the leased asset is short compared to its expected useful life; (iv) they are corporate bond contracts with certain restrictive covenants; (v) the management receives provisions based on the return on capital invested; (vi) the firm is closely held; (vii) the lessor has market power and (viii) the lessor holds a comparative advantage in asset disposal.

Solanke et al (2019), Kaglah (2009) in their study of vehicle leasing comes to the conclusion that in leasing, one does not need to have large cash outlay in the beginning but get use of the vehicle immediately while buying the equipment outright will reduce your cash flow immediately and also that legislation can impose some restrictions to the purchase. Therefore, anything one cannot own or hold title to cannot be leased, because to act as a lessor one needs to buy the asset first. A lot of equipment dealers and financial institutions have suffered a great deal of financial loss as a result of customers' inability to pay for the equipment under lease or loan. This is because most of these financial institutions and vehicle dealers do not have a well-defined and structured mode of granting leases. Therefore, in an attempt to increase turnover, sales managers hastily recommend credit facilities to potential buyers without carrying out due diligence, eventually this in most cases leads to bad debt.

Miller & Upton (1976) study the residual value uncertainty of lease contracts. They considered contracts with short and long-term lease payments and resulted that a short-term lease rate compensates the lessors for the depreciation on their asset and the foregone interest on the capital invested in the asset. The long-term rate can be derived by extending the short-term rate to several periods. Smith (1979) observed leases according to collateralised loans. This type of loan is equal to a sale of the collateral to the lender from the borrower by receiving the proceeds of the loan plus a lease which allows the lender to use the collateral over the time period of the loan plus a call option to purchase the collateral asset at a certain promised repayment. In other word, a lease can be valued as a collateralised loan where the leased asset functions as the collateral.

Ang & Peterson (1984) based their study on leasing incentives and was based on the relationship between debt and leasing on one hand and on the other hand, was based on related costs. They analysed the degree to which leases displace debt. Their empirical results contradict the predominant view prevalent at the publication time of their study. Prior to this, the scientific community has considered debt and leases as substitutes, whereas they find evidence that those are

complements. Their analyses showed that firms with a higher use of debt also have a greater use of leasing. This result was backed up by various explanations given by Ang & Peterson (1984), one of them being qualitative differences between the debt of leasing and of non-leasing firms. An additional approach comes from Krishnan & Moyer (1994) that focuses on the costs related to leasing. They showed empirically that the expected bankruptcy costs are lower with leasing for the lessor than with borrowing for the lender which decreases the financial costs to the lessee.

White et al. (1999) use a product life-cycle perspective in their study of leasing; where the total environmental impact of a strategy is given by the volume of products in each life-cycle phase (production, use and disposal) multiplied with the per-unit environmental impact in that phase, summed over all the life-cycle phases. Adopting this profit-maximization perspective is important in the non-regulatory context, since firms will adopt leasing only if it is more profitable than selling.

Bower et al. (1966) examined present value evaluation of a lease, which was based on leasing advantages and disadvantages. They classify the advantages of leasing according to three characteristics: operating advantages like tax advantages, risk advantages like transferring the residual value risk to the lessor or financial advantages like the treatment of leases different to debt. These advantages (or disadvantages) have to be taken into consideration when applying the discount rates to the different cash flows of the present value evaluation of a lease in order to rate the lease's profitability. Depending on the value of those three leasing characteristics which are included in the used discount rates, the advantage (or disadvantage) of leasing can be determined.

Miller (1995) in his own study examined a call option to purchase leased car at maturity stage. He analysed the value of purchase options in closed-end automotive leases with guaranteed buyback provisions and finds empirical evidence that the call option is of considerable value. He argues, therefore, that the estimated capital costs regarding guaranteed buy-back lease contracts are too high which biases the lease versus buy decision against leasing. Giacotto et al. (2007) affirms the results as he provides an empirical analysis of the call option value inherent in automotive lease contracts.

This problem of leasing seems to have been caused by unstable nature of the economic and investment climate in Nigeria and misinformation and interpretation of vehicle leasing business to the general public as a whole. This can be viewed from the frequent and unpredicted changes in both monetary and fiscal policies of the federal government that lead to turbulence and create threats to the industry in general and vehicle leasing business in particular. Leasing is required more, now in Nigeria following the prohibition of off shore guaranteed loan facilities by companies operating in Nigeria, as means of easing the mounting debts burdens, and the instability of the operational characters of the foreign exchange market; that is

currently causing increase in the price of imported technology and equipment in Nigeria (Oko & Anyanwu, 2012).

According to Patil, (2000) who identified financial and accounting problems, rigid procedure for import/cross border leasing, inadequate tax benefits and additional tax burden, lack of proper legislation, existence of cutthroat competition, lack of expertise in the management and government policies as problems of lease in India. He further suggested that, leasing has great potential and prospects in India if well managed and regulated by government, as there is barely less than one percent of total industrial investment so far financed through leasing as compared to 30-40 percent capital investment through leasing in the developed countries like the U.S.A., the U.K., and 10 to 20 percent in Australia, Canada, Japan etc.

Meanwhile Pandey, (1987) opined that, cost of capital, financing effect of leasing, monthly and annual lease rentals, myths of leasing, lessor's risk vs return, adjusting interest tax shields, lessor's earning rate and deriving monthly rates from actual rentals are critical issues in lease valuation from lessee's and lessor's perspectives. Olanrewaju, (2014) cited tax issues, funding, high importation cost of equipment, default in payment in terms of fatigue, fraudulent practice and poor credit bureau and lack of leasing legislation. He also included the newly introduced Auto tariff policy by the Federal Government which increases the importation tariff by 35% (Business Day, 2014), which has resulted into high increase in the value of used foreign (Tokunbo) vehicles and non-availability of long-term low cost borrowing has contributed majorly to the decline of equipment leasing in the country. More importantly, in the contribution to Lemon, (2003). Oko (2013) highlighted futures problems of leasing and this includes control of service, specification of market, risk management, cost of operation-administration, management and marketing information system.

In a nutshell, an overview of the literature related to vehicle leasing shows that they were concentrated on consumer leasing behaviour, leasing as source of finance, satisfaction perception of leasing as well as leasing operations and management. However, vehicle leasing company development in disaggregated form and its associated problems as a method of financing transport asset, has not received adequate attention in Nigeria transport research. This thus creates some gaps in transport research especially with regards to vehicle leasing. In other words, this research aims at examining the vehicle leasing company development by examining its evolution, growth, types and form of lease practiced and problems confronting the vehicle leasing companies in general. It is of the opinion that the results of this study will produce necessary and relevant information in formulating appropriate policies by the government and transport finance stakeholders in order to protect and enhance development of the country transport finance sector.

3. METHODOLOGY

This study is on the development of vehicle leasing companies (VLC) in Nigeria. Both the primary and secondary data were employed for the study. Secondary data comprised of volume of vehicle leasing companies in Nigeria from inception in 1986 to 2018. This period of 30 years is considered long enough to have an established pattern of vehicle leasing in the country. The list of vehicle leasing companies in the country between 1986 and 2018 was obtained from Corporate Affair Commission (CAC, 2018). Other secondary data source includes existing literature relating to types and form of lease engaged in, in the vehicle leasing industry. These data were complemented with primary data, through structured questionnaires seeking challenges confronting the practice of lease in Nigeria. Four leading companies which are the major stakeholders in the vehicle leasing business in the country (Solanke et. al, 2019) with leasing experience ranging between 5 and 30 years and still operating till date were purposively selected for the administration of the questionnaire. They are the Cashlink Leasing Plc (CLP), C & I Leasing Plc (CIL), NIKKY Taurus Nigeria Limited (NTL) and SAMTL Leasing Limited (SLL).

Three hundred and nineteen (319) structured questionnaires were administered to the senior, intermediate and junior staff of the four companies based on Taro Yamenie model as shown in the same table 1 using simple random sampling technique. The senior staffs comprise of head of department, head of sub-business units (SBUs) and directors while intermediate staffs include various supervisors, departmental officers and administrative officers. Meanwhile, the junior staffs are the drivers on the field, clerks, cleaners and securities. 298 questionnaires were completed and returned forming 93.4% of the sample surveyed for analysis as shown in table 1.

Table 1: *Questionnaires distributed to and retrieved from the staff of the vehicle leasing companies (VLC)*

S/N	**VLC**	**Senior**		**Intermediate**		**Junior**	
		Dist.	**Retr.**	**Dist.**	**Retr.**	**Dist.**	**Retr.**
1	CLP	2	2	4	4	28	28
2	NTL	2	2	7	7	97	89
3	CIL	5	5	13	13	140	127
4	SLL	1	1	2	2	18	18
	TOTAL	**10**	**10**	**26**	**26**	**283**	**262**

Questionnaires	**Total**	**%**
Distributed	319	100
Retrieved	298	93.4
Not Retrieved	21	6.6

Source: Field survey, (2018)

The initial presentation of data generated was made through Bar charts and line graphs. The relationship between volume of vehicle leasing and number of cities where leasing is operated in the country is established using product moment correlation technique.

The findings emanating from the analyses of data in line with the goals of this study are discussed in section four.

4. DEVELOPMENT, TYPES AND CHALLENGES OF VEHICLE LEASING COMPANIES IN NIGERIA

4.1. DEVELOPMENT OF VEHICLE LEASING COMPANIES IN NIGERIA

As at 2018, there were an aggregate of two hundred and ninety seven (297) VLC across 23 cities in Nigeria. The highest registered vehicle leasing companies per city is 61 and they were located in Lagos state while the lowest is 2 and these are located in Makurdi, capital of Benue state. At this same year 59 VL Companies were operating and located in Lagos representing 20% of the total vehicle leasing volume while Abuja contributed 15% and other 21 cities contributed 65%.

The pioneers in the development of vehicle leasing in Nigeria include Pine Hill Leasing Ltd and Cashlink Leasing Plc (formally Cashlink Finance & Investment Plc) which are established in 1986 and 1987 respectively. The vehicle leasing industry is still witnessing progressive and dynamic increment with entry of new companies and retrogressive and extinction of infants and old companies in Nigeria cities as reflected by the analysed data. The number of vehicle leasing companies from the inception in 1986 to 2018 has increased tremendously (appendix 1).

In 1986, the number vehicle leasing companies were six (6) and all are situated in Lagos state and it includes; Pine Hill Leasing Ltd, Cashlink Leasing Plc, VT Leasing, C & I Leasing, Avis Rent-a-Car and Safe Wheelers Express Ltd. The number of companies increased from 6 to 25 in 1991 while the number of cities increase from 1 to 4 with 13 companies in Lagos (figure1), being the highest in the year, 3 in *Calabar* which is the lowest, 5 and 4 in *Port Harcourt* and *Abuja* respectively. In addition to 1986; Aquila Capita Ltd, Fleet partners, Fleet Derivatives Ltd, Corporate Cabs, Prime Logistics, NIKKY Taurus and Efex Executive bus services came to existence in Lagos state and this signifies a growth rate of 117%. Ibiza Private Taxi, St. Alexis Rent-a-Car, Santa Sede Nig Ltd, Benboya Nig Ltd, Ali Soyoyo Motors appeared in *Port Harcourt.* Obudu Ranch Travels, Mboto Car Services, Okona Motors in surface in *Calabar* while Praise City Global Services Ltd, Globe Cab Services Ltd, Continental Corporate Rentals and Daitrans Logistics Services located in *Abuja,* were incorporated into the industry

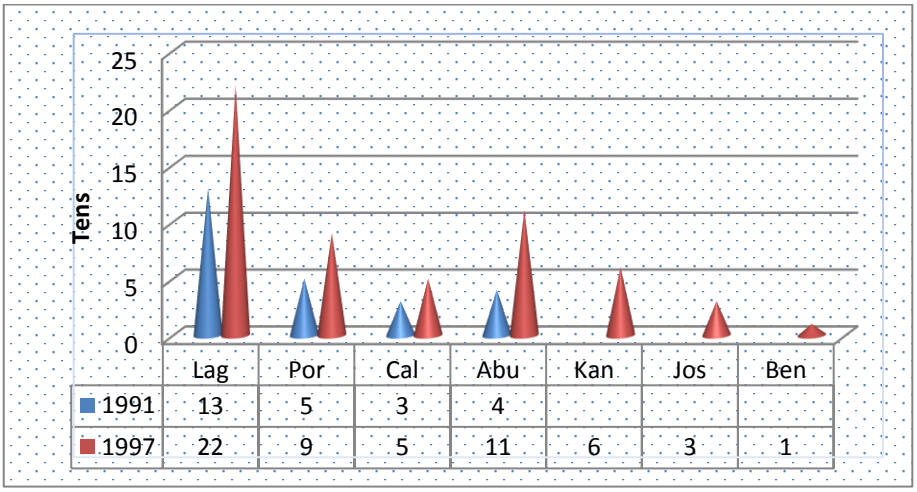


Figure 1: *Vehicle leasing companies in 1991 and 1997*

(Appendix 1). Further study revealed that, the number of cities rose from 4 in 1991 to 7 in 1997 with an increment in number of VLC from 25 to 57, with the highest number of companies registered are in Lagos (figure 1). In 1997, three cities (Kano, Jos and Benin) joined cities operating vehicle leasing with 6, 3 and 1 VLC respectively. For instance, Metallic Transport & Logistics, Safamofa Transport Company BK & Son Transport Company, AFSY Motors and Dakata Transport & Logistics are located in *Kano.* Jos has Airport Car Hire, City Lodge Hotel Car Hire and Plateau Express Services Ltd while GIGM Transport Services Ltd is located in *Benin* (appendix I). Although, the rate of increment varies proportionately across cities, Lagos has the highest number VLC with the highest growth rate in Abuja (175%) and lowest in Calabar (66.7%).

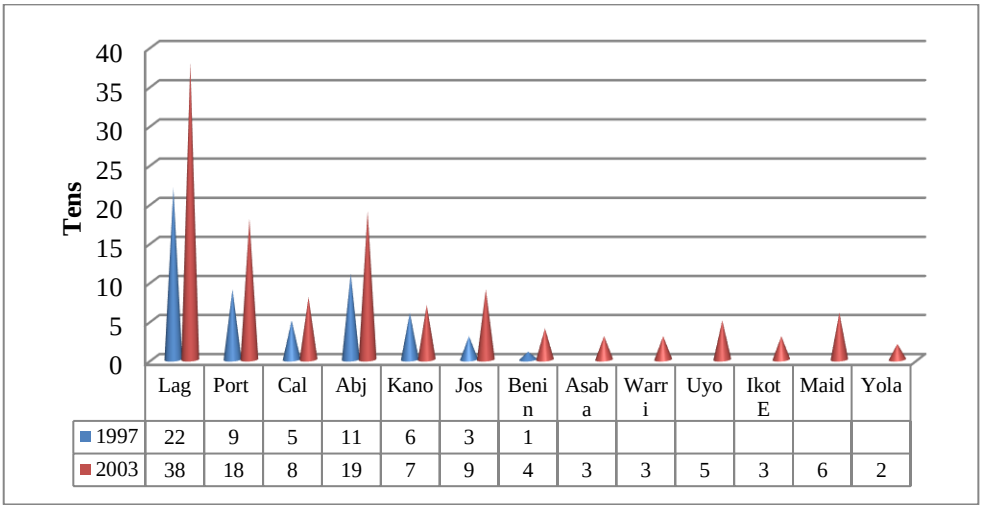
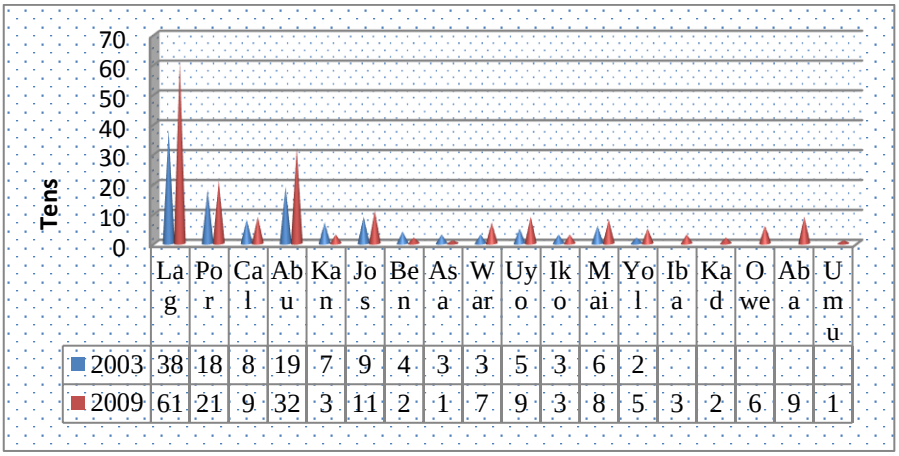


Figure 2: *Vehicle leasing companies in 1997 and 2003*

In 2003 a total of 125 companies were registered and the number of cities where they operate increased from 7 to 13 with introduction of Asaba, Warri, Uyo, Ikot Ekpene, Maiduguri and Yola. Thirty Eight (38) companies domiciled in Lagos being the highest and the lowest (2) companies were registered in Yola in Adamawa state (figure 2). On the average, there were 11 companies recorded for a 5 year interval such that two (2) companies were registered in each year. In addition, the following registered companies were added to these cities Port Harcourt (9), **Kano** (1), **Calabar** (3), **Abuja** (8), Jos (6) and **Benin** (3). The new cities have the following VLC added and they include ***Maiduguri*** {Nidar Ventures, B.N.Y Transport Services, Vicro Ventures Ltd, Galdimare Transport Services, Musbul Transport Enterprises, Geonkeeh Global Ventures (6)}; ***Asaba*** {Blue World Transport Services, Solozic Cars, Good Man Motors (3)}; ***Warri*** {Arks of Rest Motors, Attract Motors, Mobres Motors (3)}; ***Uyo*** {Andyson Nig. Ltd, Imeja Resources Company, Nsima Global Ventures, Isa Ukpai Company Ltd Uelyndo Nig, Ltd (5)}; ***Yola*** {VOYAGER Transport Company Service, Mikan Transport Services}and ***Ikot Ekpene*** {Mountains Logistics Ltd, Akwa Owo Inyene Transport Services, Ifechikara Global Transport Nig. Ltd (3)}. Despite the fact that Lagos and Abuja has 72.7% growth rate, the growth rate in Port Harcourt (100%), Kano (16.7%), Calabar (60%), Jos (200%), Benin (300%) are 100%, 16.7%, 60%, 200% and 300% respectively. In 2009, some of the VLC were exterminated from the vehicle leasing industry, however, similar to 2003, eleven (11) companies were added within 5 year interval and five (5) cities (***Ibadan, Kaduna, Owerri, Aba and Umuahia)were added*** and this brought the number of cities to 18 and companies from 125 to 193 companies (figure 3). The proportion of growth rate within this period in descending order include ***Warri*** (133.3%), ***Uyo*** (80%), ***Abuja*** (68.4%), ***Yola*** (66.7%) and ***Lagos*** (60.5%)with a total of 61 VLC. However, **kano, Benin, Asaba,** observed a shortfall of 43%, 50% 66.7% respectively which is attributed to the exit of some of the VLC in these cities.



	Lag	Por	Cal	Abu	Kan	Jos	Ben	Asa	War	Uyo	Iko	Mai	Yol	Iba	Kad	Owe	Aba	Umu
2003	38	18	8	19	7	9	4	3	3	5	3	6	2					
2009	61	21	9	32	3	11	2	1	7	9	3	8	5	3	2	6	9	1

Figure 3: *Vehicle leasing companies between 2003 and 2009*

More so, there has been a tremendous increase in the number of VLC from 2003 to 2009. In Lagos for instance, the increase is from 38 to 61, 18 to 21 in ***Port Harcourt,*** 8 to 9 in Calabar and 19 to 32 in Abuja, 7 to 8 in Kano and 9 to 11 in Jos. More VLC such as El-cardel Transport services in Calabar; Franc Bullion Motors, Globarry Ltd, Jospet cabs, Dbautohire were added to the existing number in ***Warri***; Extreme Rock Nig. Ltd, Unybrown Resources Ltd, Zoeldeel Global Company, Coscharis Motors in ***Uyo;*** Dantsoho Transport Ltd, AL-Mansur Transport Company Ltd, Peace & Love Transport Company, Goldlink Transport Company and Agency in ***Yola*** and Zanna Transport Service and Yanusa Transport Service in ***Maiduguri.***

Observed shortfall in VLC in Kano, Benin and Asaba was as a result of the exit of the following VLC in the vehicle leasing industry. ***Kano*** losing four companies (BK & Son Transport Company, Metallic Transport & Logistics, Dakata Transport & Logistics and Muodebelu Logistics & Industrial Company Ltd); ***Benin*** lost (Ekiosa Transport and Travel Service company and Dai Nig Transport Services); and Blue World Transport and Good Man Motors Transport liquidated in ***Asaba***.

Newly introduced cities in 2009 include ***Ibadan*** (Effizy Transport Services, Quest Car Hire, SwiftChariot Transit Services; ***Kaduna*** (Binaz Tarpaulin Company, Benom Rentals); ***Owerri*** (Ezenwa Transport Agency, Havana Car Services, Kingsobel Integrated Services, Sheffard Transport & Logistics, Shawcross Transport Services, Magnus Obison Transport); ***Aba*** (Maduako Transport Company, BAP Services Ltd, Barth, Anonye & Co Ltd, Maxco Group International, Obioha C.N Holiday Ltd, Trans Voyage Agency Ltd, Aba-Lagos Promoter Transport Co. Nig. Ltd, Ibeneme Transport Services Nig. Ltd, Ogwe, E.U & Sons) and ***Umuahia*** (Ihunanya Transport Services) (figure 3).

The rate of growth of company almost doubled city's increase with 53.9% and 27.8% for company and city respectively. Also, the operations of VLC have increased from 18 to 23 cities and 193 to 297 companies (Figure 4). On an average there were 13 companies for every 4 years (2015 – 2018) and 3 companies per year within the same period. Shutting down of new and old companies was also recorded during the period under investigation and they include Orange Cabs, Metro Taxi, Red Cabs, Corporate Cab, Ground Air Travel Services, Travel Start Nigeria Ltd in ***Lagos***.

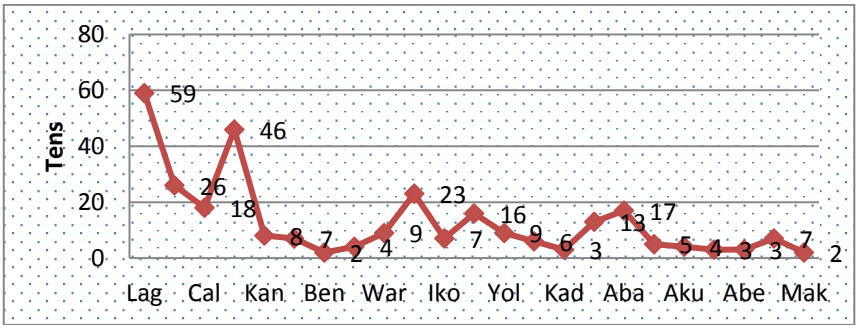


Figure 4: *Vehicle leasing companies from 2015 to 2018*

Some of the VLC added to vehicle leasing companies from the industry in the existing cities include Petroneela Nig. Ltd, Auto Tech Trackers, Pet Darl & Co Nig Ltd and so on, in ***Port Harcourt;*** Satellite Service Company, Dozluk Logistics International Ltd, Rich Way Logistics, Integrated Services Nig. Ltd, Diamond Development Initiatives in ***Kano;*** Planet Car Rentals, Pure Logistics, Top Rank Hotels Car Hire, C.O. Harry Martins Nigeria and more in ***Abuja;*** Autocentric, Executives Cruises, Fit Resources, Lima Cabs in ***Calabar;*** Emmynath Corporate Cab Services, Sesther Nigeria Enterprises, Bizpoint City Riders Corporate Cab Services in ***Ibadan;*** Kings Rental Services in ***Kaduna;*** Increase Car Rental Nig, Cars, CEEKAMZ Global Logistics and P.J.I Logistics in Asaba; Linotop Motors and Jonascof Motors Ltd in ***Warri;*** Nablog Nig. Ltd, Unybrown Resources Ltd, Passage Gold Logistics Solution Ltd and so on in ***Uyo;*** Abakan Dynamic Logistics Ltd, Green Dot Logistics Services, Itoimo Ventures and Legion Transport Ventures in ***Ikot Ekpene;*** AMTS TINTINE Transport Services, Musbul Transport Enterprises, Adam Abakar Transport Company etc in ***Maiduguri;*** Tugga Global Logistics, Mega Transport & Driving School, Wulapwa Logistics Service and Saubi Transport Company in ***Yola;*** Multifolds Global Logistics Ltd, Sureways Inland Logistics Nig Ltd, HYGE BRISK Logistics and so on, in ***Owerri;*** Mezia Tech Ltd, LonTrend Corporation, Dan Dollars Group etc in ***Aba*** and Fix it Services, Salins Nig. Ltd, Uchendu Transport Company Nig. Ltd and Chidi Ebere Transport Co. Ltd in ***Umuahia.***

Vehicle leasing companies that wind up include Maza Dasauri Transport Services, Omada Technological & Transport Company, Tubo-Ebi Transport Service, MT PALM Logistics Ltd, in ***Jos.*** Meanwhile, newly included VLC in newly added cities in 2015 are as follow: ***Abeokuta*** (Gateway Transit, MOORE Commercial Nig. Ltd and JKEL Nig. Ltd); ***Awka*** (El-Shaddaii Transport & Logistics Company Ltd, Right Round Transport, Ezu Transport Company and so on); ***Makurdi*** (Citilinx Transport & Digital Media Ltd and Ageje Logistics Ltd); Ilorin (XPRO Transport Services, KOSH-LOG & Resources Services and TODEEX Logistics) and ***Akure*** (M-Cube Executive Transport and Car Hire services, Paulytex International Company, Poinsetts Ventures Ltd, Crownex Global Logistics).

In order of ranking and importance of involvement in the development of the sector by states, Lagos state contributed (59) 20% of the total vehicle leasing volume in Nigeria but a decrease in growth rate in the state with – 3.28% in 2018 while Abuja contributed (46) 15%, Port Harcourt – (26) 8.8%, Uyo – (23) 7.7%, Calabar – (18) 6%, Maiduguri – (16) 5.4% and other 17 cities contributed (109) 37.1%. As at 2018, there are two hundred and ninety seven (297) VLC across 23 cities in Nigeria. The highest registered VLC per city within the period under review is 61 (2009) and they were located in Lagos state while the lowest is 1 and this is located in Benin, Edo state (1997), Asaba in Delta state and Umuahia in Abia state (2009). The study revealed that, there is a strong positive relationship ($r = + 0.98$) between the growing number of VLC and cities across Nigeria (Figure 5), that is as

the number of VLC is increasing, so also the number of cities in which the companies are being located in Nigeria is increasing.

It has been revealed that there is tremendous growth in the number of VLC in Nigeria this is also evident from past available statistics of leasing generally that, as at December 31, 1990, there was over 35 registered member companies of Equipment Leasing Association of Nigeria (ELAN) with outstanding leased assets of over ₦1.0 billion ($5.1 million). Consequent upon the development and growth of vehicle leasing, its impact in the economy cannot be over emphasized. For instance, the contribution of vehicle leasing to the revenue generation of Nigeria is visible in the growth of the industry from ₦869 Billion in 2014 to ₦1.1 Trillion in 2015 ($4.4 – 5.6 Billion) (ELAN 2016). Section 4.2 thus examined the lease type engaged by the VLC.

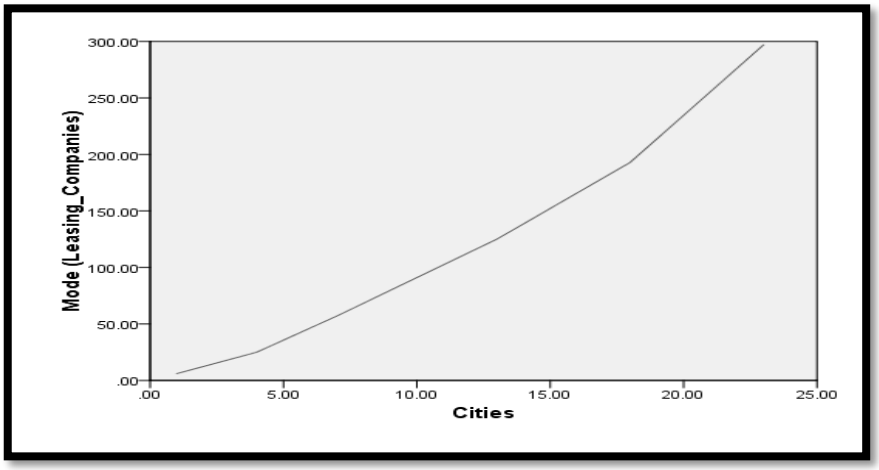


***Figure 5**: Relationship between vehicle leasing companies and cities*

4.2 TYPES AND FORMS OF LEASE ENGAGED BY VEHICLE LEASING COMPANIES

In automotive and finance sectors, there are different types and forms of lease plan and operations and these are largely depending on items, market situation, characteristics and consumers (lessee) put forward by numerous researchers and scholars. Moldenhauer, (2006) focused his study on lease classification such as the type of the leased asset (e.g. automotive leases), the volume of the value of the leased asset (small ticket and big ticket leasing), the type of lessor (e.g. leasing by manufacturers (direct) or dealers (indirect), the type of lessee (private or institutional), the domicile of lessee and lessor (cross-border-leasing) and particular specifications of the leasing contract (e.g. leased asset with specific requirements of the lessee or sale-and-leaseback contracts).

McConnell & Schallheim (1983) describe ***operating leases*** as compound options which is an option having a possibility of an underlying asset. The leasing contracts in their study are: (a) leasing contracts with an option to the lessee to extend the life of the lease, (b) leasing contracts with a lessee's long position in an European call option on the leased asset, (c) leasing contracts with a call option to the lessee to purchase the leased asset at the market price of the asset at maturity, (d) leasing contracts with a lessee's long position in an American call option on the leased asset, (e) leasing contracts with a lessee's short position in a European put option on the leased asset and (f) leasing contracts with a non-cancellation period.

Osaze, (1993) discussed various form of lease that include ***sales and leaseback*** which is a form of lease with an agreement that involves the user (initial owner and title holder) of an asset raising capital by selling the asset and transferring the title/ownership to a financial or leasing company (new owner) and simultaneously executing a lease agreement to retain the use of the asset and pay periodic rentals in return over the lease period and thus a form of asset refinancing. He described ***lease purchase form*** is an agreement between a lessee and a lessor that gives lessee the option to purchase the leased asset at the end of the lease tenure and the purchase option can only be exercised through an arm's length deal involving a third party who purchases the asset from the lessor to resell to the lessee. He also described ***direct lease*** as an agreement involves the lessor financing the purchase of the asset from his own resources, including any borrowed fund for which he is principally liable and ***leveraged lease*** where the lessor provides only a percentage of the capital cost of the vehicle from his own resources and the balance is borrowed from a third party who has no liability in case of default by the lease, in other words there is three participants in a leveraged lease – the lessor, the lessee and the lender of the funds. The lender, which is usually a financial institution, may provide up to 70% of the funds needed to purchase the asset in question while the lessor provide the balance of 30%. With the total amount so collected, the lessor now purchases the asset which is then offered as collateral for the loan obtained from the financial institution.

Osaze 1993, Amembal & Isom 1988 see ***wrap lease*** similar to a leveraged lease except that instead of the third party being a creditor/lender of funds, he is an equity participant. The lessor sells the asset to an equity participant and then lease back for a period of one or three years longer than the term of the user/lessee to whom the asset is released. In this case the equity participant is the wrap lessor and the lessee originator is the wrap lessee. Osaze, 1993 & Monu, 1989 described ***swap lease*** as an arrangement that allows a lessee to exchange vehicle in need of major repairs with proper working replacement vehicle during the repair period to avoid costly maintenance, repair and downtime delays. However, this is a rare since legal problems can arise in exchange collateral. Osaze, (1993) finally defined ***wet and dry lease*** where in wet lease contract, the lessor provides not only the vehicle but also the operational, management and service crew whose costs are built into the periodic lease rental payments. The lessee only has possession and use of the vehicle while

in a dry lease, only the vehicle is provided by the lessor while the lessee operates, manages and uses it as he deems fit in running is business.

Brealey et al. (2001) based their types of lease on term and types of transaction and come out with finance, net finance, leverage, non-leveraged and operating leases. Brealey et al (2001) referred to ***financial lease*** as debt financing which is another major type of lease. In contrast to an operating lease, the payments made under a financial lease (plus the anticipated residual, or salvage, value) are usually sufficient to fully cover the lessor's cost of purchasing the asset and pay the lessor a return on the investment. This is also called fully amortized or full-pay-out lease, whereas an operating lease is said to be partially amortized. In a financial lease, the lessee (not the lessor) is usually responsible for insurance, maintenance, and taxes, which cannot be cancelled, at least not without a significant penalty. They further categorized financial lease into tax-oriented leases, leveraged leases, and sale and leaseback agreements.

By nature of characteristics, operating lease is the lease which the payments received by the lessor are usually not enough to allow the lessor to fully recover the cost of the asset and this is relatively short-term in nature but will pay off only a fraction of the original cost of the car. Therefore, the life of the lease may be much shorter than the economic life of the asset and the lessor in an operating lease expects to either lease the asset again or sell it when the lease terminates. It is also frequently requiring that the lessor maintain the asset and responsible for any taxes or insurance. This will be passed on, at least in part, to the lessee in the form of financial lease obligation payments. Finally, is the cancelation option. This option can give the lessee the right to cancel the lease before the expiration date and if the cancel option is exercised, the lessee returns the equipment to the lessor and ceases to make payments and the value of a cancelation clause depends on whether technological and/or economic conditions are likely to make the value of the asset to the lessee less than the present value of the future lease payments under the lease. In variably, operating lease is usually a shorter-term lease under which the lessor is responsible for insurance, taxes, and upkeep of the asset and may be cancellable by the lessee on short notice (Brealey et al. 2001).

Solanke et al, (2019) classified types of lease operating by the VLC in Nigeria as ***operating*** and ***finance*** leases. They further observed that operating lease is proportionally higher (91.6%) in practiced than finance lease by the VLC. The study further observed that the operating lease practiced are in forms of direct, leverage and wet and dry leases, lease purchase and sales and leaseback. Based on the review, there are two major lease types irrespective of the forms of consideration and these include ***operating*** and ***finance*** leases. The lease types was also observed to come in form of and leaseback, lease purchase form, leveraged lease, non-leveraged lease, direct lease, wrap lease, wet and dry lease and swap lease.

4.3 CHALLENGES OF VEHICLE LEASING COMPANIES

There is spontaneous growth in development of VLC over the years. Also, lease businesses have been accepted as a method of acquiring assets, however, there are challenges plaguing the leasing industry particularly VLC which is examine in this section. The challenges observed in the study include:

- Poor pricing of the lease service - the study showed that poor pricing of lease service posed the highest threat to the companies. In table 4, high proportion of staffs in CLP – 91.2%, NTL - 73.3%, CIL - 63.4% and SLL - 100% alluded to poor pricing of lease service being a problem. In all, 72.5% of the staffs of the companies agreed that poor pricing is a major problem confronting their operation and activities.
- Inadequate Financing of Vehicles - the study also showed that inadequate finance of vehicles is another problem plaguing the companies. Proportional responses from the staffs of the companies (79.4% for CLP, NTL (62.4%), CIL (52.1%) and SLL (76.2%)) show that they agreed that inadequate financing of vehicles is one of problems confronting the companies. In totality, 60.4% of the staffs of the companies (table 5) held their view on this assertion.
- Default in Payment of Rental Charges - responses from the staffs regarding default in payment of financial obligations or rental charges showed a high proportion (67.8%) of the staffs affirmed to the problem. Individual affirmation to the problem by the staffs of the companies in the order magnitude includes CLP (91.2%), NTL (69.3%), CIL (59.2%) and SLL (70.8%).
- High Cost of Servicing and Maintenance of Vehicles - the study also showed that 64.1% of the staffs of the companies were of the opinion that high cost of servicing and maintenance is part of the issues that has contributed to the challenges encountered in the course of operation in their various companies. Although individual contributions to affirmation of existence of the problems in their company varies (CLP (76.5%), NTL (60.4%), CIL (62%) and SLL (76.2%), nevertheless, companies staffs individual reaction also affirm the challenge observed. It was observed that some of the company's fleet is old and this could have contributed to the exorbitant costs of servicing and maintaining the vehicles. The above findings from the study thus go in accordance with the submission and observation of numerous scholars such as the work of Pandey (1987) and Olanrewaju (2014).

5. SUMMARY AND CONCLUSION

The main objective is to examine the development of the vehicle leasing companies, types and form of lease practiced and challenges confronting the

companies in Nigeria. Disaggregated number of the vehicle leasing companies was collected from corporate affairs commission database of 2018 coupled with related literature and these were complemented with 298 structured questionnaires.

The results showed that, vehicle leasing started operations in Nigeria from 1986 with Pine Hill leasing, Cashlink leasing, VT leasing among others. As at 2018, the volume of companies have increased to 297 across 23 urban cities in Nigeria with 59 (20%) located in Lagos, Abuja contributed (46) 15%, Port Harcourt – (26) 8.8%, Uyo – (23) 7.7%, Calabar – (18) 6%, Maiduguri – (16) 5.4% and other 17 cities contributed (109) 37.1%. This invariably shows that, there is a strong positive linear relationship between the number of cities and vehicle leasing companies. The highest registered number of companies was 61 in the year 2009 and situated in Lagos state and the lowest was 1 located in Benin (1997) in Edo state, Asaba in Delta state and Umuahia in Abia state (2009).

The study further observed that, operating and finance leases are the major types of lease practiced in various form, ranging from direct lease to sales and lease back. More so, cost of maintenance and service, poor pricing of lease service, inadequate financing of vehicles and default in payment of financial obligations etc are the challenges confronting the vehicle leasing companies in Nigeria. These challenges could have accounted for the reason why the vehicle leasing companies are experiencing unstable exit and entry in the industry. These problems facing these companies can also be attributed to the instability in Nigeria economy and global recession as opined by (Oko and Anyanwu, 2012).

The study therefore recommended that, there should be a regulated policy for the industry by the government for future prospect and development, involvement and engagement of professionals and expertise in area of vehicle leasing, provision of low interest rate loans from banks for acquisition of vehicles, promotion and manufacturing of locally made vehicles in other to less the burden on importation of assets and so on.

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APPENDIX 1: *Disaggregate volume of vehicle leasing companies from 1986 to 2018*

S/No	Year	Location	Number of Vehicle Leasing Company in Cites	Total Company	Increase Rate
1	1986	Lagos	6	**6**	Nil
2	1991	Lagos	13		117%
		Port Harcourt	5		Nil
		Calabar	3		Nil
		Abuja	4	**25**	Nil
3	1997	Lagos	22		69.2%
		Port Harcourt	9		80%
		Kano	6		Nil
		Calabar	5		66.7%
		Abuja	11		175%
		Jos	3		Nil
		Benin	1	**57**	Nil
4	2003	Lagos	38		72.7%
		Port Harcourt	18		100%
		Kano	7		16.7%
		Calabar	8		60%
		Abuja	19		72.7%
		Jos	9		200%
		Benin	4		300%
		Asaba	3		Nil
		Warri	3		Nil
		Uyo	5		Nil
		Ikot Ekpene	3		Nil
		Maiduguri	6		Nil
		Yola	2	**125**	Nil
5	2009	Lagos	61		60.5%
		Port Harcourt	21		16.7%
		Kano	3		(43%)
		Benin	2		(50%)
		Abuja	32		68.4%
		Jos	11		22.2%
		Calabar	9		12.5%
		Ibadan	3		Nil
		Kaduna	2		Nil
		Asaba	1		(66.7%)
		Warri	7		133.3%
		Uyo	9		80%
		Ikot Ekpene	3		Nil
		Maiduguri	8		33.3%

		Yola	5		66.7%
		Owerri	6		Nil
		Aba	9		Nil
		Umuahia	1	**93**	Nil
6	2015	Lagos	59		(3.28%)
		Port Harcourt	26		23.8%
		Kano	8		166.7%
		Benin	2		Nil
		Abuja	46		43.8%
		Jos	7		(36.4%)
		Calabar	18		100%
		Ibadan	6		100%
		Kaduna	3		50%
		Akure	4		Nil
		Ilorin	3		Nil
		Asaba	4		300%
		Warri	9		28.6%
		Uyo	23		155.6%
		Ikot Ekpene	7		133.3%
		Maiduguri	16		50%
		Yola	9		80%
		Owerri	13		116.7%
		Abeokuta	3		Nil
		Aba	17		88.9%
		Umuahia	5		400%
		Awka	7		Nil
		Makurdi	2	**297**	Nil

Source: CAC, (2018)