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Leveraged Lease Financing and Project Profitability in Nigeria: A Conceptual Analysis

Fidelis Ifeanyi Emoh, Benjamin Ijeh Uwaezueka, Joseph Chukwudi Onyejiaka

Department of Estate Management, Faculty of Environmental Sciences, Nnamdi Azikiwe University, Awka, Anambra State, Nigeria.

Abstract

Nigeria faces a persistent financing gap in infrastructure, housing and commercial property, driven by costly short-tenor bank credit, shallow long-term capital markets and macroeconomic instability. Leveraged lease financing, in which an owner-lessor funds an asset with limited equity and largely non-recourse debt, is a possible response but has received little attention in Nigerian scholarship. This conceptual, non-empirical paper presents a narrative review of finance theory, Nigerian and comparable-market studies, statutes and institutional reports. Sources were located through keyword searches of web-based scholarly platforms and official websites, and were analysed thematically. The paper proposes that leveraged leasing can influence project profitability through five channels: tax efficiency, cost of capital, cash-flow matching, preserved borrowing capacity and risk allocation. Whether these channels raise profitability depends on four conditions: macroeconomic stability, the legal and tax framework, accounting practice and institutional capacity. The paper offers a conceptual framework and five propositions for empirical testing, together with policy directions for regulators, lessors, lenders and sponsors. Its findings are analytical, not causal, and the size of any effect remains to be tested.

Keywords: *leveraged lease; lease financing; project profitability; project finance; Nigeria*

1. Introduction

1.1 Background to the study

Nigeria's development ambitions in housing, transport, power and commercial property depend on a steady supply of long-term capital. The country has long faced a financing gap in these sectors, and the Revised National Integrated Infrastructure Master Plan estimates that about US$2.3 trillion of infrastructure investment is required over the period 2020 to 2043 (Federal Ministry of Finance, Budget and National Planning, 2020). Public budgets are constrained by revenue shortfalls and competing recurrent demands, while private developers and firms confront a credit market in which commercial bank lending is short-tenored, expensive and heavily collateralised. Capital markets, although developing, remain shallow for long-dated project debt. The result is a persistent mismatch between the economic life of the assets being financed and the maturity and cost of the funds available to finance them.

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In this setting, the financing structure of a project is not a neutral choice. The way a project is funded shapes its cost of capital, the timing of its cash outflows, its exposure to interest-rate and exchange-rate risk, and ultimately the returns that accrue to its sponsors. Lease financing has therefore attracted attention as a means of acquiring productive assets without the full upfront outlay that outright purchase requires. Within the family of lease structures, the leveraged lease occupies a distinctive place. In a leveraged lease, an owner-lessor, often called the equity participant, contributes only a fraction of the asset's cost, a share commonly cited in the range of twenty to forty percent, and raises the balance from one or more long-term lenders on a non-recourse or limited-recourse basis. The lenders' security is the asset itself and an assignment of the lease rentals, rather than the general credit of the lessor. The lessee obtains use of the asset for an agreed term in return for rentals. Because the equity participant is the legal owner of the asset, it is generally entitled to the tax deductions associated with depreciation and interest, and it can pass part of the value of those deductions to the lessee through lower rentals (Finnerty, 2013; Yescombe, 2014).

The structure has a long record in capital-intensive industries elsewhere, notably in aircraft, rail rolling stock, power generation equipment and large industrial plant. Its appeal lies in the combination of high leverage, tax efficiency and asset-backed security, which can lower the effective cost of funds to the user of the asset relative to conventional borrowing. Whether, and under what conditions, this appeal carries over to the Nigerian environment is the question that motivates this paper.

It is useful to separate the general benefits of leasing from the advantages specific to the leveraged structure. Leasing in general offers access to equipment without a large upfront payment, an alternative to collateral-heavy bank credit, and rentals that can be matched to the use of the asset (Fletcher et al., 2005). These benefits are available under a simple finance or operating lease funded from the lessor’s own resources. A leveraged lease adds features that a simple lease lacks. It introduces a third-party lender whose recourse is limited to the asset and the rentals, it allows a small equity commitment to support a much larger asset, and it makes the value of ownership-based tax deductions the main source of the lessee’s saving (Finnerty, 2013; Yescombe, 2014). These features raise the scale at which the structure is economic, increase the number of contracts and legal protections required, and make its returns far more sensitive to tax law, interest rates and residual-value assumptions than those of a simple lease.

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The Nigerian market gives this distinction practical weight. Outstanding leases were reported at ₦4.19 trillion in 2023, up from ₦3.25 trillion in 2022, and new leases rose from ₦672 billion to ₦935.6 billion. The market is concentrated in oil and gas (about 25 per cent of outstanding leases), transport and logistics (23 per cent) and manufacturing (14 per cent), with a shift from finance leasing to operating leasing for large assets (ELAN figures reported in Leasing Life, 2025). The same source reports that limited and costly funding has confined most lessors to smaller transactions. A structure that depends on large volumes of long-term, asset-backed debt therefore meets conditions different from those facing a small equipment lease. Infrastructure and real estate projects, where the financing gap is greatest, are the setting in which such a structure could mobilise larger sums, and they are also the setting about which least is known domestically. This is why leveraged leasing deserves separate investigation in Nigeria.

1.2 Statement of the problem

The specific knowledge gap is the lack of a conceptual account of how leveraged lease financing affects project profitability under Nigerian conditions. Nigerian leasing studies concentrate on simple finance and operating leases at the firm level and mostly relate them to accounting ratios (Bello et al., 2016; Atseye et al., 2020; Aremo & Ayorinde, 2022; Ejoh & Ojong, 2024). The one study located that includes a leveraged-lease variable measures it by debt to total assets, which captures general leverage and not the lease structure (Udoka et al., 2022). The gap has practical consequences. Project sponsors choosing between purchase, conventional leasing and a leveraged lease, and lenders deciding whether to fund non-recourse, asset-backed debt, have no Nigeria-specific basis for comparison. A conceptual analysis is needed before empirical testing because the structure is seldom identifiable in published accounts, so the variables, mechanisms and boundary conditions must be specified first.

1.3 Aim and objectives

The aim of the paper is to examine, conceptually and on the basis of existing literature and documentary sources, how leveraged lease financing affects project profitability in Nigeria. The specific objectives are to:

- clarify the concept, structure and economic logic of leveraged lease financing;
- identify the theoretical channels through which leveraged leasing may influence project profitability;

- assess the Nigerian macroeconomic, legal, tax, accounting and institutional environment for the use of leveraged leases; and
- propose a conceptual framework, testable propositions and policy directions to guide practice and future research.

1.4 Research questions

- What is leveraged lease financing, and how does its economic logic differ from that of other lease and debt structures?
- Through which channels can leveraged lease financing influence project profitability?
- What features of the Nigerian environment enable or constrain those channels?
- What conceptual framework and policy measures follow from the answers to these questions?

1.5 Significance and contribution

The paper contributes in three ways. It fills a gap in the Nigerian and wider emerging-market literature by focusing on a lease structure that has been largely neglected. It integrates strands of finance theory, namely tax-shield arguments, information and agency arguments, and collateral and debt-capacity arguments, into a single explanation of how the structure may affect project returns. And it translates that explanation into propositions and a framework that empirical researchers can test with panel, case-based or survey designs. For practitioners and regulators, it offers a structured account of the conditions on which the benefits of the structure depend.

The framework differs from existing lease-financing frameworks in three respects. The classic lease-or-buy models are valuation frameworks that take the tax system as given and were developed mainly for developed financial markets (Miller & Upton, 1976; Myers et al., 1976). Nigerian firm-performance studies relate lease use to accounting ratios without specifying mechanisms. The framework proposed here is specific to the non-recourse, three-party structure, ties each channel to identified Nigerian conditions, and separates project-level value creation from firm-level accounting outcomes.

1.6 Scope and structure of the paper

The paper is deliberately non-empirical. It does not collect primary data or estimate statistical relationships, and its claims are analytical rather than causal. Its scope covers project-level and firm-level profitability in capital-intensive Nigerian sectors, with emphasis on real estate, construction, energy and transport infrastructure, where asset-backed financing is most

relevant. The paper is organised so that each objective is addressed in an identified section. Section 2 sets out the methodology. Objective 1 is addressed in Section 3.1 and objective 2 in Sections 3.3 and 4.1. Objective 3 is addressed in Sections 3.4 and 4.2. Objective 4 is addressed in Sections 4.3 to 4.5, where the conceptual framework and propositions are developed and discussed, and in Section 5, which sets out policy recommendations and directions for future research.

2. Materials and Methods

2.1 Research design

The study adopts a qualitative, non-empirical, library-based design. It is a form of desk research in which existing knowledge is systematically located, examined and synthesised in order to develop new conceptual understanding. This design suits the research problem for two reasons. The topic is under-researched in Nigeria, so there is no established body of quantitative evidence on leveraged leases to analyse. In addition, the central task is to explain mechanisms and conditions, which is a conceptual task that logically precedes hypothesis testing. The design follows the tradition of the integrative or narrative literature review, which is appropriate when the aim is to critique and synthesise a body of work in order to produce a framework rather than to aggregate effect sizes (Torraco, 2005; Snyder, 2019).

The study is a narrative review. It is not a systematic review, and it does not claim the reproducibility of a protocol-driven review reported under guidelines such as PRISMA (Page et al., 2021). Sections 2.3 and 2.4 therefore describe what was done, so that readers can judge the evidence base, without implying that another researcher would retrieve an identical set of sources.

The epistemological stance is interpretivist. Meaning is drawn from the reasoning, assumptions and findings of the sources examined, and the analysis is guided by established theory rather than by inductive discovery from fresh data.

2.2 Sources of information

Four categories of source were used. The first is scholarly literature: peer-reviewed journal articles, academic books and refereed conference papers on lease financing, corporate finance, project finance and taxation. The second is statutory and regulatory material, including Nigerian leasing legislation, tax statutes and the guidance and circulars of relevant regulators, together with the international accounting standard governing leases. The third is institutional

and multilateral reports from bodies concerned with infrastructure finance, development finance and financial-sector policy. The fourth is industry and professional publications, including reports of leasing associations, law-firm and advisory briefings, and specialist project-finance texts. Using several categories permits triangulation, so that claims supported by theory can be checked against the regulatory and practical record.

2.3 Search strategy and selection criteria

Searches were conducted in September and October 2026 using a general web search engine that returns scholarly and institutional pages, followed by reading of the full records on publisher platforms and repositories. The platforms that supplied the sources include the journal sites of the European Journal of Accounting, Auditing and Finance Research and the World Journal of Finance and Investment Research, the Paradigm Academic Press site, ResearchGate and Academia.edu, the official websites of the Equipment Leasing Registration Authority and the National Assembly, and professional and trade-press sites. Subscription indexing databases such as Scopus and Web of Science were not searched, which is a limitation of the review. The principal search strings were: “leveraged lease” Nigeria; “lease financing” “financial performance” Nigeria; “Equipment Leasing Act 2015”; “Nigeria Tax Act 2025” capital allowances; “infrastructure financing gap” Nigeria; and “lease financing” Nairobi Securities Exchange. Reference lists of key papers were also followed to identify related works, a technique commonly described as backward citation searching.

Sources were included if they addressed lease structures, leasing theory, project financing or the Nigerian financing environment; were published in English; and came from a peer-reviewed outlet, an official body or an authoritative institutional publisher. Sources were excluded if they were purely promotional, lacked identifiable authorship or methodology, or duplicated material available in a more authoritative version. Titles and abstracts were screened for relevance and, where a source appeared relevant, its full text was read. The search was iterative and continued until the main themes were covered, and individual records were not logged, so the number of records identified and screened cannot be reported. The final set comprises 35 sources: 12 foundational journal articles on corporate finance and leasing theory; 3 books and institutional guidelines on project finance and leasing; 6 Nigerian empirical studies of lease financing; 1 unpublished comparable-market study from Kenya; 4 statutes, accounting standards and official plans; 4 industry, advisory and trade-press sources; and 5 methodological sources.

2.4 Method of analysis

The retained sources were analysed through thematic analysis (Braun and Clarke, 2006). Each source was read closely and coded for its treatment of the structure of leveraged leases, its stated or implied effects on cost, return or risk, and the environmental conditions it identified as important. Codes were grouped into candidate themes, which were reviewed against the data and refined into the five channels of impact and four sets of conditioning factors reported in Section 4. The conceptual framework was then built following the staged approach of mapping data sources, reading and categorising, identifying and naming concepts, deconstructing and categorising them, integrating concepts, and validating the resulting structure (Jabareen, 2009).

Coding decisions followed stated rules. Each source was first coded for three attributes: the lease structure it addressed, the mechanism through which it said profitability or the cost of funds changes, and the environmental condition it identified as relevant. A mechanism was retained as a channel only where it was supported by theoretical reasoning and by at least one empirical, statutory or institutional source. A condition was retained only where a source linked it to the operation of the lease structure or of asset-backed lending. Where sources conflicted, for example where Nigerian firm-level studies report positive, insignificant and negative associations between leasing and performance, the conflict is reported, and the divergent findings are treated as evidence that effects are conditional, not as errors to be resolved in favour of one view. Each claim in Section 4 is labelled as established evidence, theoretical expectation or proposition.

2.5 Trustworthiness and limitations of the method

Several steps were taken to strengthen the credibility of the analysis. Search and selection procedures are documented so that another researcher could reproduce them. Claims are traced to specific sources, and where sources disagree, the disagreement is reported rather than suppressed. Triangulation across scholarly, regulatory and practitioner sources reduces dependence on any single view. Nevertheless, the design has limitations. It cannot test the strength of any relationship, it did not search subscription indexing databases, it inherits the biases and gaps of the published record, including a likely preponderance of developed-market evidence, and it involves a degree of researcher judgement in coding and synthesis. These limitations are taken up again in Section 5.

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3. Conceptual, Theoretical and Empirical Review

3.1 The concept and structure of leveraged lease financing

A lease is a contract under which the owner of an asset, the lessor, grants another party, the lessee, the right to use the asset for an agreed period in exchange for periodic payments. Leases are conventionally divided into operating leases, in which the lessor retains most of the risks and rewards of ownership and the lease term covers only part of the asset's life, and finance leases, in which substantially all the risks and rewards pass to the lessee. A leveraged lease is not a separate legal category of lease so much as a financing arrangement built around a lease. Its defining feature is the involvement of a third-party lender who supplies most of the purchase price on a non-recourse basis, which is what distinguishes it from a direct lease in which the lessor funds the asset from its own resources or general borrowing.

Three principal parties are involved. The lessee selects the asset and pays the rentals. The owner-lessor, or equity participant, holds title, contributes the equity share of the cost, claims the tax allowances associated with ownership and receives the residual value of the asset at the end of the term. The lender, which may be a bank, a syndicate or an institutional investor, advances the debt share of the cost, and its repayment is serviced from the rentals. Because the lender looks to the rental stream and the asset rather than to the lessor's broader balance sheet, the debt is described as non-recourse or limited-recourse. Rentals are often structured so that they are just sufficient to service the debt and provide the equity participant with an acceptable return after tax (Finnerty, 2013).

Table 1. Principal parties in a leveraged lease and their economic roles

Party	Contribution	Return or benefit
Lessee	Rentals over the lease term; operation and maintenance of the asset	Use of the asset without full upfront outlay; rentals reflecting shared tax benefits
Owner-lessor (equity participant)	Equity share of the asset cost; ownership risk, including residual value	Tax allowances, rental surplus after debt service, and residual value
Lender	Debt share of the asset cost, on a non-recourse or limited-recourse basis	Interest and principal serviced from rentals, secured on the asset and the rental assignment

It is worth noting that accounting and tax treatments have evolved. Under earlier accounting regimes in some jurisdictions, leveraged leases were subject to special lessor accounting. The current international standard for leases, IFRS 16, requires lessees to recognise most leases

on the balance sheet through a right-of-use asset and a lease liability, which reduces the scope for off-balance-sheet treatment as a motive for leasing (IASB, 2016). This does not remove the tax and financing logic of the structure, but it changes one of the historic arguments made in its favour, an issue that is revisited in Section 4.

3.2 The concept of project profitability

Project profitability refers to the extent to which a project generates returns in excess of the costs, including the cost of capital, incurred in undertaking it. At the level of an individual project it is commonly assessed using discounted cash-flow measures, notably net present value and internal rate of return, supplemented by payback period and accounting return on investment. At the level of the firm that sponsors or operates projects, profitability is more often observed through return on assets, return on equity and profit margins. The two levels are related but not identical. A financing choice can change a project's measured profitability without changing its underlying operating performance, because financing affects the discount rate, the tax paid and the cash-flow profile.

This distinction is important for the argument of the paper. Leveraged leasing does not make an asset intrinsically more productive. Any effect on profitability arises from how the structure alters the cost of funds, the tax burden, the timing of cash flows and the risks borne by the sponsor. A rigorous analysis must therefore separate financing effects from operating effects, and must be explicit about the measure of profitability being discussed. In this paper, profitability is treated primarily in the project-level sense of value created after financing costs and taxes, with firm-level indicators considered as observable correlates.

3.3 Theoretical foundations

3.3.1 Tax-shield and cost-of-capital theories

The starting point in corporate finance is the proposition that, in a world without taxes and frictions, financing structure does not affect firm value (Modigliani and Miller, 1958). Once taxes and other imperfections are admitted, financing choices matter. Foundational work on leasing showed that the lease-or-buy decision can be analysed as a choice between alternative financing packages, and that differences in the tax positions of lessors and lessees create gains from trade (Miller and Upton, 1976; Myers, Dill and Bautista, 1976). A lessee with insufficient taxable income to use depreciation allowances and interest deductions fully may benefit from transferring ownership to a lessor that can use them, with part of the value

returned through lower rentals. Empirical work in developed markets has linked leasing to the tax status of firms and to the interaction between leases and conventional debt (Smith and Wakeman, 1985; Graham, Lemmon and Schallheim, 1998).

For leveraged leases the tax-shield argument is central, because the equity participant claims allowances on the full cost of the asset while contributing only a fraction of it. The tax benefits are therefore large relative to the equity invested, and competition among lessors can pass a portion of these benefits to lessees. The theoretical implication is that the structure lowers the lessee's effective cost of funds when a tax-efficient lessor exists, when the tax system allows the transfer of allowances through ownership, and when the benefits are not offset by higher transaction costs.

3.3.2 Information and agency theories

Pecking-order reasoning holds that firms facing information asymmetry prefer internal funds, then debt, and turn to new equity last (Myers and Majluf, 1984). Leasing can be read as a debt-like alternative that avoids the signalling costs of equity issuance. Agency theory adds that conflicts between owners, managers and lenders raise the cost of finance and can be mitigated by contractual design (Jensen and Meckling, 1976). The tying of debt to a specific asset limits the scope for asset substitution and for the underinvestment problem that arises when existing debt discourages profitable new projects (Myers, 1977). In a leveraged lease, the lender's claim is confined to a defined asset and cash flow, which simplifies monitoring and can permit lending on terms that would not be offered against the lessee's general credit.

3.3.3 Financial-constraint and collateral theories

Where information problems are severe, lenders may ration credit rather than raise interest rates, leaving some creditworthy borrowers unfunded (Stiglitz and Weiss, 1981). Later work argued that leasing relaxes financing constraints because the lessor retains ownership and can repossess the asset more easily than a secured lender could seize collateral, which raises the debt capacity of constrained firms (Sharpe and Nguyen, 1995; Eisfeldt and Rampini, 2009). The link to credit risk has also been analysed in equilibrium models of leasing (Grenadier, 1996). Applied to Nigeria, this literature suggests that the value of a leveraged lease depends strongly on the credibility of repossession rights and asset registration, since these determine whether asset-backed lending is in practice as secure as its legal form suggests.

3.3.4 Project-finance perspective

The project-finance literature treats non-recourse, asset-backed funding as a mechanism for allocating risk to the parties best able to bear it, using contracts to align incentives and to ring-fence cash flows (Yescombe, 2014; Finnerty, 2013). A leveraged lease can be seen as a project-finance technique applied to the acquisition of a specific asset. This perspective directs attention to the bankability of the underlying cash flows, the quality of contractual protections, and the allocation of construction, operating, residual-value, currency and regulatory risks, all of which affect the terms on which lenders and equity participants will commit.

Table 2. Theories and the profitability mechanisms they imply

Theory	Core idea	Implied profitability mechanism
Tax-shield and cost of capital	Allowances and deductions are more valuable to parties able to use them	Lower effective financing cost through shared tax benefits
Pecking order and agency	Information and monitoring costs raise the cost of finance	Cheaper, asset-tied debt and reduced agency costs
Financial constraints and collateral	Credit rationing and weak collateral limit access to debt	Higher debt capacity and financing of otherwise unfunded projects
Project finance	Risk is best borne by those able to manage it	Efficient risk allocation and protection of sponsor balance sheet

3.4 Review of leasing literature in Nigeria and comparable markets

Studies of leasing in Nigeria fall broadly into four themes. The first examines the relationship between lease financing and firm performance, usually through financial ratios for listed firms or surveys of enterprises (Bello et al., 2016; Atseye et al., 2020; Aremo & Ayorinde, 2022; Ejoh & Ojong, 2024). The second considers leasing as a route to credit for small and medium-sized enterprises, emphasising collateral constraints and the limited reach of bank lending (Akinbola & Otokiti, 2012). The third traces the development of the legal and institutional framework, including the enactment of national leasing legislation and the establishment of a registry for leased equipment (Federal Republic of Nigeria, 2015; ELAN, n.d.). The fourth comprises practitioner and advisory commentary on the state of the leasing industry, its constraints and its prospects (Leasing Life, 2025; ELAN, n.d.). The findings are mixed. Aremo and Ayorinde (2022) report that finance leases have a positive effect on the performance of listed manufacturing firms over 2011 to 2021, although the overall effect of

lease financing was statistically insignificant. Ejoh and Ojong (2024) report a positive effect of finance leases on the return on assets of quoted non-financial firms over 2011 to 2020.

Among the few Nigerian studies to include a leveraged-lease variable is Udoka et al. (2022), which examines quoted consumer goods companies over 2009 to 2018 using panel unit-root, cointegration and vector error-correction techniques. The authors report a significant positive effect of finance leases on return on assets and a significant negative long-run effect of the leveraged-lease variable, with a positive short-run effect. The discussion of the finance-lease result is not consistent across the sections of the paper, which limits how much weight it can bear. However, that variable is measured as debt to total assets, which reflects general corporate leverage rather than a lease financing structure with non-recourse debt. The findings are therefore better read as evidence on leverage and performance among leasing firms than on the leveraged lease structure as defined in Section 3.1. The measurement difficulty they face is the same one that motivates a conceptual treatment of the subject.

Evidence from other emerging and developing markets is broadly consistent with the theoretical expectations set out above. Studies typically report that leasing is more prevalent where formal credit is scarce, where legal systems support the repossession of leased assets, and where tax systems provide incentives for ownership-based financing. They also report that the growth of leasing depends on supportive regulation, access to long-term funding for lessors, and the capacity of the industry to manage residual-value and credit risk (Fletcher et al., 2005). In Kenya, an unpublished study of firms listed on the Nairobi Securities Exchange reports that lease financing was associated with higher return on assets (Kibuu, 2015), which is consistent with the Nigerian finding that lease use is often positively associated with performance. The comparative literature therefore points to the same enabling conditions that matter for leveraged leasing, though the structure itself is seldom singled out.

International evidence specific to leveraged leases derives largely from developed markets, where aircraft and large equipment financing dominate, and where tax policy has at times been a decisive factor in the volume and structure of transactions. That history is instructive in two respects. It shows how strongly the economics of the structure depend on tax rules, and it shows that changes in those rules can sharply alter its attractiveness. It also cautions against assuming that the structure will transfer to Nigeria without adaptation.

3.5 Summary and research gap

Taken together, the literature supports three conclusions and leaves one question open. It establishes, mainly from developed markets, that tax asymmetries, information problems and collateral constraints give leasing a financial rationale. It shows, for Nigeria, that lease use is associated with performance in ways that differ by firm, sector and period. And it shows that Nigeria now has a legal framework for leasing whose practical effect is still emerging. What remains open is how these elements combine for a non-recourse, three-party structure at the project level. Section 4 takes up that question.

4. Analysis and Discussion: Channels, Conditions and Framework

4.1 Channels through which leveraged leasing may influence project profitability

The thematic analysis of the literature yields five channels. They are presented separately for clarity, although in practice they operate together and interact. Each claim in this section is labelled by the strength of its support. Established evidence means findings reported in the cited studies or provisions of statute. Theoretical expectation means what finance theory implies but has not been tested for leveraged leases in Nigeria. Proposition means the authors' own conjecture, stated in Table 4. Table 3, at the end of Section 4.1, summarises the evidence status of each channel.

4.1.1 Tax efficiency

The most distinctive channel is the reallocation of tax benefits. Where a project sponsor cannot use capital allowances and interest deductions promptly, whether because it is in an early loss-making phase, enjoys tax incentives that reduce taxable profit, or is tax-exempt, ownership by a tax-paying lessor allows those benefits to be monetised. In the Nigerian context, this channel is relevant to start-up ventures, developers with lumpy income, and entities operating under tax holidays or incentives, although the details depend on the tax statutes in force. The framework has recently changed. The Nigeria Tax Act 2025, effective from 1 January 2026, permits capital allowance only on qualifying capital expenditure incurred in generating the assessable profits (section 27(2)), and it provides that the portion of allowance attributable to the priority activities of a company enjoying the Economic Development Incentive can be deducted only from the assessable profits of the priority business (section 27(5)) (Federal Republic of Nigeria, 2025). The Act also replaces the earlier initial and annual allowances with uniform annual rates of 10, 20 or 25 per cent depending on

asset class (EY, 2025), and the Economic Development Incentive replaces the pioneer status incentive (KPMG, 2025). These provisions cut two ways for leveraged leasing. Because allowance follows expenditure incurred in generating the owner's own profits, a taxpaying lessor that owns the asset and earns rentals from it appears well placed to claim it, whereas a lessee that does not own the asset cannot, and a sponsor whose allowances are ring-fenced to a priority business cannot set them against other income. At the same time, the abolition of the initial allowance and the move to uniform straight-line rates slow the recovery of the deduction, which reduces the front-loaded benefit on which the economics of leveraged leases have traditionally depended. Whether the Act treats the lessor of equipment as the owner for the purpose of section 27 is a point of interpretation that should be confirmed against the Act and with professional advice. The first effect is a theoretical expectation, the second follows from the statutory text, and neither has been tested for leveraged leases in Nigeria. If lessors are able to claim allowances and are willing to pass part of the value on through competitive rentals, the sponsor's after-tax cost of the asset falls and project net present value rises. If, by contrast, the tax rules restrict allowances to the user of the asset, or treat lease rentals unfavourably, the channel is closed.

4.1.2 Effective cost of capital

The second channel operates through the cost of funds. Because the debt in a leveraged lease is secured on a specific asset and rental stream, lenders may accept a lower margin or longer tenor than they would offer on an unsecured corporate loan, particularly if the lessor or the underlying lessee is of strong credit quality. The high proportion of debt in the structure allows the equity participant to earn an acceptable return on a small equity outlay, and competition among equity participants can translate this into a lower implicit interest rate for the lessee. In theory, this reduces the discount rate applied to project cash flows and improves profitability measures. In Nigeria, however, the benchmark against which any saving is measured is a high and volatile interest-rate environment. The structure can only lower the effective cost of capital if long-term lenders are available at rates that improve on conventional alternatives, and if the transaction costs of arranging the structure, including legal, advisory and registration costs, do not absorb the saving. This makes the channel particularly sensitive to the scale of the transaction: smaller transactions may not justify the costs of a multi-party structure.

4.1.3 Cash-flow matching

Third, leveraged leases allow rental payments to be shaped to the cash flows the asset generates. A power plant, a commercial property or a transport asset may take time to reach full earnings, and rentals can be structured with lower initial payments rising over time, or otherwise profiled to match revenue. Better matching reduces refinancing and liquidity risk and lowers the probability that a viable project fails for want of short-term cash. Compared with conventional Nigerian bank loans, which are typically shorter than the economic life of the asset, the longer tenors that leveraged structures can support may improve the alignment between debt service and earnings. This benefit is realised only if the underlying revenues are themselves reasonably predictable, which brings the analysis back to the quality of offtake arrangements, tariffs and tenancy, and to the credit of the lessee.

4.1.4 Preservation of borrowing capacity and liquidity

Fourth, the structure conserves the sponsor's capital. Because only a small equity share is committed by the owner-lessor and the lessee pays only rentals, the lessee avoids a large upfront outlay and may preserve its lines of bank credit for working capital and other investments. The financial-constraints literature suggests that this can raise the number of projects a constrained firm can undertake, which is a way in which financing structure affects aggregate profitability by enabling investment rather than by changing the return on any single project. It should be noted that accounting reforms have weakened the older argument that leasing keeps obligations off the balance sheet. Under IFRS 16, lessees generally recognise lease liabilities, so lenders assessing covenants and leverage ratios will see the obligation. The remaining benefit is therefore economic rather than presentational: the structure funds a larger share of the asset without requiring the lessee to raise equity or to pledge unrelated collateral.

4.1.5 Risk allocation

Finally, the structure redistributes risk. The lender bears asset and rental-stream risk but is shielded from the lessor's wider fortunes. The owner-lessor bears residual-value risk, that is, the risk that the asset is worth less than expected at the end of the lease, and this is a risk that the lessee might otherwise bear if it owned the asset. The lessee is relieved of some of that risk but takes on the obligation to pay rentals and, depending on the contract, to maintain and insure the asset. Where the parties are better able than the lessee to price and manage residual and technology risk, the redistribution is efficient and can improve expected profitability for

the sponsor. Where, however, risk is passed to parties who lack the capacity to bear it, or who price it punitively, the net effect may be negative. In Nigeria, currency risk is the most consequential of the risks: if the asset is imported and financed in foreign currency, while the lessee's revenues are in naira, depreciation can erode or reverse the anticipated gains.

Table 3. Evidence status of the five channels

Channel	Established evidence	Theoretical expectation	Status for Nigeria
C1 Tax efficiency	Tax asymmetries create gains from leasing in developed markets (Miller & Upton, 1976; Graham et al., 1998). Nigeria Tax Act 2025, s.27, ties allowance to expenditure incurred in generating assessable profits and sets uniform annual rates (Federal Republic of Nigeria, 2025; EY, 2025).	Allowances shift to a taxpaying owner and are shared through rentals; slower straight-line relief weakens the front-loaded benefit.	No leveraged-lease evidence located; statutory position recent and open to interpretation.
C2 Effective cost of capital	Agency and asset-securing arguments (Jensen & Meckling, 1976; Myers, 1977). Nigerian firm-level results are mixed (Aremo & Ayorinde, 2022; Ejoh & Ojong, 2024; Udoka et al., 2022).	Asset-backed, non-recourse debt may carry a lower margin or longer tenor, net of transaction costs.	Not tested; funding for lessors is limited and costly (Leasing Life, 2025).
C3 Cash-flow matching	Profiling debt service to project revenue is standard project-finance practice (Finnerty, 2013; Yescombe, 2014).	Longer tenors and shaped rentals reduce refinancing and liquidity risk.	No Nigerian evidence; depends on predictable revenues.
C4 Borrowing capacity and liquidity	Leasing relaxes financing constraints where repossession is credible (Sharpe & Nguyen, 1995; Eisfeldt & Rampini, 2009). IFRS 16 requires lessees to recognise lease liabilities (International Accounting Standards Board, 2016).	Higher debt capacity for constrained sponsors; benefit is economic, not presentational.	Registry inaugurated 2023, guidelines issued 2024 (Leasing Life, 2025); practical effect still emerging.
C5 Risk allocation	Non-recourse risk allocation is the core of project finance (Yescombe, 2014).	Residual-value and credit risk shift to lessor and lender; currency risk dominates.	Naira fell from about ₦460 to more than ₦1,600 per US dollar after the 2023 float (Leasing Life, 2025).

4.2 Conditions in the Nigerian environment that shape the channels

4.2.1 Macroeconomic volatility

Interest-rate levels, inflation and the exchange rate influence every channel. High policy and lending rates raise the cost of the debt component and reduce the margin available to share with lessees. Inflation erodes the real value of fixed rentals for lessors, which may lead them to prefer floating-rate rentals that shift interest-rate risk to lessees. Exchange-rate depreciation

raises the naira cost of imported equipment and of foreign-currency debt, and where revenue is in local currency, it creates a mismatch that can outweigh the tax and financing benefits of the structure. The naira has fallen from a fixed rate of about ₦460 per US dollar to more than ₦1,600 since the 2023 float, and borrowing rates have risen with inflation (Leasing Life, 2025). These conditions imply that the profitability effect of leveraged leasing is not stable across time but varies with the macroeconomic regime, and that structures that rely on local-currency funding or that hedge currency exposure are likely to perform better than those that do not.

4.2.2 Legal and tax framework

The viability of leveraged leasing depends on legal certainty in three areas: the recognition of the lessor's ownership and its priority in the event of lessee default; the enforceability of non-recourse debt and security assignments; and the clarity of tax treatment for lessors and lessees. Nigeria has enacted national leasing legislation and provided for a registry of leased equipment, which is a positive development in principle because registration helps establish priority and reduces disputes over title (Federal Republic of Nigeria, 2015). Under the Act, a lease agreement is to be registered with the Equipment Leasing Registration Authority within 14 days of commencement, and the lessor's interest prevails against third-party claims, including those of the lessee's creditors, subject to the protection of good-faith purchasers (ELAN, n.d.). The Equipment Leasing Registration Authority was formally inaugurated in 2023 and its guidelines were issued only at the end of 2024 (Leasing Life, 2025), so the registry is still young. The practical value of these provisions, however, depends on whether registration is efficient and widely used, and whether courts enforce repossession promptly. On tax, the key questions are whether lessors are recognised as owners for the purposes of capital allowances, how rentals and interest are treated, and how value-added and withholding taxes apply to lease transactions. Uncertainty on any of these raises the risk premium demanded by participants and may deter them altogether. Because Nigerian tax law has been subject to recent reform, practitioners should verify current provisions before structuring any transaction.

4.2.3 Accounting and disclosure

Accounting practice affects how leveraged leases are perceived by lenders, investors and regulators. With the adoption of IFRS 16, lessees recognise most leases on the balance sheet, which increases transparency and reduces the temptation to use leasing to obscure leverage.

For the profitability analysis, this has two implications. First, comparisons between purchase and leasing should be made on an economic basis, including the full cost of lease liabilities, rather than on the basis of reported ratios alone. Second, the change complicates research: because leveraged leases are rarely labelled as such in published accounts, researchers who wish to test their effects will face a measurement problem that must be resolved through careful proxies or transaction-level data.

4.2.4 Institutional and market capacity

The structure requires a supply of long-term lenders, tax-paying equity participants, competent legal and financial advisers, and skilled valuation of residual values. Nigeria's leasing industry is comparatively small, and its lessors often lack access to long-term, low-cost funding, which limits their ability to act as equity participants in large transactions. Industry sources report that limited sources and the high cost of funds have constrained most lessors' capacity to finance larger transactions, confining them largely to smaller enterprises, and that funders divide roughly 60:40 between specialised leasing companies and banks (Leasing Life, 2025). The development of local pension and insurance funds as long-term lenders, the participation of development finance institutions, and the growth of a secondary market for leased assets would all strengthen the institutional base. Awareness and skills matter as well: sponsors that are unfamiliar with the structure may reject it or may accept unfavourable terms.

4.3 Proposed conceptual framework

The analysis can be summarised in a framework with four elements. Leveraged lease financing is the focal structure. Five channels transmit its effects: tax efficiency, effective cost of capital, cash-flow matching, preservation of borrowing capacity, and risk allocation. Project profitability, understood as value created after financing costs and taxes, is the outcome. And two sets of conditioning factors determine the strength and direction of the relationship: enabling conditions, comprising the legal and tax framework, accounting practice and institutional capacity; and macroeconomic risks, comprising interest-rate, inflation and exchange-rate conditions. The enabling conditions influence whether the channels open at all, while the macroeconomic risks moderate how much value flows through them. The framework is depicted in Figure 1 and is expressed in the propositions below.

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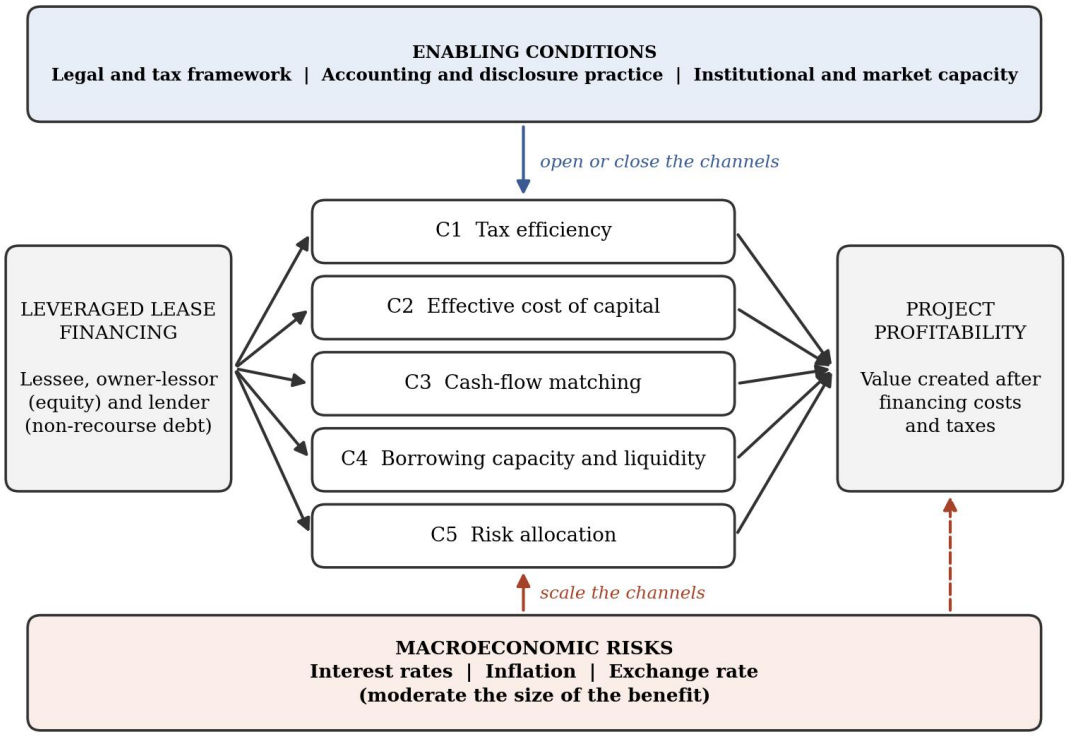


Figure 1. Conceptual framework linking leveraged lease financing to project profitability in Nigeria

The relationships in Figure 1 are justified as follows. The arrows from the structure to the five channels reflect the mechanisms analysed in Section 4.1. The arrow from the enabling conditions to the channels reflects the fact that each channel presupposes a legal or institutional fact: the tax channel presupposes that the lessor is recognised as owner for allowance purposes; the cost-of-capital and capacity channels presuppose credible registration and repossession (Sharpe & Nguyen, 1995; Eisfeldt & Rampini, 2009); and the risk-allocation channel presupposes that non-recourse security is enforceable. The arrows from the macroeconomic risks reflect that interest and exchange rates enter the discount rate, the cost of foreign-currency debt and the real value of fixed rentals. They are drawn as moderators because they change the size of the benefit and not whether a channel exists. The arrows run in one direction because the framework treats the structure as the source of the effect. Reverse causation, in which sponsors that are already profitable select leveraged leases, is a limitation that empirical work must address.

Table 4. Propositions derived from the conceptual framework

No.	Proposition	Main basis

No.	Proposition	Main basis
P1	Leveraged lease financing is positively associated with project profitability where the tax system allows ownership-based transfer of allowances and lessors are tax-paying.	Tax-shield and cost-of-capital theory
P2	The profitability benefit of leveraged leasing is greater for tax-constrained sponsors and for projects with back-loaded cash flows than for sponsors with ample taxable income.	Tax-shield theory; cash-flow matching
P3	The benefit increases with the credibility of asset registration and repossession rights, which raise the debt capacity of lessees and the willingness of lenders to lend at lower cost.	Financial-constraint and collateral theory
P4	High and volatile interest and exchange rates weaken the profitability benefit, and the effect is weaker where the currency of funding matches the currency of revenue.	Project-finance and risk-allocation perspective
P5	Because of fixed transaction costs, the net benefit rises with the scale of the transaction up to the point where institutional capacity limits participation.	Cost-of-capital and institutional analysis

The propositions are derived as follows. P1 follows from the tax-transfer logic of Miller and Upton (1976) and Graham et al. (1998), conditioned on the statutory position described in Section 4.1.1. P2 follows from the observation that the value of transferring allowances rises when a sponsor cannot use them promptly, and that cash-flow profiling matters most when revenues are back-loaded. P3 follows from the debt-capacity argument of Eisfeldt and Rampini (2009) applied to a registry that is still new. P4 follows from the exposure to interest and exchange rates documented for Nigeria (Leasing Life, 2025). P5 follows from the fixed legal, advisory and registration costs of a multi-party structure, which is an inference from the structure of the transaction and not a finding in any cited study.

4.4 Measuring profitability: project-level and firm-level measures

Project-level measures such as net present value and internal rate of return are computed on the cash flows of the project after financing costs and tax. They allow the same project to be compared under purchase with debt, a conventional lease and a leveraged lease while operating assumptions are held constant, which isolates the financing effect. Firm-level measures such as return on assets and return on equity are accounting ratios. They are affected by depreciation policy, by the capitalisation of right-of-use assets under IFRS 16, and by the other activities of the firm, so a lease can raise or lower return on assets mechanically because it changes the asset base. The Nigerian studies that relate lease intensity to return on assets illustrate the difficulty (Aremo & Ayorinde, 2022; Ejoh & Ojong, 2024). Firm-level results can therefore support or fail to support the framework only

indirectly. This is why the propositions are stated in terms of project profitability, and why the framework should be tested first through project-level modelling, with firm-level panel data used as a secondary check.

4.5 Discussion

Three themes emerge from the analysis. First, leveraged leasing cannot be judged as good or bad for profitability in the abstract. Its effect depends on the alignment of the structure with the tax position of the sponsor, the quality of the underlying cash flows and the state of the enabling environment. This helps to explain why enthusiasm for the structure in one market or period does not guarantee success in another, and why evidence from developed-market aircraft finance cannot be applied uncritically to Nigerian real estate or infrastructure.

Second, the Nigerian environment offers both opportunity and constraint. The financing gap, the scarcity of long-term credit and the presence of investors who can use tax allowances create a demand for structures that mobilise asset-backed, long-term funds. Against this, macroeconomic instability, legal and enforcement uncertainty, and limited institutional depth reduce the reliability of the benefits. The balance of these forces means that leveraged leasing is likely to be most successful in a limited class of transactions: those involving identifiable, movable or registrable assets, creditworthy lessees or contracted revenue streams, and scale sufficient to bear the costs of the structure. Examples might include equipment for power, transport and industrial facilities, and, with adaptation, specialised real estate assets with long-term tenancies.

Third, the discussion highlights the importance of separating financing effects from operating effects in both practice and research. A sponsor that adopts a leveraged lease and then reports higher returns may be observing the benefit of the asset rather than of the financing. Only by comparing alternative financing structures for the same project, holding operating assumptions constant, can the financing effect be isolated. This has direct implications for how future empirical work should be designed, which are set out in Section 5.

The analysis extends, qualifies and in one respect challenges existing work. It extends the tax-transfer models of Miller and Upton (1976) and Myers et al. (1976) by showing that in Nigeria the transfer depends on how the 2025 Act treats ownership and on slower straight-line relief, so that the front-loaded benefit may be smaller than in the developed-market settings those models describe. It qualifies the debt-capacity argument of Eisfeldt and

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Rampini (2009), which relies on easy repossession, by tying the benefit to the practical operation of a registry that was inaugurated only in 2023. It qualifies the Nigerian firm-level studies: the mixed signs reported by Aremo and Ayorinde (2022), Ejoh and Ojong (2024) and Udoka et al. (2022) are what the framework would lead one to expect if profitability effects depend on tax position, funding conditions and currency exposure that differ across firms and periods, and if accounting ratios record changes in the asset base as well as changes in value. It challenges the reading that a negative long-run coefficient on a leverage proxy shows that leveraged leasing harms performance. Because that proxy is debt to total assets, the result may reflect the cost of general borrowing in a high-rate environment and not the lease structure.

5. Conclusion, Policy Recommendations and Future Research

5.1 Conclusion

This paper set out to examine how leveraged lease financing affects project profitability in Nigeria, using a qualitative, library-based approach. Drawing on finance theory, the scholarly literature, statutory and regulatory material and institutional reports, it identified five channels through which the structure may influence profitability: tax efficiency, effective cost of capital, cash-flow matching, preservation of borrowing capacity and liquidity, and risk allocation. It also identified four sets of conditions, namely macroeconomic volatility, the legal and tax framework, accounting and disclosure practice, and institutional and market capacity, that determine whether those channels operate in practice. The central conclusion is that the profitability benefits of leveraged leasing in Nigeria are conditional. They can be substantial where tax rules, legal certainty and long-term funding support the structure and where the macroeconomic risks are managed, but they can be small or negative where these conditions are absent. Because the study is non-empirical, these conclusions describe plausible mechanisms and conditions. They do not establish the size or the causal effect of leveraged leasing on profitability.

5.2 Theoretical and practical contributions

Theoretically, the paper integrates tax-shield, information and agency, financial-constraint and project-finance perspectives into a single framework specific to leveraged leasing in an emerging market, and distils it into five propositions. Practically, it provides sponsors, lenders and lessors with a structured checklist of the conditions that should be examined

before adopting the structure, and it provides regulators with an account of the environmental features that influence its feasibility. The framework (Figure 1) and the five propositions (Table 4) fulfil the fourth objective by converting the analysis into relationships that can be tested and into measures, namely project-level net present value and internal rate of return, against which they can be tested.

5.3 Policy recommendations

The recommendations below are tied to the findings of Section 4 and name the institutions best placed to act on them. They are suggestions for consideration, since the paper does not establish the size of any effect.

Table 5. Policy recommendations, supporting findings and responsible stakeholders

Recommendation	Linked finding or proposition	Responsible stakeholders
Clarify the tax treatment of leased assets, including whether the lessor is the owner for the purpose of capital allowance under section 27, and the treatment of rentals and indirect taxes.	P1, P2; Section 4.1.1	Federal Ministry of Finance; Nigeria Revenue Service; National Assembly
Strengthen the operation of the equipment registry and the speed of enforcement so that ownership and repossession rights are credible in practice.	P3; Section 4.2.2	Equipment Leasing Registration Authority; courts
Deepen the supply of long-term, local-currency funding for lessors and lenders.	P5; Section 4.2.4	Central Bank of Nigeria; pension and insurance regulators; development finance institutions
Encourage risk-mitigation instruments such as currency hedging facilities and partial credit or residual-value guarantees.	P4; Sections 4.1.5 and 4.2.1	Central Bank of Nigeria; development finance institutions; lessors and lenders
Encourage disclosure of asset-backed, non-recourse lease-related debt so that leveraged structures can be identified and studied.	Section 4.2.3; limitation noted in Section 5.4	Financial Reporting Council of Nigeria; preparers of financial statements
Build capacity and standard documentation among sponsors, advisers and lenders.	P5; Section 4.2.4	Equipment Leasing Association of Nigeria; professional and training bodies
Compare leveraged leasing with purchase and conventional leasing on a like-for-like, after-tax discounted cash-flow basis, with explicit attention to currency mismatch and transaction costs.	P1 to P4; Section 4.4	Project sponsors; lenders; financial advisers

5.4 Limitations

The study is subject to the limitations of its design. As a non-empirical review, it cannot measure the size or statistical significance of any effect, and its findings are analytical rather than causal. It depends on the published record, which is thin on leveraged leases in Nigeria and weighted toward developed markets, so some inferences rely on theory and on evidence from comparable settings. The synthesis inevitably reflects the researcher's judgement in coding and interpretation, although the procedures described in Section 2 were designed to limit this. Finally, tax, regulatory and accounting rules change, and the statements made here about the Nigerian framework should be checked against the law in force at the time of any transaction.

5.5 Directions for future research

The framework suggests a programme of empirical work. Panel studies of listed firms in real estate, construction, energy and transport could test whether lease-financed asset ratios are associated with profitability after controlling for size, leverage and macroeconomic conditions, provided that a defensible proxy for leveraged structures can be developed. Case-based financial modelling could compare the net present value and internal rate of return of the same project under purchase with bank debt, conventional leasing and leveraged leasing, with sensitivity analysis on interest rates, exchange rates and tax parameters. Surveys and interviews with lessors, lenders, developers and regulators could examine perceived barriers, transaction costs and the practical operation of registration and repossession. Comparative studies across African and other emerging markets could test whether the propositions hold under different legal and tax regimes. Finally, work informed by technology-adoption and innovation-diffusion frameworks could explore why sophisticated financing structures diffuse slowly among Nigerian sponsors and what interventions would accelerate their adoption.

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