ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS DEPARTMENT OF ACCOUNTING AND FINANCE

Factors Affecting the Use of Lease Financing by Manufacturing Small and Medium Enterprises: the Case of Addis Ababa City Administration

By

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DECLARATION

I, Tsegaye Amde, declare that the paper titled "Factors Affecting the Use of Lease Financing by Manufacturing Small and Medium Enterprises: the Case of Addis Ababa City Administration" is original and was organized under the supervision of Dr Alem Hagos. The study was completed with my assistance, and all resources and materials utilized in the study were recognized. I further affirm that this work wasn't submitted to any other educational institution in order to obtain an educational certificate.

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This is a declaration that Tsegaye Amde's thesis, "The Factors Affecting the Use of Lease Financing by Manufacturing Small and Medium Enterprises: the Case of Addis Ababa City Administration," submitted in partial fulfillment for the Degree of Masters of Science in Accounting and Finance, complies with University regulations and adheres to the expected standard for originality and quality.

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Abstract

Using a descriptive as well as an explanatory methodology and a hybrid approach, this study tried to identify and investigate the key influencing aspects that affect the usage of lease finance by manufacturing small to medium-sized firms in Addis Ababa municipal administration. A self-administered questionnaire was used to collect primary data, while secondary data was gained through reviewing proclamations, processes, journals, and various relevant literatures. The demography for this study was 1797 manufacturing small and medium-sized enterprises in Addis Ababa City government. The sample size was determined using the Carvalho (1984) method, and a sample of 180 manufacturing SMEs from the Addis Ababa city government was picked using stratified proportional random sampling. A logistic regression model was created using STATA V16, in which the use of lease financing was regressed against enterprise-related variables, institutional framework factors, and leasing information and knowledge variable components. Tables, bar charts, frequencies, and percentages were used to describe the data in line with the study's objectives. The variables under consideration were found using the stepwise regression method and presented as a final model. The study found that business size, firm age, growth opportunities, leasing information, experience, and awareness are all important factors. In contrast, collateral and institutional framework factors have a negative and substantial effect on the lease financing tendency of manufacturing SMEs. As a general rule, the government should intuitively understand and assist leasing systems, as well as small and medium-sized businesses, in freely employing lease financing systems for the country's growth by adopting appealing tax schemes and simple laws and regulations.

Key words: lease, Use of lease financing, Manufacturing SMES, Addis Ababa.

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Acronyms

IAS----------International Accounting standard

LF---------- Use of lease financing

COLA---------- Collateral requirements

COMESA----------Common market for East and South Africa

DBE……..Development bank of Ethiopia

FeMSEDA---------- Federal Micro and Small Enterprises Development Agency

MFI----------Microfinance Institutions

MSE----------Micro and Small-sized Enterprises

SME---------- Small and Medium-sized Enterprises

Chapter one

1.1 Introduction

Small and medium-sized businesses (SMEs) are widely recognized as the foundation and engine of the nation's economy from a variety of angles. They have been viewed as a powerful factor for creating jobs and sustaining economic growth in underdeveloped nations (Nega and Husien, 2016). Additionally, it was simple to see the importance of SMEs to any economy, including their capacity to create jobs at relatively modest capital costs, bridge the income gap, and cultivate a pool of competent and semi-skilled people (Yehualashet et al., 2015).

Furthermore, the World Bank (2018) states that SMEs have a multifaceted role in a nation, including innovation, human capital development, enhanced competitiveness, and the building of a healthy economic framework. Furthermore, SMEs have played and continue to play critical roles in a country's industrialization, economic growth, and overall development. Endris and Kasegn (2022) stated that micro, small, and medium-sized firms (MSMEs) are vital to economic growth, poverty reduction, industrialization, and overall livelihood in developing nations, particularly for Sub-Saharan Africa's expanding young population.

Considering SMEs' various benefits to countries, access to finance has been identified as one of the most critical hurdles to company growth for around one-quarter of Sub-Saharan African firms (World Bank, 2018). A significant impediment to firm development in Ethiopia is a lack of access to money. According to Kenno and William (2020), the Ethiopian small and medium enterprise sectors are "too small for banks and too large for MFIs" and so underserved by the financial market. Despite banks' substantial liquidity, SMEs have had limited access to funding (Brixiová et al., 2020).

As stated by Endris and Kasegn (2022), the main challenges for MSMEs in Sub-Saharan Africa

include a lack of access to financing, inadequate infrastructure, and innovative attitudes. The most major impediment in the region is a lack of financial resources. It also becomes progressively worse over time.

Furthermore, inadequate loan size, financing cost, and collateral requirement have emerged as major challenges for SMEs growth (Goshim & Tefera, 2018; Sisay, 2016;), as well as elevated rate and liquidity problems for matching fund (Amentie et al., 2016; Sisay, 2016) have hampered SMEs access to finance in Ethiopia. In addition, due to excessive opacity, SMEs have higher collateral requirements; nevertheless, in less developed countries, businesses often have insufficient assets to give (Hanedar et al., 2014).

Manufacturing MSEs, as reported by Mulu et al. (2018), have very limited financing options and must rely on their own resources. According to their study, two-thirds of the enterprises with loan access reported loan access via MFIs, whereas only around 15% reported loan access from commercial banks. One of the most severe restraints for Ethiopian small and medium-sized firms is a lack of sufficient capital in the form of equipment and finances to increase productivity and output (Nega and Hussien, 2016; Erestu, 2021).

As a result, leasing was an ideal financing method to alleviate these challenges in the country, notably for manufacturing SMEs, and to satisfy the financial needs of under-served missing middle segments of sectors (Kenno G. and William G., 2020). Due to a lack of sufficient collateral and Severity information asymmetries generated by weak institutions, small and medium-sized firms (SMEs) are subject to financial limitations and the need for alternative financing solutions such as leasing (Gleeson, 2020). Lease financing gained popularity at the end of the twentieth century as a result of political upheavals and massive economic changes toward a free market economy. At the time, the spread of privatization policy gave the business

community the greatest relative weight in nations economic systems, necessitating the search for new, suitable, and more accommodating methods of financing that are appropriate with market economy conditions and capable of replacing declining conventional funding sources and funding big capital equipment's (Marwan.2014).

So consequently, leasing has become the most popular and appealing mode of financing for persons with limited resources and income, or who desire to conserve cash flow and capital for other purposes (Thomas, 2020). Financial leasing, according to Fatjola et al. (2019), is an acceptable financing strategy, particularly for funding small and medium-sized businesses that may lack a credit history or secured collateral and have limited access to finance.

Furthermore, leasing is an important alternative for SMEs seeking short- and medium-term capital outside of the conventional and institutional credit channels. When a firm leases production assets and equipment, it makes a small down payment followed by a series of payments in the future. Leases enable SMEs to save money for more productive operations (World Bank, 2018). Leases, according to Thomas (2020), have always been and continue to be a type of financing structure preferred by people with restricted access to capital markets.

In addition, Mol-gomez et al. (2020) suggest that in today's ideal competitive market, we should focus on alternative financing techniques such as leasing, however, which have clear advantages for more vulnerable small and medium-sized enterprises (SMEs). Furthermore, leasing financing is important in the global economy, which may be even more important in light of the current economic climate caused by the COVID-19 health crisis, which may result in an increase in the number of financially constrained firms. As an outcome, in many countries, leasing has emerged as one of the most successful strategies of supporting SMEs. Similarly, the Ethiopian government has assigned authority to the Development Bank of Ethiopia to provide lease

financing to small and medium-sized businesses in order to alleviate their financial challenges. In order to do this, the bank introduced SME the Lease financing in 2016. Furthermore, the country has five regional government-owned leasing agencies and one private leasing company that offer lease financing to a variety of businesses. In addition to what the literature implies, the Development Bank of Ethiopia's (DBE) annual report on small and medium lease finance shows that the directorate's performance was underachieving and at an early stage. As a consequence, the goal of this research is to identify and explore the key influencing factors that impact the lease financing tendency of Ethiopian manufacturing small and medium-sized enterprises.

1.2 Statement of the problem

As a result of their opaqueness, lower quality financial statements, lack of credit history, and lack of sufficient collateral, SMEs are financially constrained; as a result, leasing becomes a better alternative form of financing SMEs (Mol-gomez et al., 2019). Even though the term leasing finance is widely used in industrialized countries, its application in developing countries is in its early stages. According to Kenno and William (2020), the term lease financing is not commonly recognized among developing Sub-Saharan African nations in general, and is not readily available to firms in Ethiopia in particular, despite its ability to address one of the fundamental difficulties of SMEs access to finance. Leasing has enormous potential in Ethiopia as a loan option, particularly for supporting small and medium-sized businesses, but it is still poorly developed, with very little lease knowledge in this industry (Helen, 2014).

Furthermore, Asfaw (2016) claimed that, while lease finance provides several benefits for a country's economic advancement, there is a lack of knowledge in Ethiopia among SMEs, people in general, and suppliers regarding the nature and benefits of leasing. More specifically, several

researchers throughout the world are investigating many deciding factors that influence firms' lease financing tendency.

As stated by Wardrop et al. (2015), in spite of the high growth rates and benefits of leasing as an alternative form of financing, there are still challenges that impede the continuing development of lease finance, such as legislation, trusts, and market inefficiencies. Furthermore, according to Morais (2013), leasing financing is more popular in some niche firms than others. Tax breaks, on the other hand, were thought to have a major impact on business leasing or purchasing decisions (Antonello and Anne, 2010; Thomas, 2020). However, lease is not used as an alternative source of finance if institutional conditions are insufficient, according to Zhang (2018), because leasing requires solid structures. On the other hand Leasing, can be a form of financing that is more frequently employed by businesses suffering financial constraints (Beck et al., 2008; Mol-gomez et al., 2020).

Furthermore, according to Filareto-Deghaye and Severin (2007), the information asymmetry hypothesis predicts that younger and smaller enterprises are more likely to use leasing. Furthermore, leasing is associated with high levels of financial leverage, restricted debt resources, and a high risk of bankruptcy. According to Chu et al. (2008), the percentage of leases is associated to financial leverage and the share of capital assets, but the existence of leases is related to business size adversely. According to Neuberger and Rathke-Doppner (2013), small and immature enterprises are more likely to be constrained in the leasing market, whereas experience and more competent entrepreneurs use leasing more frequently.

In general, this indicates a mixed finding that results in dispute and inconsistency of deciding aspects in academic literatures.

Few studies on the topic of lease financing have been conducted locally, for example (Sintayehu, 2019), (Befikadu, 2018), (Asfaw, 2016), and (Mohammed, 2014) by emphasizing the overall activities of regulated leasing companies in different perspectives such as leasing companies efficiency, difficulties they faced, lease potential clients, and the bigger picture of leasing activity in the nation as a whole. Several of those studies, however, sought to uncover leasing industry difficulties and lease finance possibilities by looking at the supply side of the company. Furthermore, neither of those studies sought to investigate the determining variable elements that may influence manufacturing SMEs on the demand side to pick and use leasing as a method of financing over alternative means of finance.

More specifically, the difficulties pointed out in those studies and driven by supply side factors have not been investigated empirically in terms of their degree of relationship and causal effect on leasing financing in favor of a demand side approach. This reveals the prevalence and severity of a research gap in empirical studies. Other than the aforementioned studies and other yearly reports, the researcher believes that the issue under examination has not been studied in Ethiopia, and there are no empirical investigations. The major purpose of this study, on the other hand, was to identify and investigate the factors that impact manufacturing SMEs' predisposition to lease finance in Ethiopia.

Finally, while many empirical studies are conducted across the world, the elements of the variable that are included in their analysis do not apply to nations that are developing and poor countries. Furthermore, the importance of leasing in emerging market economies, particularly in developing nations, has received less attention in academic research. Instead, that literature has focused mostly on establishing mechanisms of financing and holding capital assets, whether through microfinance or the formalization of ownership interests (Cull & Murdoch 2018:

Thomas, 2020). Therefore, the goal of this study was to add to the lease financing literature by looking at the major factors of lease financing tendency within manufacturing small and medium enterprises in developing countries in general, and Ethiopia in particular.

1.3 Research questions

1. What is the link between a firm's unique qualities and the proclivity for lease finance among manufacturing SMEs in Addis Ababa City Administration?
2. What effect does a lack of collateral have on the usage of lease finance by manufacturing SMEs in the Addis Ababa City Administration?
3. What influence do institutional framework considerations have on the lease financing proclivity of manufacturing SMEs in Addis Ababa City Administration?
4. Does access to lease information influence the utilization of manufacturing SMEs in the Addis Ababa City Administration?

1.4. Objective of the study

The primary goal of this study was to identify and investigate the key influencing elements that influence lease financing inclination in Addis Ababa City Administration manufacturing small and medium enterprises.

1.4.1 Specific objectives

- To examine the impact of firm-specific variables on lease financing proclivity among manufacturing SMEs in Addis Ababa City Administration.
- To examine the impact of manufacturing SMEs' access to lease financing information on their utilization of lease financing in the Addis Ababa City Administration.
- To examine the impact of institutional framework determinants on the lease financing of manufacturing SMEs in the Addis Ababa City Administration.
- To examine the impact of collateral availability on the usage of lease finance by Addis Ababa City Administration manufacturing SMEs.

1.5. Research Hypothesis

The primary goal of this study, as stated in the research objective above, is to analyze the influencing elements that influence the lease financing inclination of manufacturing SMEs in Addis Ababa City Administration in general. The primary variables that are thought to be the main determinants of lease finance are employed in this process. Furthermore, the research's premise is based on theories linked to the subject field and previous empirical investigations. The literature's hypotheses and findings were utilized to set expectations for the link between the various variables. As a result, the following hypothesis was evaluated in the study:

- **H_1**: There is significant correlation between the characteristics of businesses and their usage of lease finance.
- **H_2**: Sufficient Information availability about lease finance have a significant effect on use lease financing.
- **H_3**: The institutional structure significantly influences the use of lease finance.
- **H4**: Inadequate collateral has a significant impact on lease finance.

1.6. Significance of the study

The primary significant contribution of this study was the identification of key variable factors influencing access to and usage of lease financing by manufacturing small and medium firms in Addis Ababa City Administration as a business financing option. As a result, it was beneficial for lessors and other interested institutions to identify and address demand and supply issues that influence the lease financing proclivity of firms in the nation. Furthermore, the findings may be valuable for lessees to pay attention to more essential components and comprehend the influence of such variables on their funding choices. Furthermore, it will give data and knowledge that will assist Addis Ababa City policymakers in considering the findings when developing policies that may impact the city's lease finance growth.

Furthermore, this research may contribute to the expanding financial structure literature in general and lease finance in particular. Scholars and researchers who want to utilize the findings as a foundation for current and future research on the subject may find this study valuable. On the other hand, this research can help scholars gain a better grasp of worldwide disputes on capital structure theories. Furthermore, academic scholars interested in researching small and

medium firms in the country or globally may profit from this empirical study focusing on the determinants that influence the lease finance tendency of manufacturing small and medium enterprises.

1.7. Delimitation of the study

The purpose of this study was to identify and evaluate the primary determinants of lease finance utilization by manufacturing small and medium firms in Ethiopia. Because it is difficult to include all manufacturing SMEs in Ethiopia, this study was confined to the city government of Addis Ababa. Manufacturing SMEs managers in Addis Ababa were targeted to determine the influencing elements that effect lease finance. The municipal administration of Addis Ababa was chosen since there are many manufacturing SMEs founded and functioning in this city, and the city is the country's economic center..

1.8. Organization of the paper

The following is how the study's content will be organized: The first chapter featured an introduction and background of the study area, a problem statement, research questions, goals (general and particular), a hypothesis to be tested, and the scope and delimitation of the study. The second chapter offered literature studies (theoretical, empirical, and conceptual reviews) linked to lease finance and manufacturing SMEs. The third chapter concentrated on the research design, methodology, and interpretation approaches. In addition, the primary discussion and findings of the study were provided in chapter four. The final chapter concentrated on summaries of important results, conclusions, and proposals for potential remedies to the challenges.

Chapter Two

2. Literature Review

Introduction

This chapter centered on demonstrating the definition of a manufacturing small and medium enterprise and the concept of leasing financing in line with their definition, in accordance with the study's main purpose. Numerous hypotheses involving capital structure decision and leasing finance deciding elements were also gathered and presented. A thorough examination of empirical studies on lease finance determinants was also provided. Finally, the study's broad conceptual framework and the intended research gap were justified and carried out.

2.1 Theoretical literature review

2.1.1. Definitions of Small and Medium Enterprises

Small and medium-sized businesses (SME) have a wide range of definitions and measurements that vary by nation. The number of workers, total net assets, sales and investment level, number of yearly working hours, annual turnover, annual production volume, and firm independence are some of the regularly used yardsticks (Harjula, 2008), according to Fitane (2018). As a result, there is no one meaning of the word SME that is universally recognized across the world.

2.1.2. Definition of SMEs in Ethiopia

Despite the international organizations' defining foundation for SMEs, Ethiopia has entirely used total asset from 1997 to 2011. In 2011, the country modified the idea of Micro and Small Enterprises to align it with at least some other states and international organizations (Esubalew and Raghurama, 2017). However, the newly created definition focuses solely on Micro and Small Enterprises; no difference is made between Small, Medium, and Large Enterprises. According to the Ministry of Commerce and Industry Development Bureau's (MOTI) new Small

& Micro Enterprises Development Strategy of Ethiopia (published, 2011), the operational definition of MSEs is based on capital and labor. Small and medium enterprises are classified similarly to micro and small businesses depending on capital and workers.

Table 2.1 Manufacturing SMEs definition of Ethiopia.

S.N	Enterprise level	Sector	Hired labor	Capital
1	Small	Industry	6-30	100,000-500,000 ETB
2	Medium	Industry	31-100	501,000-1,700,000 ETB

2.1.3. Concept of Lease financing

Lease finance may be characterized in two primary economic and accounting viewpoints, in an evident and simplified manner. In economic terms, leasing refers to an alternative source of financing system that facilitates access to finance, which is a contract between the firms (the lessee) that use the leased asset and the lessor who owns the leased asset and receives lease payments from the lessee (Yuning & Qing, 2013). In the case of leasing, enterprises are required to make a minimal down payment to the lessors in exchange for the use of assets and equipment (World Bank, 2018). In contrast, lease finance is described in accounting as a contract between two parties in which one party utilizes an asset (lessee) and makes a series of payments to the lessor in exchange for a payment over a period of time (IAS 17, 3). The leased assets necessarily serve as collateral during the contract duration.

Additionally, Chang and Song (2018) describe leasing as a financial act of borrowing money in kind at a fixed cost, which is a continuous trend of utilizing scientific and technical advancement in material production. According to Thomas (2020), leasing is a flexible manner of holding valuable assets that may serve a variety of assets and perform a number of roles in the context of

both immovable and moveable resources. Agricultural land, mineral and timber rights, office buildings, retail malls, industrial and commercial equipment such as aircrafts, ships, farm machinery and computers, automobiles and other motor vehicles, and furnishings are all routinely leased resources.

More specifically, lease financing can be accomplished through a variety of methods. According to Grow Africa (2018), the following are common methods in Africa. The lessee identifies a certain asset (equipment, vehicle, software, etc.) and approaches a possible lessor about equipment requirements. In some circumstances, such as when reaching marginal producers, a lessor may take a more aggressive role in supplying other equipment choices to users (lessee). Second, the lessor buys the designated asset and becomes the legal owner of it. Despite the fact that the lessee benefits from the asset's usage and takes the risks of economic ownership, the lessor remains the legal owner of the asset during the contract duration. Third, in exchange for the use of the asset, the lessee makes a series of payments and gains increased productivity as a result of a new technology and business model. Finally, at the end of the lease period, the lessor may have recovered a considerable percentage or all of the initial cost of the identified asset, in addition to the interest received from the rents paid. At this point, the lessee has the option of acquiring ownership of the designated asset by paying the last contractual rent or negotiating a final purchase price with the lessor. In addition, when the SME's attainment increases, either extend the contract or update the leasing equipment, or return the lease equipment.

In general, Ethiopia Capital Goods Leasing Proclamation No.103/1998 states that Leasing is a type of finance in kind for production and service purposes in which a lessor provides a lessee with the use of capital goods without demanding collateral in exchange for a certain amount of

payment over a set period of time. As a result, in this study, the word leasing refers solely to the financing of capital goods via leasing institutions or other financial organizations.

2.1.4 Types of lease financing

According to several writers and IAS 17, leases can be broadly classed as financing or operating leases. The key differentiating feature of this leasing type is the considerable risk taker and rewarding contract parties.

I. Finance Lease /Capital Lease - A lease is a medium to long-term, non-cancelable leasing arrangement in which the lessee pays monthly payments to the lessor in exchange for the use of an asset. In this sort of lease, the lessee has use and control over the asset but does not own it. According to Banerjee (2011), the lessee bears the risks and advantages of ownership. Furthermore, the level of the asset's obsolescence risk is proportional to the asset's salvage value. Generally speaking, Capital lease financing, according to Brigham and Daves (2006), contains the following characteristics:

a) It generally covers a lengthy period of time and has the asset's principal economic life.

b) At the end of the lease contract time, the lessee has the option to purchase.

c) The lessor gets rental payments that are completely amortized and equivalent to the entire cost of the leased equipment plus a return on the invested cost of capital.

d) The risks and gains are then passed on to the lessee.

e) The contract was usually non-cancelable.

II. Operating Lease- On the other hand, this sort of lease is often a short-term lease for a limited length of time that does not cover the whole useful life of the asset. An operating lease is essentially a rental contract for the temporary (depending on both parties' agreement) use of an

asset, and it covers a short period of economic life since the reward and risks cannot be entirely passed to the lessee (Kraemer-Eis and Lang, 2012). According to Pandey (2008), it is a temporary, cancellable lease agreement (by prior notice, both parties cancel the lease) in which the value of a single lease contract may not cover the entire cost of the asset because the lease typically covers a period relatively shorter than the asset useful life. Because of the lease's limited life and the opportunity to cancel it, the risk of obsolescence stays with the lessor, including insurance and maintenance costs. Furthermore, in an operational lease, the customer has no option to buy the asset at the conclusion of the term or may do so at a higher price than in a financing lease. Off-balance-sheet financing is so named because both the debt and the assets are not reported on the balance sheet.

According to Brigham and Daves (2006), an operational lease includes the following characteristics:

a. The lessor is expected to maintain and repair the leased equipment under operating leases, and the cost of maintenance is included into the lease payments.

b. Operating leases are not amortized completely. In other words, the lease payments are insufficient for the lessor to recoup the entire purchase price of the item. However, because the contract is designed for a much shorter period of time than the estimated economic life of the leased asset, the lessor can expect to recoup all expenditures by consecutive renewal payments, releasing the asset to another lessee, or selling the asset.

c. An operating lease frequently includes a termination provision that allows the lessee to end the lease and return the asset before the basic lease agreement expires. If the asset becomes outdated, it might be returned in this situation.

2.1.5. Significance of lease financing for small and medium enterprises.

From a logical standpoint, leasing is one of the finest alternative funding options for SMEs, particularly those with restricted access to traditional forms of finance (Mol-Gómez-Vázquez et al., 2019). According to Li and Tsou (2019), leasing enables enterprises to hedge asset price uncertainty associated with the selling of bought assets.

Furthermore, the significance of leasing finance is diverse and offers several advantages. To begin with, leasing, according to Kraemer-Eis and Lang (2012), may also avoid the adverse selection problem since the leased asset may be too crucial for the lessor's company operations to suffer default payments.

Second, misallocation of money (moral hazard problem) is not conceivable in leasing since the lessor directly purchases the specified item and only permits the lessee to utilize it (Gallardo, 1997). Furthermore, empirical research suggests that leasing aids in the preservation of the leased item by insuring its upkeep (Hendel and Lizzeri, 2002; Johnson and Waldman, 2010).

Third, leasing is less reliant on strong and efficient legal systems than other forms of debt financing because ownership of the underlying asset is not transferred under lease financing, making repossession easier in the event of borrower default or bankruptcy (Berger and Udell, 2006). According to Sultanov et al. (2009), numerous countries demonstrate that the lessor's legal ownership makes leasing less dangerous than alternative secured finance. According to Barclay and Smith (1995) and Sharpe and Nguyen (1995), capital leasing is the highest priority form of secured financing in the event of bankruptcy when compared to other kinds of secured finance. Furthermore, even if the lessee is in bankruptcy, the lessor will receive the lease payments and classify them as other administrative expenditures.

According to Fatjola et al., (2019) lease financing is one of the financing mechanisms that is particularly ideal for funding SMEs and new enterprises that do not have a solid credit history and have limited access to other debt financing or secured collateral to the loan. Furthermore, one of the benefits of lease financing over traditional lending is that a lessee can finance up to 100% of the purchase price of an item with no additional collateral security required because the asset itself serves as collateral for the contract. Similarly, due of the payment distribution, the lessee may prefer to lease more expensive and sophisticated assets, and the products acquired through lease may be of greater quality than purchased goods (Hendel & Lizzeri,1998).

Furthermore, as a key benefit of lease finance, there is no additional collateral to collect the loan or as a guarantee, making the process straightforward and uncomplicated for both sides because enterprises do not have to go through lengthy bankruptcy proceedings. As we all know, in the case of a loan from another financial institution, a court must execute the loan guarantees, raising repossession expenses. with contrast, bankruptcy expenses are smaller and easier to manage with lease finance (Sultanov et al., 2009). According to Bolea and Cosma(2017), regardless of the decision between capital or operating lease, there are several advantages, one of the most important of which is the avoidance of investment. The lessee can use the asset without having to invest a large number of money through lease finance. Furthermore, no mortgage is required on the spot, which is convenient for the lessee.

2.2. Theories in capital structure related to lease financing

Since the mid-twentieth century, the financing choice and capital structure of enterprises have sparked scholarly discussion and a diverse outbreak for numerous ideas all over the world. The irrelevance theory of capital structure, pecking order, and information asymmetry theories are the most significant and fundamental ideas in company finance decision making. In certain ways,

those and other capital structures have a substantial impact on organizations' lease financing proclivity and their selection of this alternative financing mechanism as one of their capital structures.

2.2.1. Irrelevance Theorem of Capital Structure decision

There is a lot of old literature that emphasizes the function of a lease as a finance method for businesses. Borrowing from the Modigliani and Miller (1958) theorem in corporate finance theory, which argues that the total cost of capital of a corporation is the same regardless of the relative proportion of debt and equity. According to diverse publications, the costs to a business of leasing an asset are the same as the costs of borrowing money to acquire the asset (Miller & Upton 1976; Myers, Dill, & Bautista 1976). The assumptions underpinning the Modigliani-Miller theorem that generate the irrelevance theorem in the lease-or-purchase setting. The assumption includes the following:

(i) Capital markets are open to all lessors and lessees and operate without interruption;

(ii) There are no differential transaction costs for acquiring or disposing of assets via leasing or purchase;

(iii) There is no default risk of either leasing or secured lending; and

(iv) There are no distortions caused by tax laws that affect the return to firms depending on whether assets are acquired via lease or purchase. In summary, the argument illustrates that the firm's market value is forecasted by the underlying risk of the assets themselves and the firm's earnings power (Abdul et al, 2017).

2.2.2 Pecking Order Theory

Pecking order theory, introduced by Myers and Majluf (1984), is based on asymmetric information and the existence of transaction costs. The principle of pecking order implies that

businesses follow a financial hierarchy from internal to extreme external. According to Botta et al. (2016), internal finances take precedence over foreign money in this instance. According to the hypothesis, businesses seek external capital only when their internal financial resources have been exhausted. Furthermore, external finances must be significant, secure, and free of control constraints for enterprises. Sharpe and Nguyen (1995) suggest that when informational asymmetries are significant, such as in enterprises of limited dimension, leasing is the first external financing choice under the Pecking Order Theory.

2.2.3 Financial Contracting Theory

According to Stanton and Wallace (2004), in the past, financial leasing theory focused primarily on the lessee's and lessor's differing tax positions as the major basis for leasing. The reasoning is that if the corporation is unable to completely pay the tax burden, then acquiring or leasing an item may become costly since only a minimal capital investment was utilized (Imhoff et al, 2004). On the other hand, leasing an asset might result in a decreased claim for tax credit, with the tax advantages being transmitted to the lessee indirectly through lower lease payments.

2.2.4 Signaling theory

Despite the fact that the capital market is imperfect, it is believed that buyers and sellers have complete knowledge in a perfect capital market situation (Pandey, 2008). An incomplete information asymmetry hypothesis describes a situation in which one party to a transaction lacks sufficient knowledge about market conditions and circumstances. The argument for imperfect information is that both lenders (lessors) and small and medium-sized businesses face information asymmetry. However, in an ideal market, information should be accessible and available to inform the market society's judgment.

Furthermore, Moyi (2000) illustrates that small manufacturing enterprises require knowledge in order to make financial decisions and purchase business equipment. According to the Signaling theory, the firm's senior management is accountable for sharing internal information with external investors and financiers in order to obtain the best price mix for its shares and raise the firm's market worth (Mohamed et al, 2021). According to the information asymmetry theory, younger and smaller organizations are more prone to adopt leasing, as demonstrated by Filareto-Deghaye and Severin (2007). Furthermore, leasing is connected with excessive financial leverage, a low debt status, and a high risk of bankruptcy. Lack of proper credit information is a major contributor to the limits encountered by businesses, as judging their creditworthiness is a particular issue (World Bank, 2018).

2.3 Empirical literature review

Utilizing logistic regression Mol-Gómez et al. (2020) conducted a study across 25 developing and developed European countries on the economic and institutional determinants of lease financing. The study's goal is to determine how a country's economic development affects the use of leasing by financially constrained businesses. And also, to examine the correlation between the institutional framework environment and the use of lease financing. The study uses financial related variables as independent factors such as loan discouragement and credit constraint, firm’s specific factors, and institutional factors related country specific variables. Although the magnitude of the variance is strongly dependent on the level of economic development of the nation in which the businesses operate, the chance of employing lease finance increases for more financially challenged organizations, according to their findings. Enterprises with a worsening debt position, for example, are more likely to utilize leasing in poor European nations than in affluent ones, although the likelihood of utilizing lease finance by loan-

distressed enterprises does not differ across income levels. Furthermore, there is a complimentary relationship between leasing and other finance technologies such as long-term loans and individual capital projects as sources of long-term funding.

To uncover the causes behind the financial leasing market's stagnation and to comprehend firm-specific elements that impact the demand for SME lease financing. Fatjola et al. (2019) conducted a study in Albania on the influence of firm-specific characteristics. To discover such determinants, 42 closed and open-ended questionnaires were issued to 150 businesses, 50 of which utilized leases and 100 of which had never used one before, and a logistic regression model was developed. The study indicated that SMEs' and leasing knowledge company owners' demand for finance has a favorable and direct influence on the likelihood of firms employing leases. This indicates that companies with a greater need for funding are more likely to adopt lease financing. Furthermore, SMEs realizing the benefits of financial leasing improves their ability to use it to fund their asset needs.

Siagian et al. (2017) performed research on the determinants of the leasing business in a growing country, specifically Indonesia. The study's goal is to investigate the leasing industry in Indonesia by looking at the impact of leasing literacy, buyer motivation, and ability to pay obligations on leasing. Purposive sampling was used to choose 200 respondents who are clients of leasing firms and live in the Jakarta area. The research is qualitative, utilizing surveys and questionnaires. The findings indicated that vehicles and motorbikes are the most often rented products. In addition, the access leasing company's literacy has no bearing. The results, on the other hand, reveal that literacy level has a considerable impact on motivation and ability to pay responsibilities. Finally, the survey showed that clients are uninterested in learning about the leasing industry. The majority of buyers employed literacy to obtain things and pay their

installment commitments. As a result, they require enough information on the leasing firm and its services.

Al-Shihab & Shamsi B. (2008) performed empirical research on the primary factors of lease finance development in Jordan in the context of publicly traded Jordanian industrial firms. The study employs 90 samples of industrial enterprises listed in ASE since 2008, with assets of more than $5 million on average. The study's goal was to look into how Jordanian industrial enterprises value and evaluate lease finance as a kind of financing. The research examines the influence of tax and accounting, legal, and marketing elements on leasing industrial products from the perspective of a potential lessee. For assessing the research hypothesis, the ordinary least squares (OLS) model was utilized. The researcher's questionnaire and personal interview technique are used to collect primary data for the study. 154 questionnaires were issued to Jordanian industrial firms listed on the Amman Stock Exchange (ASE). According to the findings of the study, all explanatory factors had a positive and substantial influence on the usage of leasing finance. The study suggests paying greater attention to such characteristics in order to improve the country's utilization of the lease financing sector.

Meziane L. and Mario (2001) examined the factors of leasing decisions of small and big enterprises in the United Kingdom by focusing on hiring buy and finance lease and utilizing publicly available financial information, including annual reports. The study used accounting financial data from approximately 3000 public and unquoted UK firms from 1982 to 1996. Univariate and logit regressions were developed to investigate the drivers of businesses' leasing decisions by utilizing proxy variables for the influence of tax, agency cost, debt financing, and company profitability, as well as the link between firm size and leasing decision. The size, tax status, debt-equity ratio, growth potential, and profitability of lessee and non-lessee enterprises

were compared in the univariate study. The dummy dependent variable in the logit model, on the other hand, takes 1 if the business uses leasing and 0 otherwise. Tax recoverable, additions to fixed assets, debt, and size are all positively connected with the likelihood of adopting leasing for all enterprises in the sample. Leasing factors are not uniform among enterprises of varying sizes. Leasing has a favorable correlation with profitability, indebtedness, and taxation in major corporations. Small businesses, on the other hand, make lease decisions based on expansion potential rather than taxation or profitability. According to the study, small businesses with high Tobin's q and lower profits are more inclined to employ leasing. According to the report, organizations that utilize leasing are more likely to have tax losses, a high debt-to-equity ratio, and to be bigger than companies that do not use lease finance. The study suggests that leasing enables small businesses to fund their development and survival. Leasing, on the other hand, appears to be a financial tool utilized by competent financial managers to reduce their after-tax cost of capital for major enterprises.

Austin (2013) looks into the constraints and opportunities of capital investment and lease finance in Nigeria. The study's major goal is to discover militating elements against Nigeria's lease finance operations and to give a strategic solution. The study employs both primary and secondary data, and the information is examined utilizing statistical methods, including regression analysis, in a mixed approach. According to the findings, lease finance has encountered several barriers, including mismanagement, an uncertain economy, and foreign exchange concerns, with regulation posing a significant difficulty. Finally, the study suggests that the government provide a favorable and stable economic climate for lease finance investors. Furthermore, all rules should direct the leasing business by standardizing, harmonizing, and

reforming with appropriate legislation. Leasing businesses, on the other hand, should encourage leasing activity through aggressive marketing strategies.

Faith A. and Caro A. (2013) investigated the factors impacting the use of lease financing in Kenyan public institutions utilizing 293 working people from the National Treasury of Kenya as a case study using a descriptive research approach. The study also intended to ascertain the impact of financial resource availability, cost reduction, agency cost, and borrowing cost on the usage of lease finance in Kenyan public institutions. Primary and secondary data were employed in the investigation. Structured questionnaires were employed on 30% of the target population to capture primary data, and drop-off and pick-up later procedures were used. The qualitative data was processed using content analysis, while the quantitative data was examined using descriptive statistics and inferential statistics in SPSS. Correlation analysis was also employed in the study to determine the link between the dependent and independent variables. The study indicated that the availability of financial resources and the cost of leasing had an inverse relationship with the utilization of lease financing. Furthermore, cost reduction and borrowing costs have a favorable impact on the usage of lease finance in public organizations.

Mary Wanjiku and Mburu (2017) employed a descriptive study approach to investigate the factors influencing lease finance in Kenya's industrial industries. The primary goal of this research was to assess the impact of information availability, financial resources, and tax shelter on lease financing in Kariobangi Light Industries. The study selected 30% of the target population using a stratified random selection procedure. The study employed self-administered questionnaires to obtain primary data: the questionnaires comprised structured and unstructured items (such as Yes/No and Likert scales). According to the study, there is a considerable inverse association between financial resources and lease finance in manufacturing businesses. The study

also suggests that there is a substantial association between information access and lease finance in industrial businesses. It was also found that taxes impacts cash flows in manufacturing companies and lease financing effects tax advantages in manufacturing firms. The study also discovered that lease financing had a significant impact on tax depreciation, taxable income, net of the tax cost of capital, and debt value.

On the supply side of the Development Bank of Ethiopia's lease financing role, Dagnachew (2019) attempts to examine and identify the issues the bank confronts in SMEs lease financing. Purposive sampling was utilized to generalize the issues encountered by DBE, while questionnaires, key informant interviews, and document review were employed as data gathering methods. In conclusion, the study discovered that the bank's Small and Medium Enterprise selection criteria, poor supply chain with the absence of proper and sufficient suppliers of capital goods, macroeconomic instability such as inflation and currency fluctuation, poor quality of financial statements of SMEs, lack of sufficient demand by SMEs, lack of basic knowledge about Lease by SMEs, poor credit risk management by the bank, and lack of proper internal policy and procedure.

In the early stages of lease finance activity in Ethiopia, Asfaw (2016) performed a research on the country's lease financing condition by examining five regulated enterprises. The study's major goal was to analyze the sector's issues and to evaluate the country's legislative and regulatory structure. Primary and secondary data sources were employed in the investigation. Using the purposive selection approach, all regulated leasing firms at the time were included alongside supervisory bodies. According to the findings, main constraints include a lack of leasing expertise in the market, insufficient supply chain links, limited domestic suppliers, and a lack of knowledge. By clarifying leasing legislation and regulations and aiding leasing firms in

their activities, the research advises modifying the legal and regulatory framework and establishing a favorable atmosphere.

By analyzing the performance of the Development Bank of Ethiopia, Sintayehu (2019) investigates the obstacles and potential of lease finance. Purposive sampling was used for the study on the development bank of Ethiopia staff performance of lease finance. The mixed strategy was used, including both primary and secondary data. The study investigates the Development Bank of Ethiopia's lease financing challenges, which include inconvenient lease requirements, a lack of hard currency, an inadequate management information system, a lack of capital, a limited number of local suppliers, a lack of collaboration, and an unclear legal and regulatory framework. The research, on the other hand, suggests that lease finance provides the potential for job creation, new investment possibilities, and helping to SME development.

2.4. Factors influencing lease financing proclivity

Despite the fact that different capital structure theories discovered and explained the capital structure of firms (Bulan and Yan, 2009, 2007; López-Gracia and Sogorb-Mira; 2016), they are unable to provide a complete picture of firms' financing decisions (Cosh et al., 2009; Romano et al., 2001). To examine the primary influencing variables of lease finance decisions made by SMEs, the following factors have been found and validated by many researchers.

I. Firms' unique qualities

According to Cosci et al., (2013), the age of a business is regarded a key determinant in the likelihood of employing lease financing. The firm's size is one aspect that impacts its financial needs and influences access to various forms of funding. According to Neuberger and Rathke-Doppler (2013), new and small businesses are more likely to be restrained in the leasing market, whereas older and more competent entrepreneurs employ leasing more frequently.

Eisfeldt and Rampini (2009) demonstrate a very significant association between lease financing and size, indicating that leased capital may be the most important source of external funding for small enterprises. There is considerable evidence in the available literature empirical studies on the relationship between business size and lease finance. Medium-sized businesses utilize leasing more frequently since they are growing and hence require more finance (Beattie et al., 2000; Chavis et al., 2011; Mol-Gómez-Vázquez et al., 2019).

Furthermore, organizations that are experiencing favorable growth are more likely to use leasing (Deloof et al., 2007; Cosci et al., 2013; Mol-Gómez-Vázquez et al., 2019). Companies that lease a greater proportion of their assets have rapid growth, high interest rates, fabricated liquidity, and lower sales margins (Slotty, 2009). According to Franzen, Rodgers, and Simin (2009), enterprises with the greatest market value-to-book value ratios had the highest levels of lease financing.

Similarly, Chigurupati & Hegde (2009) demonstrate that businesses with higher Tobin's q values are more inclined to lease. According to Eisfeldt and Rampini (2009), smaller enterprises that pay fewer dividends and have lesser cash flow in proportion to their asset levels and a larger Tobin's q lease a significant share of their assets. Companies with significant development potential, on the other hand, may seek bank loans or issue shares (Koh & Jang, 2009). Nonetheless, due to strong profitability volatility, investors may be concerned about the future performance of high-growth firms.

Furthermore, unlike debt or internal finance, operating leases have a greater impact on high-growth enterprises since they do not affect their creditworthiness. Growth prospects are adversely connected with financial leasing and leasing in general, which may imply that they regard financial leases as debts and are hence less inclined to adopt them (Singh, 2011).

II. Access to sufficient financial resources

The availability of resources has an impact on the opportunities discovered by entrepreneurs (Hoegl, Gibbert, & Mazursky, 2008). An increase in resources allows for greater testing, which increases the likelihood of new ideas and innovation (Paladino, 2007). On the other side, resource constraints can foster inventiveness. In the case that an organization has limited funds, it can, for example, investigate all possible paths to meet its demands and, as a result, acquire information on lease financing.

According to Ozkan (2001), the influence of resource scarcity on opportunity identification and the inventive performance that may ensue is mixed. Financial resource constraints might limit a firm's capacity to foster innovation that improves company performance. A scarcity of qualified managers might also limit a firm's capacity to make the proper financial decisions (Rao & Drazin, 2002). Furthermore, small businesses with limited resources are unable to hire the necessary employees who can advise on whether to take a loan or lease an asset. According to Nyachienga (2012), limitations in resources cause a shift in the attention of entrepreneurs to the opportunities that are related to the various challenges that they are experiencing. The only way to identify this effect is by associating the different types of limitations to the various sources of opportunity.

One of the most significant issues that small and medium-sized manufacturing businesses confront is a lack of access to funding or credit facilities. This, in turn, reduces the number of financing options available to a corporation because there aren't many to choose from (Myers & Majluf, 2002). According to Baker (2007), credit availability constraints require businesses to rely only on funds derived from their savings or, in certain situations, borrowing from friends and family.

III. Financial Limitation

Deloof et al. (2007) shown that profitability has a detrimental impact on the utilization of lease finance. Furthermore, in the event of bankruptcy, the recovery to a lessor is greater to the recovery of a defaulted bank loan. Lease payments are often due before creditors receive their part of the bankruptcy estate. Lessors may still take back their assets from lessees after the customer declares bankruptcy, minimizing their credit risk. As a result, lessors may gain from a decrease in the lessees' financial situation. As a result, organizations in excellent financial standing may be less prone to employ lease financing than those in trouble. Similarly, larger companies that have greater access to external financial markets may be disinterested in leasing (Sharpe & Nguyen, 1995). According to Koh and Jang (2009), the utilization of leases lowers as the business size expands, however this relationship varies with time. Furthermore, they show a negative relationship between leasing and cash flows, cash levels, and profit. They claim that companies with less internal resources are more prone to adopt operational leases. According to Chigurupati and Hegde (2009), larger organizations are less likely to lease, but enterprises with higher profitability use less lease finance since they may purchase rather than lease their fixed assets. According to Callimaci, Fortin, and Landry (2011), the total lease share rises with high ownership concentration and falls with company size. Singh (2011) obtains a modest confirmation of the negative connection between financial hardship and financial leasing as evaluated by Altman's modified Z-score. He demonstrates, using the Tobit model, that larger enterprises are more inclined to lease.

Small businesses must evaluate numerous criteria when deciding on an acceptable source of funding for their investment, including the firm's financial status and examining its debt and liquidity ratios (Opolski et al, 2018). According to Mol-Gómez et al. (2019), leasing is an option

for cash-strapped SMEs because it does not require additional collateral. In a sense, the more financially restricted enterprises have greater loan capacity for leasing, which is an especially crucial incentive for SMEs to lease. Firms that get subsidies, on the other hand, are more inclined to adopt leasing.

In general, when the company's financing situation prevents it from carrying out its projects, access to bank loans is difficult, projects cannot be successfully completed without a bank loan, or the firm's financing needs are not met internally, the likelihood of using lease financing increases.

IV. Information and understanding of lease finance

Despite differences between developed and developing nations, asymmetric information problems are one of the primary influencing variables in the link between lease finance and the presence of financial limitations, according to Mol-Gómez-Vázquez et al., (2019). As a result, one of the major impediments to the ongoing growth and development of SMEs is a lack of information among enterprises about financing choices, as well as a lack of a well-organized financial market (Cook & Nixson, 2000). Moutot et al. (2007) recognize that there is a need for small manufacturing enterprises to obtain the information they need to make decisions about funding their company and purchasing equipment. The development of lively SMEs, as well as the effective use of usable business information, is critical to attaining long-term and sustainable economic growth (Corps, 2005). However, it is clear that the majority of small manufacturing firms in developing nations lack access to high-quality business information. This data is believed to be available to independent entities. In fact, it is stated that most SMEs rely on unauthenticated institutions to provide them with important information (Okello-Obura et al., 2008).

Long-term and sustainable economic growth requires the creation of vibrant SMEs as well as the efficient utilization of accessible business information (Corps, 2005). However, it is obvious that the majority of developing-country small manufacturing enterprises lack access to high-quality business information. This information is thought to be available to independent entities. According to Okello-Obura et al. (2008), most SMEs rely on unauthenticated institutions to provide them with critical information.

V. Institutional framework elements

According to ADB (2014), the Donor Committee for Enterprise Development (DCED) defines the business environment as the complex interplay of policies, laws, and regulations that affect business development in a given location, as well as the institutions responsible for their implementation at the international, national, regional, and municipal levels. The main limitation to the development of the SME sector is a weak enabling business environment (legislation, rules, regulations, and support institutions). Institutional frameworks, according to the ILO (2000), affect the efficacy and efficiency of business infrastructures (enterprise development skills, microfinance institutions, marketing, and research development).

A solid institutional framework allows the needy to obtain these services at a low cost, whereas deficient institutions, in general, result in greater transaction costs (ILO 2002; OECD, 2018).

On the contrary, a poor legislative framework that does not promote the use of collateral and bankruptcy rights, as highlighted by Berger and Udell (2006), may stimulate the use of alternative financing methods such as leasing, where the asset is held by the owner.

Although entry into SMEs is simple, capital lease financing in Ethiopia and Tigray was difficult and bureaucratic, resulting in a high cost of compliance and low productivity.

VI. Loan substitution or complementary lease

Since the inception of lease finance as a financing tool, there has been an ongoing discussion about the substitutability or complimentary perspective of lease with leverage. Some think that leasing and secured loans are replacements in this sense, while others argue that they are complimentary. The Substitutability Theory, proposed by Myers et al. (1976), Miller and Upton (1976), and Lewellen et al. (1976), contends that leasing is really another type of secured loan. As a result, while both leasing and secured loans incur interest and depreciation expenditure, a secured borrower incurs them directly, whilst a lessee incurs these indirectly through lease payments that compensate the lessor for his interest and depreciation expense.

According to Graham et al. (1998), leasing expenditure, like interest expense, is tax deductible. Increased leasing reduces a company's marginal tax rate, which reduces the benefits of debt financing. As a result, the provision of tax breaks enables a higher rate of substitution between leases and loans. This suggests that leasing and secured debt are interchangeable forms of collateralized borrowing: a secured borrower commits company assets to the lender, whilst the lessee pledges the leased asset to the lessor.

VII Tax shield

According to Yan (2002), the most significant distinction between leasing and purchasing equipment is how both are treated in terms of income tax. A company with a high-income tax may opt not to lease equipment due to its inability to generate a profit. According to Uwe (2008), the goal of a leasing firm purchasing equipment is for tax purposes. However, because the equipment must be used in some capacity, the corporation is obligated to lease it to other businesses. According to reports, the majority of enterprises might incur more after-tax

expenditures when purchasing equipment than the leasing company. This enables the leasing business to distribute part of its revenues to entrepreneurs while still generating a profit.

Leasing has an influence on cash flows, which affects the cost of capital after taxes (Kilpatrick & Nancy, 2007). The quantities utilized to make direct payments and the dates employed in leasing are critical (McCue, 2007). If the tax rates for the lessor and the leaseholder are not the same, the leasing process allows for the impact of the tax shield to be transferred to the best available firm (Kilpatrick & Nancy, 2007). Using leasing tax rules, it is sometimes feasible to agree on terms that are beneficial to both the lessor and the leaseholder.

Leasing has an influence on cash flows, which affects the cost of capital after taxes. Furthermore, if the taxation rates for the lessor and the leaseholder are not the same, the leasing process allows for the impact of the tax shield to be transferred to the best available firm (Kilpatrick & Nancy, 2007). Using leasing tax rules, it is sometimes feasible to agree on terms that are beneficial to both the lessor and the leaseholder.

VIII. Collateral

The extent to which borrowers pledge assets to a lender as security for debt payment is referred to as collateral (Gitman, 2003). In the event of a default, the security assets should be utilized to recover the principal. SMEs, in particular, offer security in the form of properties (houses, enterprises, automobiles, and anything else that may be used to recoup the principle) in the event of loan default (Garrett, 2009). Lenders deny and discriminate against most SMEs when it comes to borrowing. This is due to the high risk and insufficient resources to give as collateral (Kihimbo et al. 2012).

2.5 Conclusion and Research gap

Several worldwide and continental researches on lease finance factors have been done. There is a discussion and a discrepancy on variables that impact capital structure in general and business lease financing decisions, as mentioned above. Few studies are conducted locally; for example, (Befikadu, 2018), (Asfaw, 2016), (Mohammed, 2014), and (Kemal, 2012) demonstrate several implications of Ethiopia's leasing industry by focusing on the overall performance and activities of government-owned leasing companies' commencement, performance, challenges, and prospects. However, none of these researches look at the causes of lease finance in general, or demand-side determinants in particular. As a result, the drivers of lease finance for small and medium-sized businesses constitute a novel study area that need additional exploration.

2.6 Conceptual framework.

The study employs the key determining elements of lease financing and their influence on the inclination to lease financing by manufacturing SMEs in Addis Ababa based on the theoretical framework and empirical data. The study attempted to discover and explore the link and impact of those elements on the lease financing proclivity of small and medium-sized businesses.

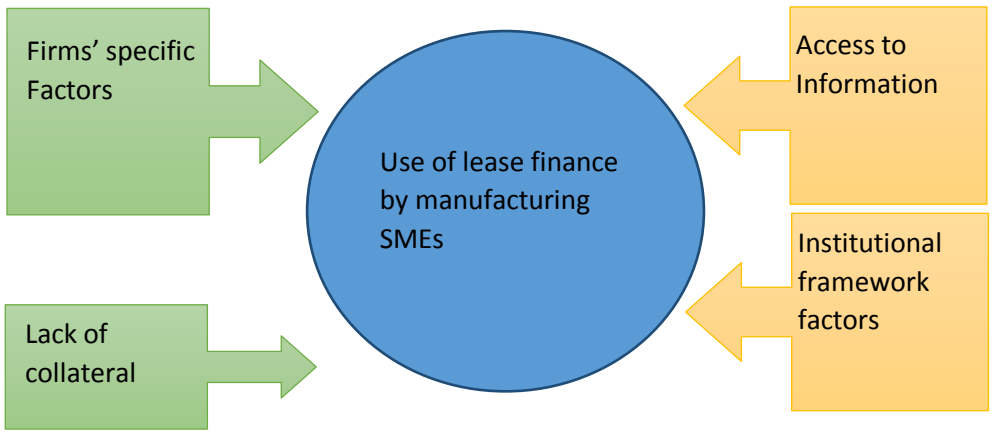

Figure1: source: Adopted and modified from Munga and Ayuma (2013)

Chapter three

3. **Research design and methodology**.

This chapter illustrates the research procedures used and methodologies established to achieve the study's objectives utilizing primary data. As a result, this chapter is arranged as follows: research design, study population, sampling size determination approach, research instrument with validation and reliability, data collecting procedure, data analysis method, model specification, and ethical consideration.

3.1 Research design

To identify and investigate determinant factors that influence the use of lease financing by manufacturing SMEs in Addis Ababa, this study were devised descriptive and inferential statistics to interpret the data. According to Creswell (2014) there are three methods of research approaches which are qualitative, quantitative and mixed approaches. In this study quantitative approach were used. The rational reason for the adoption of a quantitative approach includes: to develop knowledge of cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurement and observation, and the test of theories, employee strategies of inquiry such as experiments and surveys.

3.2 Target Population

To identify and investigate determinant factors that influence the use of lease financing by manufacturing SMEs in Addis Ababa, this study devised descriptive and inferential statistics to interpret the data. According to Creswell (2014), there are three methods of research approaches which are qualitative, quantitative, and mixed approaches. In this study quantitative approach was used. The rational reason for the adoption of a quantitative approach includes: to develop knowledge of cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurement and observation, and the test of theories, employee strategies of inquiry such as experiments and surveys.

3.3 Sampling

The sampling technique for this study was proportionate stratified random sampling which is the most efficient method to collect precise and detailed information (Uma and Roger, 2016). Particularly two stages of stratified sampling which involves dividing the population into homogeneous sub-groups called strata and proportional dissemination of questionnaire for SMEs owner (manager). Therefore, in this study, the stratification will be based on manufacturing SMEs' size (small and medium), then select samples from each sub-group using random sampling. The reason behind the selection of the proportionate stratified random sampling technique is that it gives each element in the stratum an equal opportunity of getting into the sample, and all the choices are independent of one another.

According to Addis Ababa City government job creation and enterprises development bureau 2023(2015 E.C) data there are 1980 (1205 small and 775 medium size enterprises) that are engaged in fabricating Construction materials, Food processing, Metal and woodworks, Textile, and garment operations and exist in Addis Ababa city Administration.

The sample size determination of the study was based on a method developed by (Carvallho, 1984).

Population size	**Low**	**Medium**	**High**
51-90	5	13	20
91-150	8	20	32
151-280	13	32	50
81-500	20	50	80
501-1200	32	80	125
1201-3200	50	125	200
3201-10000	80	200	315
10001-35000	125	315	500
35001-45000	200	500	800

(Source: Carvallho, 1984).

Therefore, the total population size of the study was 1980 manufacturing SMEs for Addis Ababa city, which lies between 1201-3200 Ranges, based on Carvalho's sample size determination as illustrated in the above table the sample size selected for this study was 180 manufacturing

SMEs which is more than the middle range. Accordingly, the sample size was distributed based on the size proportion of enterprises as below;

Size	Total population	Sample size
Small	1205	110
Medium	775	70

3.4 Data collection method

To make an analysis the researcher used both primary and secondary data. The primary data was collected through a self-administered questionnaire from SME owners (managers) which have close-ended and scaled-type questions that are relevant to address the research question of the study. The researcher collected the data by disseminating the questionnaire to those available SMEs from such stratified sub-groups. Finally, the researcher used a secondary source of data obtained through a review of leasing proclamations, regulations, reports, publications, and literature.

3.5. Method of data Analysis

The study devised a quantitative type of data that was analyzed using descriptive and inferential explanatory statistics. The data collected by using a questionnaire were interpreted by using descriptive statistics that were demonstrated by using tables, bar charts, frequency distribution, percentages, and STATA v-16 devised to show the analysis. Other relevant information is analyzed by summarizing and organizing the information based on the research questions and basic objective of the study.

For inferential statistics, the binary Logistic regression model was applied to investigate the impact of the independent variable on the dependent variable. Chi-square test and Regression analyses were carried out to establish and investigate the strength of relationships between the studied variables and to test the hypotheses which independent variables (s) individually or collectively provide a meaningful full contribution towards the explanation of the independent variables.

Variables	Symbol	Measurement
firm's specific characteristics**;**		
Size	SIZE	Dummies that takes value one if the firm is more than medium and zero otherwise.
Firm age	FIRMAGE	Measured by interval scale
Growth of enterprise	GRTH	Dummies that takes value one if the increase more than ten employee within the last fiscal year (2021/22/2014 E.C) and zero otherwise.
Collateral	COLL	Dummies that takes =1 if the firm have sufficient collateral to acquire loan, otherwise zero
Access to Information about lease	LINF	Measured by proxy questions ranked by Likert scale.
Institutional framework factors	INST	Measured by proxy questions ranked by Likert scale

3.6. Model specification and Description of Variables

To examine the main influencing factors to use lease financing by manufacturing SMEs the following econometrics model were developed.

$$\log\left(\frac{pi}{1-pi}\right) = \beta_0 + \beta_1 \text{ SIZE} + \beta_2 \text{FIRMAGE} + \beta_3 \text{ COLL} + \beta_4 \text{ GRTH} + \beta_5 \text{ INST} + \beta_6 \text{ LINF} + \varepsilon$$

Y = lease financing (dummies of lease finance use or not)

β_0 = Constant Term; β_1- β_8= Beta coefficients; ε = Error term

3.7. Reliability test

Reliability refers to the consistency of the measurements of variables (Hair, et al., 2020). The commonly used test of internal reliability is Cronbach's alpha, which is essential to calculate the average of all possible split-half reliability coefficients. A computed alpha coefficient will vary between 1 (denoting perfect internal reliability) and 0 (denoting no internal reliability) (Bell and Bryman, 2014). Moreover, Rovai, et. al., (2014) recommended that Cronbach's alpha is a very important tool for measuring internal consistency and assessing the reliability of the variables. Hence, George and Mallery (2003) suggested that if Cronbach's alpha coefficients have ranged

from 0.5 to 0.90, a test is considered reliable if the same results are gotten repeatedly. Therefore, the reliability test result for two Likert scale variables were above 0.75 for institutional factors and 0.66 for leasing information and knowledge. And also the average result shows above 0.70 which shows a good internal reliability between statement questions.

Table 3.1. Reliability statistics

Variables	Cronbach's Alpha	Number of Items
Institutional framework factor	0.761	6
Lease financing information	0.691	7
Total(institutional framework variable and leasing information)	**0.714**	**13**

(Source: STATA output, 2023)

3.8. Validity of research instrument

The extent to which a research instrument examines what should be assessed is referred to as its validity (Hair et al., 2020). There will be an exhaustive literature study relevant to the issue that fulfills the theoretical framework for theoretical validity. Content validity assesses the suitability of the research instrument utilized, whereas construct validity assesses how effectively the questions in the questionnaire will provide the desired outcome. The validity of questionnaire items was maintained by using professionally structured questionnaire items in modified methods to employ the research instrument. As a result, the majority of the measurement statements were adapted from (mo-Gomez et al., 2020; Fatjola, 2019; Wanjiku and Mburu (2017).

As a result, the validity of the measuring devices developed in this study is unquestionable.

Chapter Four

4. Data analysis and Results

4.1. Introduction

The objective of this research was to look at the main factors that affect the usage of lease finance by manufacturing small and medium-sized businesses in Addis Ababa. As a consequence, this part displays the research analysis results based on the research major objectives depicted. The investigation comprised demographic data of respondents and SMEs, lease finance utilization and connected determinant factors, and descriptive and inferential statistical findings. Tables and figures are used to display numerical numbers and to evaluate certain assumptions.

4.2. Response rate of questionnaire

Data for this study were gathered from Addis Ababa City Administration's manufacturing small and medium firms. A total of 180 sample respondents were identified, and proportionate questionnaires were developed and given to them. However, 164 respondents were gathered, accounting for 91.1% of the entire sample. According to Mugenda & Mugenda (2003), a questionnaire response rate of greater than 70% was considered an excellent answer. As a result, in this study, the responses of 164 respondents were reviewed and assembled for data analysis and interpretation.

	Small	Medium		
Response rate Category			Frequency	Percent (%)
Respondents	98	66	164	93.5
Non-respondents	12	4	16	6.5
Total	110	70	180	100.0

Table 4.1 Respondent's response rate

Source: researcher own survey, (2023).

4.3. Demographic characteristics of respondents and SMEs

To identify the general characteristics of small and medium manufacturing entrepreneur respondents, the researcher requested the gender, age, and education levels of manufacturing SMEs managers. The gathered results are as follows:

No.	Character	Category	Frequency	Percent (%)
1	Gender of respondents	Female	51	34.2
		Male	113	65.8
		Total(N)	164	100.0
2	Age of respondent	18-25	3	2.4
		(26-35) years	57	33.15
		(36-45) years	67	39.57
		Above 45 years	37	25
		Total(N)	164	164
3	The educational level of Respondent	Primary	13	7.5
		Secondary	15	10.7
		Diploma or TVET	85	52.4
		First degree	49	27.25
		MA/MSc above	2	2.15
		Total(N)	164	100.0

Table 4.2 general characteristics of respondents.

4.3.1. Gender of respondents

Gender was one of the factors utilized to examine the demographic characteristics of the respondents in this study. As seen in Table 4.2. On the basis of the gathered sample distribution, the percentages of gender reveal that 65.8% of those who responded are male and the remainder of 34.2% is female.

4.3.2. Age of respondent

Throughout the data-gathering process, respondents' ages were determined using an interval scale. Table 4.2 reveals that 2.4% were under the age of 26, 33.15% were between the ages of 26 and 35, 39.57% were between the ages of 36 and 45, and 25% were beyond the age of 45.

4.3.4. Educational status of respondents

The other important demographical feature respondents noticed was the owners' (managers') educational level. According to the survey results shown in Table 4.2, 9% of respondents have a

primary level, 27% have a high school, 31.5% have a diploma or TVET which is a college certificated level, 43.25% have an academic first degree, and the remaining 1.75% has a graduate level. According to the observation, respondents had varying degrees of schooling.

4.4. General characteristics of manufacturing SMEs

The key features of firms were selected and summarized in accordance with the study's purpose for company-specific variables that impact the utilization of lease finance by manufacturing SMEs in the Addis Ababa City Administration. The outcome is shown in Table 4.3, which includes responses to questions on enterprise management, organizational form, and specialization engagement type of company, as shown below.

No.	Business character	Category	Frequency	Percent (%)	**Enterprises (ever used) lease financing**		**Enterprises never used lease financing**	
1	Manager of the business	Owner-manager	126	0.77	41	80.39%	86	76.11%
		Manager	38	0.23	10	19.61%	27	23.89%
		Total	164	100%	51	100%	113	100%
2	Organizational form of the business by legality	Sole proprietorship	98	0.60	32	57.14%	68	60.34%
		Cooperatives	30	0.18	9	16.07%	19	19%
		Partnership	36	0.22	15	26.79%	21	20.66%
		Total	164	100%	56	100%	108	100%
3	Age of the enterprises in year	less than 5 years	27	0.16	8	14.04%	24	22.43%
		(6-10) years	75	0.46	9	15.79%	54	50.47%
		(11-15) years	47	0.29	10	17.54%	17	15.89%
		15 and above years	15	0.09	30	52.63%	12	11.21%
		Total	164	100%	57	100%	107	100%
4	Specialized type of the business enterprises engaged	Metal & Woodwork	80	0.49	16	30.19%	67	57.85%
		Food Processing	24	0.15	9	16.98%	10	14.05%
		Construction materials	48	0.29	22	41.51%	24	20.65%
		Textile and Garment	12	0.07	6	11.32%	10	8.25%
		Total	164	100	53	100%	111	

Table 4.3 specific characteristics of the enterprise

4.4.1.1. Management of the enterprise

The management of the company, whether the owner or hired, was included as one independent variable in this study as a proxy for firm-specific factors. According to the survey results shown in Table 4.3, the majority of respondents (142 (75.95%)) were owner-managers, while just 45 (24.05%) were employed as managers.

4.4.1.2. Enterprise Age

Other enterprise characteristics exhibited were firm age beginning with the year of operation and adopting a scaled measuring method. Table 4.3 shows that 25% are under the age of 5, the majority 34.7% are 6-10 years old, 28% are 11-15 years old, and 12.3% are 15 years or over.

4.4.1.3. Legality Status of the Enterprise

When data was collected, respondents were expressly asked about their company legality status at the time of the survey, which is classified into three basic organizational types (sole proprietorship, cooperative, and partnership). As a result of the survey, 83 (44.5%) of the 164 sample observations were sole proprietorships, 59 (31.5%) were cooperatives, and the other 45 (24% were partnership forms of organization, as shown in Table 4.3.

4.4.1.4. Enterprise specialized business engagement

The enterprises' specialty involvement sector, a sub-sector in the manufacturing industry, was studied to evaluate the link with lease financing proclivity. According to the data shown in Table 4.3, the majority of sample firms operating in metal and woodwork were covered by 89(47.5%), 54(29%), 28(15%), and 16(8.5%) construction inputs, food processing, and textiles & clothes respectively.

4.5. Descriptive Analysis

During the data collection period, important variables that were mentioned in the econometrics model that may tend in determining the lease financing proclivity of manufacturing SMEs were captured and extensive data manipulation, analysis, and interpretation were made in accordance with the study's objective and surveying system procedure. The descriptive analysis of the study variables is presented in this portion of the study. Descriptive statistics were used to describe the

distribution of the data set, which is both the independent and dependent variables utilized in the study. Descriptive statistics are summarized to determine the relationship between variables (bivariate analysis), frequency distribution, percentage, mean, and standard deviation for the dependent variable (lease financing) and independent variables (firm size, firm age, collateral availability, leasing information, and institutional framework variables).

4.5.1. Lease financing User distribution of manufacturing SMEs

Respondents from the observed manufacturing small and medium-sized enterprises sample were also asked if their organizations used lease financing services to finance their company operations. According to the survey results, only 57 (35.3%) of manufacturing SMEs used lease finance, while the remainder 107 (64.7) did not use or had never used lease financing throughout the data collecting period, as shown in Figure 4.1.

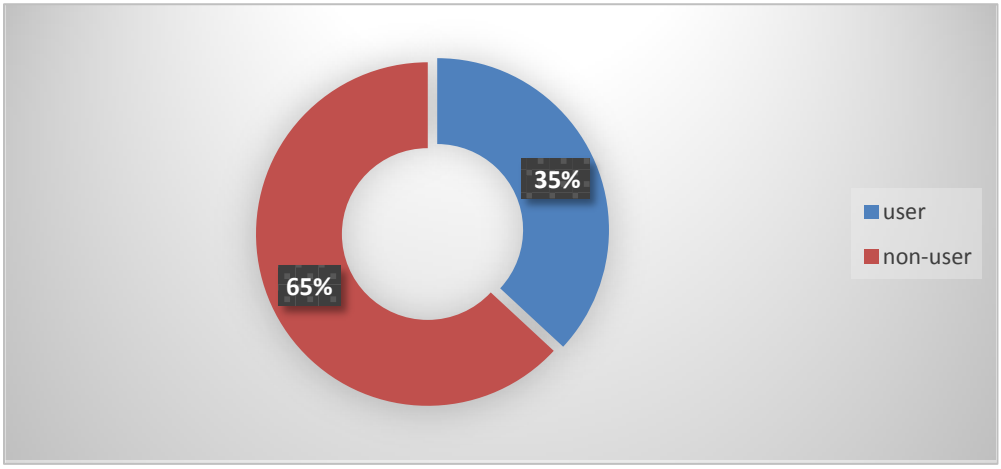

Figure 4.1: User and non-user distribution of lease financing by manufacturing SMEs

4.5.2. Firm's specific Variables

Firm Size and manufacturing SMEs use of lease

One of the firm-specific characteristics shown to be associated to lease financing inclination was company size. The relationship between company size and usage of lease financing by manufacturing SMEs reveals that 47.67 percent of the sample's medium-sized firms utilize lease. However, just 27.72 percent of small businesses used lease finance (Table 4.3). This demonstrates that medium and large businesses are more likely to employ lease finance. According to the chi-square test, there is a statistically significant link between business size and lease funding status (Pearson chi2 =7.812; P-value = 0.00, df=1).

Enterprises Age and use of lease financing

In various accesses to finance studies, the firm's age plays a critical role in gaining access to and selecting among alternative funding options. In this study, company age was identified as a major variable associated with manufacturing SMEs' lease financing proclivity. According to the Table 4.4, the association between enterprise age and use of leasing shows that use of lease was higher among enterprises with more than nine years of operation (46 and 65 percent based on their scale), and those with 4 to 8 years of operation were relatively high as compared to those with less than 4 years of operation. According to the Pearson chi-square test, the association between business age and lease financing is statistically significant. (X^2 =16.7101, P< 001, df= 4).

Collateral availability and manufacturing SMEs use of lease

Another aspect taken into account in this study was the association between the availability of adequate collateral and the utilization of lease financing. Table 4.4 summarizes that the percentage of manufacturing SMEs employing lease finance was lower (20.90 percent) among firms with sufficient collateral as compared to those without sufficient collateral (45.83 percent) throughout the survey period. The bivariate analysis found that there was a link between a lack of appropriate collateral availability and the inclination of manufacturing SMEs to lease finance. (X^2=11.683, P = 001, df= 1).

Enterprise growth and manufacturing SMEs use of lease

The relationship between enterprise lease financing proclivity and growth was shown to be statistically significant. As indicated in the chart below, the differences in lease financing status among SMEs with strong growth potential are larger (49 percent), while those with poor growth opportunities are lower (31 percent). The bivariate analytic statistical test of the correlation was likewise statistically significant (X^2 =6.7652, P<0.015, df= 1).

4.5.3. Institutional framework factors

To assess and investigate the institutional framework factors influencing the use of lease financing by manufacturing SMEs, the researcher intends to demonstrate how the institutional framework remarks contribute as a determining factor on the response SMEs using frequency on level of agreement and percentage share of the frequency results, as shown in Table 4.5..

Six interconnected statements were offered to the research sample respondents to assess the influence of institutional framework characteristics on lease utilization by manufacturing SMEs.

The first statement question was posed to assess respondents' perceptions of the complexity and expense of lease financing required by leasing organizations. From the total number of replies, 5.35% strongly disagreed, 13.90% disagreed, and 22.46% were indifferent. On the other side, 52.94% of managers agree and 13(6.95) of SMEs strongly agree, indicating that obtaining lease funding from leasing institutions was more complicated and costly.

Other remarks relied on institutional elements is included training methods and programs offered by any institution to increase the expansion of SMEs' lease financing inclination. In this regard, 60.43% agree and 2.14% strongly agree that there is a dearth of training given by any organization to raise the knowledge of SMEs owners about the importance of leasing finance. However, 15.51% disagree, 2.67% strongly disagree, and the remaining 18.18% are neutral in their opinion.

In terms of SMEs' owners' perceptions of the government's enthusiasm for SMEs' usage of leases, 71.66% of respondents agreed, and 4(2.14%) strongly agreed, that there is a lack of government appreciation for using leasing as an alternative means of financing through various incentives. In comparison, 15.51% of respondents were indifferent, and just 7.49% disagreed, with an additional 3.21% strongly disagreed.

	Institutional framework factors	Summary statistics		
NO.	Statements	**Level of agreement**	**Frequency**	**Percentage**
1	The process needed to get lease finance from a leasing organization is complicated, expensive, and time-consuming.	Strongly disagree	10	6.10
		Dis-agree	18	10.98
		Neutral	32	19.51
		Agree	91	55.49
		Strongly agree	13	7.93
2	There is a shortage of lease financing training provided by any organization.	Strongly disagree	5	3.05
		Dis-agree	23	14.02
		Neutral	29	17.68
		Agree	101	61.59
		Strongly agree	6	3.66
3	There is an absence of government support for using lease financing as a source of funding.	Strongly disagree	6	3.66
		Dis-agree	14	8.54
		Neutral	18	10.98
		Agree	122	74.39
		Strongly agree	4	2.44
4	There no enough leasing firms that provide lease financing	Strongly disagree	3	1.83
		Dis-agree	7	4.27
		Neutral	21	12.80
		Agree	123	75.00
		Strongly agree	10	6.10
5	There is apolitical involvement in the leasing institutions' lease finance system.	Strongly disagree	8	4.88
		Dis-agree	14	8.54
		Neutral	63	38.41
		Agree	75	45.73
		Strongly agree	4	2.44
6	The country's lease finance service method and rules are complex and constrained.	Strongly disagree	3	1.83
		Dis-agree	4	2.44
		Neutral	63	38.41
		Agree	89	54.27
		Strongly agree	5	3.05

Table 4.4: descriptive statistics result for institutional framework factor statements

The perspective of manufacturing SMEs managers on the availability of sufficient leasing institutions in Addis Ababa as a determinant to utilize lease was the other institutional framework factor proxy statement. On the other hand, 73.80% of respondents agreed and 5.35% strongly agreed that there are not enough leasing institutions involved in providing lease finance.

Unfortunately, just 5.34% of respondents disagree (7) or disagree (3) with the statement, while the rest 15.51 were indifferent.

Another issue that occurred that may have an impact on SMEs' lease financing proclivity was political meddling in the country's lease financing system. Because the majority of leasing institutions in Ethiopia are government-owned, respondents were questioned about their thoughts on political meddling in finance, and the results suggest that 75(40.11%) of the respondents were impartial to convey their opinion. On the spot, 82 (43.85%) and 4 (2.14%) of respondents agreed and strongly agreed on the existence of political influence in the leasing system, respectively. On the contrary, 18(9.63%) of respondents disagreed, and just 8(4.28%) strongly disagreed with the government's participation in the country's leasing system.

Lastly, respondents were asked how they felt about the complexity and restrictiveness of Ethiopia's leasing legislation and processes. According to Table 4.5, 96 (51.34%) and 5 (2.67%) of respondents agree or strongly agree with the complexity of leasing rules and processes in Ethiopia. Furthermore, 79 (42.25%) respondents were impartial in their assessment of the country's regulations and procedures. Only 4(2.14%) and 3(1.60%) of respondents agreed and strongly disagreed with this assertion, respectively.

4.5.4. Access to Leasing information and Knowledge

According to Asymmetric information, problems are one of the influencing factors in the association between lease financing and the existence of financial constraints (Mol-Gómez-Vázquez et al), and also one of the main obstacles for the further evolution and development of SMEs considered is the lack of knowledge from firms regarding to financing options and the lack of a well-organized financial market that provide and create awareness on information opaque SMEs (Cook & Nixson, 2000).

Information and Awareness about leasing		Summary statistics		
NO	Statements	Level of Agreement	Frequency	Percentage
1	I am familiar with in the concept of lease finance.	Strongly disagree	11	6.71
		Dis-agree	59	35.98
		Neutral	17	10.37
		Agree	73	44.51
		Strongly agree	4	2.44
2	I understand that lease financing is an excellent way to fund a business without requiring collateral.	Strongly disagree	3	1.83
		Dis-agree	40	24.39
		Neutral	47	28.66
		Agree	40	24.39
		Strongly agree	34	20.73
3	I'm aware With leasing, the legal penalties of bankruptcy are less severe	Strongly disagree	2	1.22
		Dis-agree	40	24.39
		Neutral	49	29.88
		Agree	58	35.37
		Strongly agree	15	9.15
4	I am aware that lease terms are preferable compared to loan terms.	Strongly disagree	1	0.61
		Dis-agree	46	28.05
		Neutral	42	25.61
		Agree	39	23.78
		Strongly agree	36	21.95
5	I am aware that leasing arrangements are often more flexible.	Strongly disagree	2	1.22
		Dis-agree	44	26.83
		Neutral	49	29.88
		Agree	39	23.78
		Strongly agree	30	18.29
6	I am aware that leasing allows for 100% down payment funding.	Strongly disagree	4	2.44
		Dis-agree	44	26.83
		Neutral	48	29.27
		Agree	31	18.90
		Strongly agree	37	22.56
7	I understand that the most significant advantage of leasing is taxes.	Strongly disagree	28	17.07
		Dis-agree	62	37.80
		Neutral	41	25.00
		Agree	23	14.02
		Strongly agree	10	6.10

Table 4.5: descriptive statistics result for leasing information and knowledge factor statements

In line with earlier studies, SME managers were asked about their degree of agreement on access to leasing information, as well as their understanding and awareness of the relevance of lease finance as an alternative financing option.

In terms of having sufficient leasing information, 4(2.14%) and 86(45.99%) of respondents agreed or strongly agreed on their access to lease information. However, 11 (5.88%) and 66 (35.29%), respectively, of the respondents strongly agreed and agreed that they had enough knowledge regarding leasing finance services. Similarly, 20 SME managers (10.7%) were unconcerned about their access to lease information.

In order to measure the overall degree of awareness about the relevance of leasing in order to gain access to leasing without collateral. Surprisingly, 89.9% of SMEs owners disagreed with the statement, with 7(3.74) strongly disagreeing. 25(13.37) and 48 (25.67), on the other hand, firmly agree and agree with the importance of leasing to access funding without collateral. The remaining 18 (9.63%) respondents were uninterested in advancing understanding and remained impartial.

The degree of understanding of SMEs management about the reduced legal consequences of leasing during bankruptcy is the subject of the other statement question. As shown in table 4.6, 22(11.76%) and 72(338.50%) of enterprise managers strongly disagree and disagree with their understanding of the lesser legal consequences of leasing during bankruptcy. In comparison, only 30(16.04%) of respondents strongly agreed, 48(25.67%) agreed, and the remainder 15(8.02%) were indifferent to express their knowledge of the advantage.

Furthermore, SME owners are asked to estimate the level of knowledge of SME management on more attractive lease terms than loans. As shown in table 4.5, 29 (15.51%) strongly disagreed and 59 (31.55%) highly disagreed regarding the superiority of lease terms over loan terms. In comparison, 30 (16.04%) highly agreed and 39 (20.86%) agreed with the advantages of leasing over lease. On the spot, 30 respondents (16.04%) were neutral.

Furthermore, 16(8.56%) respondents strongly disagreed and 62(33.16%) disagreed with the view of respondents regarding their level of awareness on less restrictive features of lease finance. In this regard, 28 (14.97%) and 29 (15.51%) of respondents highly agreed and agreed on the less

restrictive features of lease financing, respectively. On the other hand, 52 (27.81%) of respondents did not agree or disagree with the statement.

Another intriguing variable statement is one that inquires about the respondent's level of agreement on the 100% down payment characteristics of lease finance in Ethiopia. Regarding the statement, 55 (29.41%) of responses were neither agree nor disagree. Furthermore, 42(22.46%) of respondents agreed and 34(18.18%) strongly agreed regarding the 100% down payment characteristics of leasing finance. In contrast, 4(2.14%) and 52(27.81%) of respondents strongly agreed and agreed, respectively.

Finally, small and medium-sized enterprises were asked on their awareness of the tax benefits of leasing, which is cited as the primary advantage of leasing over alternative sources of finance in lease financing literature. Surprisingly, just as shown in Table 4.5. 10(5.35) and 23(12.30%) of the respondents strongly agreed and agreed. On the contrary, 32 (17.11%) and 74 (39.57%) of respondents strongly disagreed and disagreed. In the middle, 48.67% of SME managers were indifferent or neutral regarding the tax benefits of leasing.

4.6. Econometrics Analysis

This section covers the study's regression analysis. It entails evaluating model assumptions and calculating the relationship between dependent and independent variables. This study was carried out with the goal of finding the factors influencing impulse purchases and was evaluated using a logistic regression model. The model's essential assumptions were validated before doing regression analysis.

4.6.1 Estimation Diagnostic Test

There are several methods for analyzing the goodness of fit of a logistic regression model to determine how likely the sample outcomes are given the parameter estimations. As a result, before estimating the event using a binary logistic regression model, the model's goodness of fit and multicollinearity diagnoses were made.

4.6.2. Multicollinearity test

When one column of the independent variable design matrix is linearly dependent on the other columns, it poses challenges with interpretation and calculation in the regression analysis. The

issue arises when one regression is significantly associated with another, or when a linear combination of a number of predictors is used.

The diagnostic test performed in this study was correlation analysis, which is effective for identifying the connection between independent variables and avoiding the model's explanatory variables having a twofold impact. When employing the logistic regression estimation technique, one of the assumptions is that the explanatory variables are not fully associated with one another. When the correlation extent exceeds 0.8, the multicollinearity problem should be rectified and reassessed (Cooper and Schindler, 200). As a result, all correlations between explanatory variables are less than 0.5, indicating that there is no multicollinearity in the study.

4.6.3. Model fitness test

The Hosmer-Lemeshow test method is used to analyze and realize the goodness of fit of a model. The test is used to determine whether or not the alternative hypothesis sufficiently reflects the facts. As a result, if the significance level of the test is less than 0.05, the alternative hypothesis is rejected, and the null hypothesis, which claims that the model is insufficient to describe the data, is accepted. The test results show that the chi-square value is 3.89 and the associated probability is 0.8670, suggesting that the model is well suited to estimate the relationship between dependent and independent variables. This implies that the binary logit model is appropriate for estimating the key determinant factors influencing manufacturing SMEs' lease financing inclination.

4.6.4 Factors influencing the usage of lease finance by manufacturing SMEs

This section seeks to describe the primary determinants of manufacturing SMEs' lease financing proclivity. As previously stated, the Logit model was chosen to determine the primary and relevant factors of lease finance utilization in the research region. Table 4.6 shows the estimated logit model, in which the dependent variable, lease financing, is regressed on firm specific, institutional framework and leasing information, knowledge and awareness of entrepreneurs variables that are expected to affect lease financing in the study area. The primary parameters that influence manufacturing SME utilization of lease finance are presented in Table 4.6.

Table 4.6: Results of logistic regression

LEASE	Coef.	Std. Err.	Z	P>|z|	[95% Conf.	Interval]	Odds Ratio
SIZE	1.082351*	.5215181	1.66	0.063	-.15802	2.10504	2.871
LOAN	-3.543857***	.628364	-4.63	0.000	-4.71424	-2.1629	.022
COLL	-1.859154***	.7367492	-2.08	0.003	-3.0716	-.711487	.130
GRTH	1.11074*	.6929128	1.59	0.081	-.11014	2.63161	2.321
ACC	1.21387*	.9950989	1.62	0.075	-.12503	2.40242	2.683
FIRMAGE	.8246066***	.4139299	2.85	0.002	.393153	1.39898	2.420
INS	-.4257199***	.2215049	-2.75	0.006	-.53865	-.075747	.622
LINA	.6806842***	.1716428	4.31	0.000	.298161	.215523	1.363
_cons	-7.221386**	3.493904	-3.12	0.13	-14.6732	-1.65452	.0003

Number of obs = 164
LR chi2(8) = 147.50
Prob > chi2 = 0.0000
Pseudo R2 = 0.5990

*** p<0.01, ** p<0.05, * p<0.1

Source :(Stata output, 2023)

The negative sign in the coefficients column shows an inverse association between the predictor independent variables and the log chances of the dependent variable. A column labeled Coefficients with positive sign, on the other hand, suggests a positive association between the explanatory variable and the log chances of the dependent variable.

To describe and comprehend the logistic regression findings, the odds ratio is the most attractive method to the regression coefficient. The odds ratio depicts the magnitude of each explanatory variable's direct influence on the likelihood of using lease finance. This implies that each coefficient's odds ratio is converted and developed to evaluate the influence of each variable on the dependent variable. Based on the sign of the associations between the dependent and independent variables, estimations of odds larger than 1.0 imply that the usage of lease finance is greater than that of the reference group. Estimates less than 1.0 imply that the usage of lease finance is smaller than the reference category of each variable in terms of their linkages. As a result, the odds ratio for the estimated final model shown in Table 4.6

The firm specific factors

Firm age, enterprise specialized operation, and enterprise legality status are statistically insignificant and are omitted from the model by utilizing stepwise regression.

Various study findings obtained by different experts provide the impression that business size was both favorably and adversely connected with the utilization of lease finance. In this regression analysis, the size of enterprises which is small and medium was entered as a dummy predictor which is a positive and significant impact on the use of lease financing by manufacturing SMEs with odds ratio (β) = 2.98. This means that the medium-sized enterprises' use of lease financing was 2.98 times more as compared to small-sized manufacturing enterprises which is similar to the finding by Beatie et al., 2000; Chaves et al., 2011; Mol-Gómez-Vázqz et al., 2019) that concludes medium-sized businesses are more likely to employ leasing since they are growing and want extra finance. On the contrary, the discovery by Lasfer (2007), Neuberger & Rathke- Doppner (2013), and Eisfeldt and Rampini (2009) contradicts the previous one which argues that smaller firms are more leasing attractive than large size enterprises because of they are constrained from other sources of financing.

In this study, however, in addition to the dummy size of firms, the age of the firm is regarded as a relevant factor for the possibility of employing lease finance. According to Table 4.6, the lease financing inclination of organizations grew by 2.52 times as the firms aged, with a 1% significant level. The result is consistent with the size and growth potential of enterprises effect since they become larger and have better growth potential as they operate in the market for many years. The result supports, Neuberger & Rathke- Doppler (2013) argument that small and young firms are likely to be constrained in the leasing market, while older firms use more leasing. However, it was contradicted by the finding of Cosci et al., (2013) which states use of leasing is lower for older firms than Youngers.

The other variable which has positive and a significant effect on the lease financing propensity of manufacturing SMEs is the growth opportunity of enterprise with the odds ratio(β) = 2.72 at a 10% significant level. The finding shows consistency with Chavis et al., (2011); Chigurupati & Hegde (2009) argument that leasing is more used by faster-growing enterprises. This implies that enterprises that have a better growth status have 2.72 times lease financing using propensity than enterprises whose growth capacity was lower. The intention may be, enterprises with more growth potential strived to add and expand their enterprise investment. On the contrary, the finding contradicts (Koh & Jang, 2009) who argue enterprises with considerable growth potential may seek bank loans or issue shares.

The rationale point of imperfect information is that both lenders (lessors) and small and medium enterprises are confronted with information asymmetry (Pandy, 2008). The other firm-specific variable examined in this study using logistic regression was the effect of having a professional accountant on the enterprises. As Dagnachew (2018), concluded lack of reliable and organized financial statements to analyze the financial statement of SMEs by the supply side is one of the main challenges. Accordingly, this study sought to examine the effect of hired professional accountants on the use of leases. As presented in Table 4.6 manufacturing SMEs that have hired professional accountant have 2.78 times more likely to use a lease as compared with those that don't have an accountant at a 10% significant level.

The association between the use of lease financing and access to loans for more than 3-term years SMEs shows that the probability being using a lease is less likely than those manufacturing SMEs who have access as compared to those who don't have access to loans. As indicated in Table 4.6 SMEs that have better access to loans for more than three years term loan have less likely to use leasing as a financing option. And also, they have 0.06 times less likely to use lease financing than SMEs who don't have access to loans from financial institutions at a 1% significant level. The odds ratio of access to a loan is very low which implies, when the firm access more loans for more than three years term the likelihood of using a lease becomes perfectly negative with zero use of a lease. The finding was opposite to Sharpe and Nguyen (1995) argument that according to the Pecking Order Theory when informational asymmetries are important, leasing is the first external financing option. The implication of this study is quite clear that in Ethiopia enterprises are not aware of and conscious of the lease financing system and the system by itself is at an infant stage. Therefore, it is not surprising that firms can use any available financing mechanism they can instead of choosing the best mix order of financing. Rather, the finding is consistent with Mol-Gómez-Vázquez et al., (2019) finding of leasing is an alternative for constrained SMEs because it does not have additional collateral requirements and this result comes to be valuable only when enterprises owners are better aware of a lease unless it's worthless.

Most SMEs are denied and discriminated by the lenders in providing financing because of high risk and for not having adequate resources to provide as collateral (Kihimbo et al. 2012). Results indicate that the availability of sufficient collateral by manufacturing SMEs affects the use of

lease finance negatively at a 5% significant level. The Logit model predicts that if the enterprise doesn't have sufficient collateral to access a loan the probability of not-using lease financing was increased by the odds ratio of 0.76(with an odds ratio of the reverse (0.24)) as compared to those have sufficient collateral to access loan from financial institutions. The finding was evidenced that SMEs that have sufficient collateral have lower use of leases as compared with those that don't have collateral to access loans.

Institutional framework factor

As Chavis et al., (2011) argued that in poor countries with weak institutions, the use of lease financing was far less, rather they rely more on informal sources of financing. In this regard, as indicated in the above table the summated statement institutional related factors have a negative and significant impact on the lease financing proclivity of manufacturing SMEs in Addis Ababa with the odds ratio (β) =0.665 with a 1% significant level, which means a one-point increment on the institutional framework variables have 0.582 times negatively affect the lease financing proclivity of manufacturing SMEs on the study samples.

Leasing information and knowledge

One of the main determinant factors identified in this study was the availability of information about the use of lease financing and the knowledge and awareness level of manufacturing SME owners (managers). As indicated on the above Table 4.6 the factor has a positive and significant impact on the lease financing propensity of manufacturing SMEs in Ethiopia, which have odds ratio β=1.463, which implies that manufacturing SMEs owner(managers) who have more sufficient information, knowledge, and awareness have 1.563 times more likely use lease financing than those who have limited. The result of the finding was consistent with Fatjola et.al.,(2019) the leasing knowledge of firm owners has a positive and direct impact on the possibility of firms using a lease as a financing method.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5. INTRODUCTION

This chapter is the final section of this study, and it summarizes the entire thesis. As a result, the first half of this chapter provides a summary of the study and its principal results, and the chapter concludes with recommendations for various stakeholder and policy implications.

5.1 Summary and Conclusions

The purpose of this study is to identify and investigate the primary determining elements that impact the lease financing proclivity of manufacturing small and medium firms in Ethiopia, using Addis Ababa municipal government as a case study. The study used the Binary logit regression model to achieve the goal. The model contained six explanatory factors and used lease finance as the dependent variable. According to the logit model findings, four determinant explanatory variables were examined as major influencing factors to manufacturing SMEs' lease financing use; of which, the dependent variable, use of lease, was regressed on, institutional framework, firm-specific and leasing information of entrepreneurs variables that are expected to affect the use of lease financing in the study area. Several tests were required to evaluate the magnitude of the impacts of each determinant variable.

To start with, the matrix of correlations was used to determine whether there is multi-collinearity and whether there is a problem between variables. Furthermore, the goodness of fit of a model was examined using the Hosmer and Lemeshow approach, which verified that the model can be achieved and suitable.

The research was carried out using primary information gathered from manufacturing small and medium-sized enterprises. Both a descriptive and an explanatory design, as well as a mixed research technique, were also developed. The researcher employed graphs, tables, chi-square tests, mean, maximum, minimum, and standard deviation of data to examine descriptive statistics. The researcher also employed bivariate and logistic regression analysis to investigate the influence of separate variables on the dependent variable. As a result, in accordance with the study's unique purpose, the researcher obtained the following primary results.

The correlation of lease financing inclination with company age produced favorable and significant results. According to the report, manufacturing small and medium-sized enterprises with more years of operation utilize leases more frequently than newly created SMEs. Furthermore, the size of SMEs has a favorable and considerable influence on the inclination among manufacturing SMEs to lease finance. The outcomes show that the chances ratio of adopting lease finances increased by 2.835 times for medium-sized businesses as compared to small businesses. This might be because companies with a higher possibility of survival and growth are judged less hazardous by leasing companies and have a greater chance of obtaining lease without collateral assets.

The impact of institutional framework factors; bureaucracy and requirement to acquire a lease, not enough training, lack of policy appreciation, political influence on the lease financing system, lack of sufficient leasing providers, and the complicated and restricting process and legislation of the country's leasing that indicates there is a significant and adverse effect on the lease financing tendency of manufacturing. This means that one unit measurement increase of the institutional factor statement reduces the utilization of lease finance by 0.656 points. It appears that a better institutional setting (simple government red tape and lease acquisition requirements, institutional training, government appreciation, no political intervention, and sufficient numbers of leasing companies with open procedures and regulations) increases the possibility of using leases.

This study also attempted to investigate the impact of SME managers' access to information and awareness on the lease finance tendency of manufacturing Businesses in Addis Ababa. The study discovered that access to information and awareness had a considerable impact on the lease financing tendency of manufacturing firms, with a 1.563 ratio of likelihood at 1% significance. These results support Corps' (2005) assertion that smaller manufacturing enterprises require proper information to make business finance and equipment purchasing decisions. As stated by Moyi (2000), SMEs are negatively and profoundly affected by a lack of information, expertise, and awareness.

5.2 Recommendations

On the basis of the study's primary results, an effort has been made to move forward with some policy implications and recommendations that appear to be important for the development of policies and formulation regarding the issue of leasing. The following recommendations are

made in order to create a sustainable and favorable leasing market and to benefit from lease finance strengths.

The key determining variables highlighted by the study come from leasing institutions, SMEs, and government agencies. As a result, in addition to the existing measures and pledges, the following problems are proposed for improving the leasing financing tendency of manufacturing Enterprises based on the study's primary findings:

For leasing organizations

To improve the lease finance strategies of Ethiopian SMEs, leasing institutions in the nation need to be:

- Create clear, simply accessible, and straightforward methods to attract potential SMEs to the world's contemporary style of funding.

Continuously arrange and communicate information regarding how leases operate to SMEs in particular. Furthermore, the key aspects of leasing through their organizations, as well as its advantages over other forms of financing, should be communicated to SMEs through conferences, advertisements, marketing, brochures, and other means for reaching out to SMEs sectors.

According to the findings, the biggest hurdles for SMEs lease finance propensity are a lack of proper information, limited awareness, and rigid institutional procedures and bureaucracy. As a result, the managerial staff in the corporate system of institutions should identify and plan for better leasing development in the country by minimizing supply side variables that effect lease.

For Small and medium-sized businesses

- SME lease finance differs from other loan types in its nature and operation, and since it lacks full assets guarantee, it is riskier than other loans. As a result, SMEs are strongly advised to meet all relevant requirements and to comply with all applicable laws, rules, and directives.
- To get adequate information Business owners (those in managerial should attend promotional conferences and symposiums, and they ought to become aware of their surroundings in order to acquire such sorts of alternative financing methods.
- Improve their understanding status by reading various sources of information regarding finance mechanisms and improving their educational status in order to have a solid

comprehension of their company success methods, particularly in order to improve their funding difficulties.

- Another significant consideration for SMEs is the preparation of trustworthy and nicely organized financial statements that will allow them to readily acquire finance. As a result, SMEs must have a competent accountant who generates at least basic financial information to assist lessors in analyzing risk and credit eligibility.

❖ **For Government Bodies that may be concerned**

The message is clear: SMEs in general, and manufacturing enterprises in particular, require special attention and care since they represent the foundation of a country's growth and development. Indeed, it was commendable for the government's previous efforts on manufacturing SMEs-specific initiatives and programs.

Based on the document looked over about the necessity and formation of SME lease financing programs as well as the overall objective of leasing institutions, particularly those owned by the government there is lack clear and transparent operation procedures that are easily accessible and helpful to SMEs in determining which financing mechanism is better. As a result, because the majority most leasing firms are government-owned, the government should create and coordinate follow-up programs for those institutions' job development in order to minimize bureaucratic complications. Furthermore, government officials should prevent and remove enterprises from politics, instead creating a transparent and accountable leasing setting.

Furthermore, in terms of the availability of adequate leasing firms, the minimum capital needed to start a leasing company in Ethiopia was too expensive during the review of documents, and it does not appear to be accessible by local investors. As a result, the governing body should reconsider the regulations and simplify the procedures in order to improve SMEs' access to alternative financing institutions. In general, the government should intuitively recognize and help leasing systems, as well as SMEs, in freely engaging in lease financing systems for the growth of the country through the formulation of advantageous tax schemes and easy rules and regulations.

Recommendations for Further Research.

The research undertaken in this thesis has had a major and stimulating influence on studying the primary determinants of lease financing inclination among manufacturing small and medium-sized enterprises. However, the analysis identified numerous areas that require more

investigation. The goal of this section is to identify and highlight the need for more study on this issue. To begin, rather than utilizing a variable in terms of birr amount or asset worth, dummy variables are employed in this study to measure the utilization of lease finance. As a result, it is advised to undertake a study amount-based measurement, which is critical for setting and recognizing enterprises with high or low usage of lease finance. Second, in this study, different firm-specific features were developed by category rather than constantly, which is more useful and less restricted when analyzing the calculated connections. Finally, the researcher suggests more study on the impact of lease finance on the financial performance of small and medium-sized enterprises in Ethiopia.

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APPENDIX

QUESTIONNAIRE

ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS DEPARTMENT OF ACCOUNTING AND FINANCE

Dear respondent,

I am a master's student in the Accounting and Finance Department at Addis Abba University. The goal of this questionnaire is to gather information and perform a study on "The Factors influencing the use of lease financing by manufacturing Small and Medium Enterprises: In case of Addis Ababa City Administration" as part of a Master's Degree in Accounting and Finance partial fulfillment. Any data you share with me will be kept secret and utilized solely for academic purposes; it will have no bearing on you in any way. As a result, you're real, honest, and prompt answer is critical to completing this research on schedule. As a result, I respectfully request that you carefully respond to each item/question.

If you have any questions or need clarification, please contact me through my E-mail: tsegayeamde50@gmail.com or call through +251-911400896

Thank you so much for your time and cooperation with the data provided.

Yours sincerely

Tsegaye Amde

Instruction

- There is no need to write your name.
- For multiple-choice questions, surround the letter on the appropriate choice.
- For Likert scale type statements, use the (√) symbol just once for each variable, depending on your degree of agreement.
- If you have any suggestions, please write them in your preferred language (Amharic or English).

Part-I:

1. General Characteristics of Respondents

1. Gender; A. Female B. Male

2. Age: A. Below 25 B. 26-35 C. 36-45 D. 45-60 E. Above 60

3. Educational qualification; A. No formal education B. Primary C. High School D. Diploma E. Degree F. MA/MSc and above

4. Your status in the enterprise A. Owner(shareholder)-manager B. External(hired)-manager

2. Enterprise specific characteristics.

1. What is the size of your enterprise category?
   A. Small B. medium
2. In which form did your enterprise organized?
   A. cooperatives B. sole proprietorship C. partnership D. Share Company
3. How long has your company been in operation?
   A. Less than 4 years B. 5 to 9 years C. 10 to 14 years [ ] D. 14 and above years [ ]
4. What is the specialized business operation in which your company is involved?
   A. Construction materials
   B. Metal and woodworks
   C. Food processing
   D. Textile and garment
   E. Other……
5. Has your company hired more than ten new staff in the past fiscal year? (2014 E.C to now)
   A. Yes B. No
6. Does your company have adequate collateral to secure a loan from a financial institution?
   A. Yes B. No

Part II: use of lease financing by Manufacturing Enterprises:

Does your company use lease financing?

A. Yes B. No

Part III: Please express your thoughts on the following statements

(1.Strongly Disagree, 2.Disagree, 3.Neutral, 4. Agree, 5. Strongly Agree.

Please indicate your degree of agreement or disagreement with this statement. Using 1 to 5 scale guideline. Your assessment shall be based on the firm's characteristics on SMEs.	Strongly disagree	Disagree	Neutral	Agree	Strongly
1 Institutional framework factors					
The process needed to get lease finance from a leasing organization is complicated, expensive, and time-consuming.					
There is a shortage of lease financing training provided by any organization.					
There is an absence of government support for using lease financing as a source of funding.					
There is apolitical involvement in the leasing institutions' lease finance system.					
There aren't enough leasing firms that provide lease financing.					
The country's lease finance service method and rules are complex and constrained.					
2 Information and awareness on leasing ,					
I am familiar with in the concept of lease finance.					
I understand that lease financing is an excellent way to fund a business without requiring collateral.					
I'm aware With leasing, the legal penalties of bankruptcy are less severe.					
I am aware that lease terms are preferable compared to loan terms.					
I am aware that leasing arrangements are often more flexible.					
I am aware that leasing allows for 100% down payment funding.					
I understand that the most significant advantage of leasing is taxes.					

Thankyou for your time!!!

Appendix III: Hosmer-Lemeshow Goodness of Fit Test

Hosmer-Lemeshow Goodness of Fit Test		
Chi-square	DF	Sign.
3.87	8	0.768

Appendix II: Test for multicollinearity

1. Correlation Matrix

corr LEASE SIZE COLL INST LINF GRTH

(obs=164)

	LEASE	SIZE	COLL	INST	LINF	GRTH
LEASE	1.0000					
SIZE	0.3061	1.0000				
COLL	-0.2478	0.066	1.0000			
INST	-0.3650	0.076	0.106	1.0000		
LINF	0.5413	0.156	-0.225	-0.083	1.0000	
GRTH	0.1871	0.250	-0.193	-0.151	0.161	1.0000