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

Performance, Challenges, and Prospects of the Lease Finance Sector in Ethiopia: The Case of Addis Capital Goods Finance Company, Oromia Capital Goods Finance Company, and Dehub Capital Goods Finance Company

By

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A Thesis Submitted to the School of Graduate Studies of Addis Ababa University in Partial Fulfillment of the Requirements for the Degree of Masters of Science (MSC) in Accounting and Finance

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Addis Ababa, Ethiopia

Statement of Declaration

I, Temesgen Menza declare this thesis entitled “Performance, Challenges and Prospect of the Lease Finance Sector in Ethiopia: The case of Addis Capital Goods Finance Company, Oromia Capital Goods Finance Company, and Dehub Capital Goods Finance Company.” It is the result of my personal effort and all sources of materials used for the study have been properly recognized. I have produced it independently except for the direction and recommendation of my Advisor.

In my knowledge, this study has not been submitted for any degree in this University or any other University. It is submitted to partially fulfill the requirements for a Master of Science degree in Accounting and Finance.

Declared by:

Temesgen Menza Signature:  Date: 20/06/2025

Statement of Certification

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This is to certify that the thesis entitled, “Performance, Challenges, and Prospects of the Lease Finance Sector in Ethiopia: The case of Addis Capital Goods Finance Company, Oromia Capital Goods Finance Company, and Dehub Capital Goods Finance Company,” conducted by Temesgen Menza, has been submitted to Addis Ababa University as part of the requirements for the Master of Science degree in Accounting and Finance, complies with University regulations and adheres to the expected standard for originality and quality.

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Acronyms

ACGFC	Addis Capital Goods Finance Company
DBE	Development Bank of Ethiopia
DCGFC	Dehub Capital Goods Finance Company
EBIT	Earnings before Interest and Taxes
EBITDA	Earnings before Interest, Taxes, Depreciation, and Amortization
EBRD	European Bank for Reconstruction and Development
FCI	Financial Conditions Index
FALO	Fikadu Asfaw and Associates Law Office
GDP	Gross Domestic Product
IAS	International Accounting Standards
IASB	International Accounting Standard Board
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
ILO	International Labor Organization
NBE	National Bank of Ethiopia
OCGFC	Oromia Capital Goods Finance Company
ROA	Return on Asset
ROE	Return on Equity
SMEs	Small and Medium Enterprises
WBG	World Bank Group

Abstract

The lease finance sector plays a critical role in fostering economic development by providing financing for businesses, particularly in emerging markets like Ethiopia. Hence, the primary purpose of this study, titled Performance, Challenges, and Prospects of the Lease Finance Sector in Ethiopia: The Case of ACGFC, OCGFC, and DCGFC, is to evaluate the financial performance of three prominent capital finance companies while identifying the prevailing challenges and outlining future growth opportunities in the sector. This study employs a mixed-methods approach, employing both qualitative and quantitative data collection methods. Research design was descriptive. A combination of random and purposive sampling methods was employed to select respondents from the study population. The instruments were a questionnaire, interview and an Annual Audited data review. The data gathered was analyzed using descriptive statistics, which included tables, charts, frequency distributions, and percentages. A total of 76 questionnaires were analyzed alongside financial performance metrics from 2016 to 2023. Key financial ratios, Return on Assets (ROA) and Return on Equity (ROE), were utilized to assess the companies' profitability and operational efficiency. The data statistics were produced using the 25th version of the Statistical Package for Social Sciences (SPSS). The findings reveal that the Ethiopian lease finance sector, while possessing significant growth potential, faces numerous challenges: a lack of leasing expertise, absence of equipment valuers, and restrictions on product types. Further impediments include foreign currency shortages, lack of credit history, funding constraints, and a regulatory framework not conducive to business operations. Leasing companies also suffer from a limited number of domestic equipment suppliers, and a general lack of public awareness. Compounding these issues are political instability, rising machinery prices due to inflation, and fluctuating foreign exchange rates, which create financial strain for leasing companies and their SME clients. Despite these barriers, the research suggests substantial prospects for the lease finance sector in Ethiopia. Government commitment, fast economic growth and a high growing market, all together puts positive futurity or prospects of the business. This is supported by both the survey and interview findings. Conclusion and recommendations are given based on the survey and interview results.

Key Words: Lease Finance, Financial Performance, Leasing Challenges, Growth Opportunities, capital finance companies.

CHAPTER-ONE

1. INTRODUCTION

1.1. Background of the study

The financing of small and medium enterprises (SMEs) has been a topic of keen interest in recent years because of the key role that SMEs play in economic development and their potentially important contribution to economic diversification and employment (Ayyagari et al., 2007 cited in Berg & Fuchs, 2013).

To address the financing gap and promote economic development, countries both developed and emerging economies are seeking to create different mechanisms of accessing finance (IFC, 2005). Among the alternatives that bridge the gap or create a range of financial products or sources of funding and boost the economy, leasing can serve as a valuable approach for delivering long-term financing to small and medium enterprises (SMEs) (World Bank, 2015).

Leasing is one of the most vibrant and dynamic industries in the world. It facilitates the financing of equipment and real property. It fosters economic growth, creates employment, and enhances tax revenues. It affects every sphere of our lives as it encompasses automobiles, furniture, airplanes, restaurant equipment, computers, telecom equipment, medical equipment, and more (Amembal, 2011).

The Ethiopian financial sector remains characterized by significant limitations in access to credit and the availability of diverse financing mechanisms. Recent studies indicate that less than 10% of households have access to formal credit, highlighting the shallow nature of the financial sector (Bededa, 2020).

At the end of June 2023, total assets of the financial sector amounted to Birr 3,120.5 billion. The financial sector continued to be dominated by the banking sector, whose total assets accounted for 96.3 percent of total financial sector assets, followed by the microfinance sector (2.0%), insurance (1.6%), and Capita Goods Finance (0.2%). Capital Goods Finance companies are financing only Birr 2.8 Billion, while banks are financing Birr 1,890.3 Billion (NBE, 2024).

Small and medium-sized enterprises (SMEs) often lack sufficient collateral or a strong credit history to secure financing from conventional banks. Therefore, a practical strategy for funding

SMEs is to bolster leasing companies and other financial institutions that cater to these businesses (IFC, 2009). Leasing companies play a crucial role in financing small and medium-sized enterprises (SMEs), which often struggle to secure funding from traditional sources due to insufficient credit history or collateral. Leasing provides a flexible financing option with several benefits, including the use of the leased asset as the primary security in the arrangement. Globally, businesses utilize leasing to fund vehicles, machinery, and equipment (World Bank, 2015).

Leasing is a viable option for enhancing the Ethiopian economy by offering long-term financing to small and medium-sized enterprises (SMEs). Leasing companies play a critical role in supporting SMEs, which often face challenges accessing traditional financing due to limited credit history or insufficient collateral (World Bank, 2015).

The leasing industry has experienced substantial growth over the past six decades. Originating in the United States during the 1950s, it expanded to the United Kingdom and Japan in the 1960s and has increasingly penetrated developing countries since the mid-1970s (Solifi, 2023; The Business Research Company, 2024).

According to Asfaw (2016), the Ethiopian government introduced its first leasing law, Capital Goods Leasing Business Proclamation No. 103/98, in 1998 to support the growth and development of SMEs by improving their access to finance and facilitating the acquisition of machinery and equipment through lease financing. This law aimed to meet the equipment and machinery demands of businesses through leasing services. Initially, leasing services were intended to be provided by licensed companies under the supervision of the then Ministry of Trade and Industry. To address regulatory gaps, the government revised the legislation in 2013 with Capital Goods Leasing Business (Amendment) Proclamation No. 807/2013. This amendment clearly delineated responsibilities between the Ministry of Trade and the National Bank of Ethiopia (NBE). Consequently, the National Bank (the regulatory body of financial institutions) was tasked with licensing, regulating, and supervising capital goods finance companies, including those engaged in financial leasing and hire-purchase, while the Ministry of Trade focused on licensing and overseeing operating leases. These changes have facilitated a more favorable legal and regulatory environment for establishing and operating leasing companies. Accordingly, by early 2014, the NBE issued licenses to five Capital Goods Finance

Companies, which were created with the backing and majority ownership of regional governments and five large microfinance institutions (MFIs) in the country. These companies have commenced the provision of leasing services in their respective regions by mid-2014.

Ethiopia's leasing sector is still at an early stage of development, despite the country's considerable market opportunities. While there exists a somewhat active semi-formal rental market for construction machinery and vehicles, the use of operating leases plays only a minor role in promoting investment growth.

Assessment of financial performance is highly useful for identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of the balance sheet and the profit and loss account. It also helps in short-term and long-term forecasting and growth can be identified with the help of financial performance analysis (Sivasakthi & Nithya, 2021).

Firm performance is a multidimensional concept; it may be financial or non-financial. Financial performance is a firm's ability to generate resources, from its daily procedures, for a certain period. Financial performance may also refer to the firm's ability to make good use of its resources effectively and efficiently for the achievement of the firm's objectives and goals (AsimakoPoulos, et al., 2009). According to Vekataran and Varadarajan (2011), financial performance is the firm's ability to efficiently operate, be more profitable, grow, and survive for a long period. All organizations strive to utilize their resources effectively to achieve a high performance level, especially in financial terms. Thus, financial performance results from the various activities carried out by an organization.

This research evaluates the financial performance of ACGFC, OCGFC, and DCGFC using Return on Assets (ROA) and Return on Equity (ROE) metrics during the study period, with the goal of offering investors valuable insights and encouraging investment in the business. Additionally, it explores the challenges and opportunities within Ethiopia's lease financing sector. The findings benefit investors, regulatory organizations, and stakeholders involved in the leasing business in general.

1.2. Statement of the Problem

Capital Goods Finance Companies do not accept deposits and rely on banks for a significant portion of their financing. This exposes Capital Goods Finance Companies to the risk of contagion from adverse shocks in the banking sector (NBE, 2024).

After an initial spike during the early days of the COVID-19 pandemic, there was a decrease in the outstanding loan amounts for SMEs as a share of GDP across many economies in 2022. Of the 61 economies that have consistently reported SME data over the past four years (2019-2022), a large majority (75 percent or 46 economies) reported a decline in outstanding commercial bank loans to SMEs as a share of GDP between 2021 and 2022. As noted above, this decline can be attributed partly to the unwinding of support measures such as credit guarantees and moratoriums on debt repayments, implemented in 2020 in response to heightened liquidity demands and to stave off potential bankruptcies and job losses in SMEs (IMF, 2023).

Many countries encounter fundamental challenges in establishing a leasing industry, including the lack of well-defined and reliable laws for leasing transactions, unclear accounting standards, lack of an appropriate tax regime, limited access to funding, and the absence of a suitable regulatory and supervisory framework (IFC, 2005).

Likewise, the Ethiopian leasing sector has encountered these and other challenges since the first regulatory framework was introduced in March 1998 through the Capital Goods Leasing Business Proclamation No. 103/1998. The proclamation was subsequently revised through the Capital Goods Leasing Business (Amendment) Proclamation No. 807/2013, which was issued in July 2013. By the newly amended proclamation, the NBE issued two directives in October 2013, cited as Requirements for Licensing of Capital Goods Finance Business Directives and Minimum Paid-up Capital Requirement Directive. Although these two directives are crucial, they don't alone provide an adequate regulatory framework for a leasing operation (Asfaw, 2016).

According to Helen Tedla (2014), in mid-2014 NBE signed an agreement with the IFC for assistance in the development of Ethiopia's leasing sector. As part of the support to NBE, IFC identified the key gaps that exist in the leasing sector. Among the key gaps to be addressed are the lack of capacity to supervise and regulate the leasing sector and the lack of know-how in

leasing at the leasing companies that have been recently formed by government support. Legal and regulatory gaps, lack of appropriate management information systems (MIS), lack of funding, and lack of leasing awareness by the players in the leasing eco-system that includes the potential lessor, lessee, and supplier are identified.

Also, based on advice from WBG FCI, the National Bank of Ethiopia (NBE) adopted a policy shift for leasing activities in early 2019, correcting some earlier restrictions concerning a single obligor limit, a cap on interest rates, and the requirement for foreign-owned leasing companies to open regional offices. As a result, the first foreign-owned independent capital goods finance company (Ethio-lease) sought and received a leasing license in June 2019. While Ethio-lease has been able to start operations, its viability remains in doubt due to some unresolved regulatory issues. The most critical unresolved issues relate to some specific directives issued by NBE, namely the requirements for foreign-owned leasing companies to maintain a debt/equity ratio below 1.5x (Directive No. FXD/47/2017), a sectorial and industry weighting of at least 60% for SMEs and 65% for manufacturing (Directive No. CGFB/10/2019), foreign-owned leasing companies are not permitted to borrow from the local financial system, and any external borrowings must be priced within the (fairly tight) limits prescribed by the NBE (Directive CGFB/10/2019). Finally, there is insufficient clarity concerning the effectiveness of using lease contracts/assets to secure international borrowings under Ethiopia's updated secured transactions framework (Movable Property Security Right Proclamation No. 1147/2019) (IFC, 2023).

According to FALO (2024), in 2021, the National Bank of Ethiopia, the country's central bank and regulatory authority, amended its directive concerning capital goods leasing. The revision mandates that all new capital goods lease agreements must specify fixed payments to be made in the local currency, birr, rather than in foreign currency. This directive aims to ensure that repayments for capital goods leasing transactions are conducted exclusively in birr. This appears to have influenced the sector's continued growth, considering the unique dynamics of the Ethiopian economy.

The leasing industry in Ethiopia is still in its infancy although presenting a great opportunity to meet the financing needs of MSMEs. The industry is in its infancy and data is still being gathered. Very few local studies were conducted previously by Asfaw (2016), Befekadu (2018), Mengistu (2019), and Yosef (2022) in the leasing area. They blame that existence of lack of

leasing expertise; weak supply chain linkages, a limited number of domestic suppliers; and the absence of specialized training centers for leasing, lack of stakeholder integration, shortage of hard currencies and re-possession, absence of adequate local manufacturers, long lease processing time, rental problem, a lack of clarity regarding tax, legal, and accounting frameworks of leasing, lack of public awareness were identified, however, Still, these gaps are not completely solved. Therefore, this study tried to assess the reasons why continue these gaps and try to suggest solutions.

According to the NBE financial stability report (2024), in terms of profitability, the capital goods finance sector has incurred losses in four out of the last five years, including in the most recent two. This indicates a structural problem and high risk for the sustainability of operations, and it calls for corresponding policy measures to help the sector return to profitability. Thus, in the study, the researcher wants to show the financial performance of the listed leasing companies which has not been evaluated by previous researchers. The leasing sector needs further study to dig out the obstacle that makes leasing financing underdeveloped and point out the bright prospects exist in the market to invite potential investors.

The researcher tried to fill the research gap by evaluating the financial performance of three leasing companies in terms of Profitability performance measurements i.e. ROA and ROE which is not previously conducted by any local researchers.

Therefore, this study addressed the above research gap by conducting research on the Performance, Challenges, and Prospects of the lease finance sector in Ethiopia: in the case of three capital finance providing companies (ACGFC, OCGFC, and DCGFC).

1.3. Objectives of the study

1.3.1. General Objective

The general objective of this study is to assess the performance, challenges, and prospects of the lease finance sector in Ethiopia.

1.3.2. Specific Objectives

The specific objectives of the study are to:

1. Assess the financial performance of three capital finance providing companies in Ethiopia.
2. Investigate the challenges of the lease finance sector in Ethiopia.
3. Assess potential prospects of the lease finance sector in Ethiopia.

1.4. Research Questions

To meet the study's objectives and tackle the research problems, the following research questions were designed:

1. What has been the performance of capital finance providing companies over the years?
2. What are the key challenges encountered by the lease finance sector in Ethiopia?
3. What are the potential prospects and opportunities of the lease finance industry?

1.5. Significance of the Study

This study has different significances. It is expected to offer valuable insights and a solid foundation for potential leasing investors, policymakers, lessee companies, and other parties involved in or interested in the leasing industry. It will contribute to increasing the general awareness of leasing and the development of the industry based on some recommendations and findings. Finally, it also serves as an input for further research in a similar area of the study.

1.6. Delimitation of the Study

This study is limited to the capital goods financing sector within Ethiopia, focusing exclusively on financial leasing and hire-purchase. It primarily examines the financial performance, challenges, and prospects of ACGFC, OCGFC, and DCGFC, which are licensed and regulated by the National Bank of Ethiopia, with a particular emphasis on the supply side. Eight (8) years of financial statement data was used to evaluate the financial performance of three capital finance companies; this is due to the new phenomenon of the business. The study did not include operating leasing practices; as Ethiopian law prohibits capital finance companies from participating in the business of operating leases.

1.7. Organization of the paper

This study contains five chapters. The first chapter is an introduction that includes background of the study, statement of the problem, objectives of the study, research questions, significance of

the study, and scope of the study. Chapter two presented a review of the theoretical and empirical literature on the capital financing business. The third chapter focuses on the research methodology, while the fourth chapter outlines the findings, discussions, and analysis of the study. Lastly, chapter five provides a summary, conclusions, and recommendations based on the study.

CHAPTER-TWO

2. REVIEW OF RELATED LITERATURE

This chapter examines both theoretical and empirical literature related to leasing. It covers topics such as definition, development and key concepts, types of leasing, benefits and roles, regulators and their mission, legal and regulatory framework, future regulation changes, comparison of leases with conventional banks, and performance measurement analysis. Beyond these, the researcher reviewed prior papers regarding leasing and summarized some papers accordingly.

2.1. Definition of Leasing

Leasing is a widely used financial tool that involves the rental of assets, such as property or vehicles, for a predefined period. It serves as an alternative to traditional financing methods, such as loans or mortgages. The leasing industry has evolved significantly and is a major contributor to the global economy, providing solutions for businesses and individuals alike.

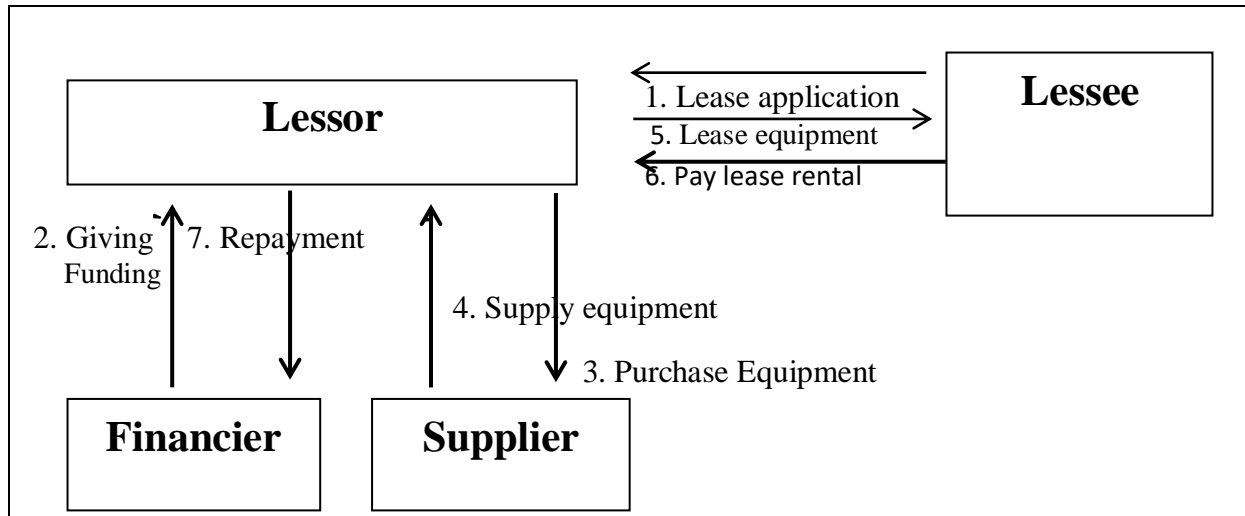
Leasing has been variously defined in different literature. The definitions vary significantly depending on the jurisdiction, particularly for tax, legal, and accounting purposes, both under local and international accounting standards. Leasing is defined as a contractual agreement in which the owner of an asset (the lessor) grants another party (the lessee) the exclusive right to use that asset for a specified period in exchange for periodic payments. This arrangement allows the lessee to utilize the asset without acquiring ownership, effectively separating the rights to use and own the asset (Kapoor, 2020).

Leasing is a financial arrangement in which a person, company, or other entity pays to use land, a vehicle or other property for a set period. The cash outflow and payments related to leasing are spread out over several years, hence saving the burden of one-time significant cash payments, which helps a business to maintain a steady cash-flow profile (The Business Research Company, 2024).

In Ethiopia, as defined by the Capital Goods Leasing Business Proclamation No. 103/1998, leasing is defined as in-kind financing for production and service purposes, where a lessor grants the lessee the use of specific capital goods through a financial lease, operating lease, or hire-

purchase agreement, without needing collateral, for a designated period, and receives periodic installment payments over that period.

Figure 1: The leasing mechanisms



Source: Izumi (2006)

Elements of Leasing:

Leasing is an important and popular form of asset-based finance that involves several essential elements which should be understood before studying leasing in detail. First, there are two primary parties involved in a lease financing contract: the owner and the user of the assets. The owner, known as the lessor, can be an individual, partnership, joint stock company, corporation, or financial institution that owns the assets being leased. The user of the assets is called the lessee, who may be a firm or company that receives the service of the assets under the lease contract. Additionally, a lease broker often acts as an intermediary between the lessor and lessee, facilitating lease deals; such brokers can include merchant banking divisions of foreign banks or subsidiaries of private foreign banks. Finally, the lease assets themselves can include a wide range of physical items such as plant, machinery, equipment, land, automobiles, factories, and buildings. Understanding these components is fundamental to grasping how leasing functions as a financing mechanism (Chapter 12 - Special Financing, n.d.).

2.2. Development and concept of leasing

Leasing is not a modern phenomenon. Leasing procedures are traced back centuries ago. Ancient Sumerians produced leases on clay tablets for agricultural tools, land, water rights and animals. Clay tablets that were traced in the city of Ur and are predated 2000 BC are the oldest “hard evidence” of leasing that exist. There is also a record of the Code of Hammurabi, which presents a Babylonian leasing law, by King Hammurabi, dating back to 1700 BC. According to manuscripts and historical data, ancient civilizations such as Greeks, Romans, Egyptians and Phoenicians, used leasing as a financial tool to acquire access to equipment, land and livestock. More specifically the Phoenicians used ship chartering in order to obtain the use of crew and ship (Mavrogiannidou, 2012).

Leasing began to gain traction in Africa during the 1980s and 1990s, driven by the need for businesses to access financing for capital investments (African Development Bank, 2019). This period saw the establishment of several leasing companies across the continent, catering to various industries such as transportation, construction, and agriculture.

Over the past decade, the number of leasing companies in developing nations has grown significantly. However, the swift growth and increasing importance of leasing in these countries has often gone unnoticed by policymakers. Their focus has predominantly been on larger and more prominent financial institutions, like banks (Asfaw, 2016).

Aloysius and Lubinda (2013) emphasized that the significant growth of leasing industries in certain African countries has been driven by various interventions, with leasing legislative reforms being a key factor contributing to the industry's expansion.

In Ethiopia, owing to the need to accelerate the growth and development of SMEs by facilitating access to finance and availing working equipment and machinery to enterprises, the government enacted the first leasing law in 1998, Capital Goods Leasing Business Proclamation No. 103/98. This proclamation was issued to address the equipment and machinery needs of enterprises through lease financing services (Asfaw, 2016).

2.3. Types of lease

A Lease is a contract that allows a certain entity to use property that it doesn't possess in exchange for a series of periodic payments to the owner. Thereby, a lessee - an entity such a permit is granted to, can generate earnings from its use. In essence, leasing is simply another method of financing in contrast to bank loans, private placements, and others (Starodubtseva, 2017).

Within the leasing industry, there are various types of lease agreements, each with unique characteristics and implications for the parties involved. Some lease types include finance leases, operating leases, and hire purchase leases.

2.3.1. Finance lease

It is the lease where the lessor transfers substantially all the risks and rewards of ownership of assets to the lessee for lease rentals. In other words, it puts the lessee in the same condition as he/she would have been if he/she had purchased the asset. A financial lease has two phases: The first one is called a primary period. This is a non-cancellable period and in this period, the lessor recovers his total investment through lease rental. The primary period may last for an indefinite period. The lease rental for the secondary period is much smaller than that of the primary period (Ikhtiar, 2021).

A financial lease is a contractual arrangement in which a lessee obtains the use of an asset for most of its economic life, resembling ownership. This type of lease comes with a purchase option, enabling the lessee to buy the asset at the lease term's end. It offers advantages like cost distribution and tax benefits but also comes with commitments and potentially higher total costs (Aggarwal, 2025).

A finance lease (also known as a capital lease or a sales lease) is a type of lease in which a finance company is typically the legal owner of the asset for the duration of the lease, while the lessee not only has operating control over the asset but also some share of the economic risks and returns from the change in the valuation of the underlying asset.

More precisely, a lease is a business agreement wherein the lessee who may be a borrower or a customer chooses an asset, like software or equipment. This asset is then bought by the lessor,

usually a finance company, on the lessee's behalf. The lessee is given the right to use the asset for the purpose for which it was intended during the lease period. In return, the lessee agrees to pay a series of rentals or installments, usually over a specified period. The lessor, through these payments, recovers a significant portion or the entirety of the asset's cost while also earning interest income from the rentals paid by the lessee. Additionally, the lessee often has the option to acquire ownership of the asset, which can be exercised either by paying the last rental installment or through a bargain purchase option at the end of the lease term. This arrangement provides flexibility to the lessee and a steady income stream to the lessor, forming the foundation of lease financing transactions.

A finance lease has similar financial characteristics to hire purchase agreements and closed-end leasing as the usual outcome is that the lessee will become the owner of the asset at the end of the lease, but has different accounting treatments and tax implications. There may be tax benefits for the lessee to lease an asset rather than purchase it and this may be the motivation to obtain a finance lease.

Finance leasing contracts are usually made in such terms that the maintenance, service, and insurance obligations of the item are the lessee's responsibilities. This is because the lessee will use the asset for most of its economic life if not the whole life. Terms also ensure that all the risks and rewards commonly associated with the ownership are often lessees to keep.

Accounting standards and regulations used in most of the countries related to finance leases are more or less similar to every other asset purchase made using outsourced financing. The actual item and its book value have to be recorded on the balance sheet in the assets. On the other side of the balance sheet liabilities associated with the leased asset has to be recorded. During the leasing period and assets' economic life, depreciations and amounts of liabilities are deducted in a normal accounting manner (Finance Lease, 2023).

What happens at the end of the primary leasing period is often predetermined in the leasing contract. Since the economic value of the item after the finance leasing period, which usually lasts as long as the economic life of the asset, is low or non-existent the lessee can gain the title to the asset with a small investment, usually under fair market value, by undertaking a lease purchase. Another possible outcome of the contract is that the lessee helps the lessor to sell the

asset and gets a predetermined percentage of the resale price. However, the most usual procedure after the leasing contract expires is that the ownership of the asset stays with the lessor and the item is handed to him (Heinonen & Trebs, 2011).

In Ethiopia, as defined by the Capital Goods Leasing Business Proclamation No. 103/1998, a financial lease is a type of leasing by which a lessor provides a lessee against payment of mutually agreed installments over a specified period with the use of specified capital goods which is:

(a) either already acquired by the lessor; or

(b) purchased by the lessor from a third party, known as the supplier, chosen and specified by the lessee; and under which the lessor shall retain full ownership right on the capital goods during the period of the lease agreement, and, subject to agreement between the two parties, the lessee may have the option to purchase the capital goods outright after the termination of the lease period at an agreed price.

Typical characteristics of a financial lease include the following: Although the lessor is the one who purchases the capital goods, the lessee has the freedom to select and supply specifications; the capital goods in question may already have been acquired by the lessor or may have been purchased by the lessor from a third party, referred to as the supplier; The lessor maintains complete ownership rights over the capital goods for the duration of the financial lease, and the lessee may be able to buy the capital goods outright at a predetermined price at the end of the lease period, subject to the two parties' agreement.

According to DBE (2016), a Financial lease is a type of leasing by which a leaser provides a lessee against payment of mutually agreed installments over a specified period with the use of specified capital goods which is either already acquired by the leaser; or purchased by the leaser from a third party, known as the manufacturer or supplier, chosen and specified by the lessee; and under which the leaser shall retain full ownership right on the capital goods during the period of the lease agreement, and subject to agreement between the two parties, the lessee may have an option to purchase the capital goods outright after the termination of the lease period at an agreed price.

2.3.2. Operating lease

An operating lease is typically of a shorter duration than the useful economic life of the asset and the customer cannot purchase it at the end of the contract or can acquire it at a higher price than under a finance lease. An operating lease is thus essentially a rental contract for the temporary use of an asset (Oxford Economics, 2011; Kraemer-Eis & Lang, 2012).

According to Excedr (2023), an operating lease is a type of lease in which a lessee pays to use an asset for specific period of time, but does not assume ownership of the asset. The lessor, or owner of the asset, retains ownership and is often responsible for maintaining and repairing the asset. It can also be referred to as a fair market value (FMV) lease or rental. They are often contrasted with finance leases, which are more similar to loans and allow the tenant to eventually assume ownership of the asset.

In other words, when the lessee and lessor enter into an operating lease agreement, the lessor retains ownership of the equipment during and after the duration of the lease, and the lessee accounts for the lease and its payments as tax-deductible operating expenses that can help reduce their taxable income. (Most operating leases have purchase options available, but you aren't obligated to exercise them as the lessee.) Because the payments and leased equipment are treated as operating expenses, this type of lease is often compared to a rental. Unlike a rental, however, operating leases are typically longer in length, ranging from 12 months to 5 years.

Operating leases can also be referred to as fair market value (FMV) leases when the option to purchase the equipment at the end of the lease for its fair market value is included. Under this type of contract, the lessee has the right, but not the obligation, to purchase the instrument at its fair market value.

A typical operating lease structure can contain different terms, but every contract will include the details regarding your monthly payment amounts owed for the use of the asset, security deposit, and first month's payment. Furthermore, operating leases often include end-of-lease options that give the lessee the flexibility to either return the equipment at no additional cost, renew the lease agreement at a discounted rate, or opt to purchase the equipment for its fair market value (FMV).

These options are designed to provide the lessee with various alternatives based on their needs and the remaining utility or value of the leased asset at the conclusion of the lease term.

According to Eugeny et al. (2016), operational leasing is a type of lease in which the leaser acquires the property at your own risk and then passes it to the lessee as the leased asset. Lessee may choose operational leasing, in the following cases:

- 1) If necessary to take advantage of leasing the property only for a time, to perform a single operation;
- 2) If the leased property is fast becoming obsolete and the lessee assumes that a new, more sophisticated and effective property will be after the end of the lease term.

Another feature that is critical to notice in the operating lease is that the residual value and the risk associated with it are fully in the lessor's hands. The lessee has no opportunity to gain ownership or share of the resale value after the leasing period. This makes the operating lease fairly carefree for the lessee since he doesn't have to be concerned about the item's life after his usage. In addition to the residual risk, usually, it is the lessor's responsibility to take care of the maintenance, service, and insurance of the asset (Heinonen & Trebs, 2011).

In Ethiopia, as defined by the Capital Goods Leasing Business Proclamation No. 103/1998, an Operating lease is a type of leasing for a period not exceeding two years, by which a lessor provides a lessee against payment of mutual: agreed rent with the use of specified capital goods that the lessor has at hand;

2.3.3. Hire purchase

Hire-purchase is one of the most common methods by which traders, dealers, and manufacturers grant extended credit to their customers. This type of arrangement is viewed by laymen as a sort of contract of sale in which the price is paid in instalments. This is even though contracts of sale are different from contracts of hire-purchase (Mwuese, 2021).

With a hire purchase agreement, after all the payments have been made, the business customer becomes the owner of the equipment. This ownership transfer either automatically or on payment of an option to purchase fee. Under a hire purchase agreement, the business customer is normally responsible for maintenance of the equipment.

In Ethiopia, as defined by the Capital Goods Leasing Business Proclamation No. 103/1998, Hire-purchase means a type of leasing by which a lessor provides a lessee with the use of specified capital goods, against payment of mutually agreed installments over a specified period under which, each lease payment, an equal percentage of the ownership is transferred to the lessee and, upon effecting of the last payment, the ownership of the capital goods shall automatically be transferred to the lessee;

According to Helen (2014), Hire-purchase is a variation of a finance lease, and one currently promoted in Ethiopia. A lessee agrees to pay for an asset in parts or a percentage over several months or years toward eventual ownership of the asset. The ownership of the asset remains with the lessor until the last payment is made. In effect, hire-purchase is similar to a mortgage system, whereby with each regular payment, the user's ownership rights increase until the payments are complete. In Ethiopia, the focus is to develop an enabling and vibrant environment for finance lease, in particular for hire-purchase lease, as this form of leasing leads to final ownership of the asset. The key characteristics of a finance lease including hire-purchase are as follows: the lessee selects the asset; the procurement of the asset is conducted by the lessor and not the lessee; the lessor remains the owner of the asset throughout the lease period, while the lessee has control over the use of the asset; the lessor is fully secured in the event of destruction or damage; the lessee must pay the lease fee and the lessee must maintain the asset in line with the lease agreement. The lease agreement, among other items, is non-cancellable. The agreement details, among other things, the actions to be taken in the event there is a default.

Table 1: Main Types of Leasing

	Operating Lease	Finance Lease	Hire Purchase Lease
Ownership	Lessee does not own the equipment; Equipment is returned at the end of rental period.	Ownership remains at Lessor until the end of Lease period, when lessee has an option to buy.	Lessee ownership increases through the lease period with eventual ownership; similar to a mortgage system.
Payment	Lessee makes regular rental payment; Does not pay the full value of the equipment over the rental period.	Lessee makes regular fixed payment over an agreed period, paying nearly the full cost of the asset Plus charges over the period of the lease.	Lessee makes payments that increase ownership rights until the payments are complete.
Service, Repair, maintenance damage, and Insurance	Responsibility of Lessor.	Responsibility of Lessee-all risks usually associated with ownership, although Lessee does Not own.	Responsibility of Lessee—all risks usually associated with ownership although Lessee does Not own.
Key Benefits	Enhanced cash flow with lower payments.	Same as operating lease; with option to own at end.	Same as operating lease; Gradual ownership.

Source: Helen (2014)

2.4. Benefit or role of leasing

The benefit of leasing is that repossession of a leased asset is easier than foreclosure on the collateral of a secured loan, which implies that leasing has higher debt capacity than secured lending.

Leasing, as outlined by the ILO (2003), presents several notable advantages compared to other forms of financing. Key benefits are:

Absence of Collateral Requirements

One of the primary benefits of leasing is that unlike conventional loans, it doesn't require upfront collateral. The leased asset itself acts as security, since ownership remains with the lessor. If the lessee defaults on payments, the lessor can reclaim the equipment, making the repossession process straightforward in most jurisdictions.

Simplified Assessment Process:

Leasing arrangements are typically finalized more rapidly and with less complexity than traditional bank loans. Instead of conducting an in-depth review of the borrower's credit history and asset base, leasing companies focus mainly on whether the lessee can generate enough cash flow from the use of the leased asset. This streamlined process requires less documentation and allows for quicker approval.

Full Financing of Equipment Value:

Unlike banks, which often mandate significant down payments sometimes up to 40% of the investment leasing usually covers the entire value of the equipment. Initial security deposits are generally modest, rarely exceeding 10%. This allows businesses to preserve more of their own funds for working capital needs.

Tax Advantages:

In many countries, leasing is supported by favorable tax policies. The lessor, as the asset owner, records the full lease payment as income but can deduct asset depreciation, often at an accelerated rate. The lessee can deduct lease payments from taxable income. Because lease terms are often shorter than the asset's useful life, the lessee effectively benefits from faster "depreciation" than if the asset were purchased outright. Both parties, therefore, enjoy accelerated tax benefits, reducing the overall tax burden on the lease.

Elimination of Fund Diversion Risk:

With leasing, the funds provided are directed straight to the acquisition of the equipment, bypassing the lessee entirely. This ensures that the financing is used solely for its intended purpose and prevents the lessee from redirecting the funds to other uses, such as repaying unrelated debts.

2.5. Regulators and their mission

There has been a lot of debate claiming that leasing gives companies the possibility to hide their risk. To be more exact, an operating lease is the form of leasing that gives this opportunity since there are no visible records of the liabilities in the financial statements. Before diving into the regulations and the future changes that could have an impact on company leasing, the paper takes a look at what kind of organizations regulate the leasing business? (IASB Who, 2017).

The people at the International Accounting Standards Board are responsible for the development and publication of the International Financial Reporting Standards. According to their website: “The International Accounting Standards Board (IASB) is an independent group of experts with an appropriate mix of recent practical experience in setting accounting standards, in preparing, auditing, or using financial reports, and in accounting education. Broad geographical diversity is also required.”

The IFRS (International Financial Reporting Standards) Foundation and the International Accounting Standards Board (IASB) were established in 2001, replacing the International Accounting Standards Committee (IASC), which was set up in 1973. The Foundation is an independent, privately organized, non-profit organization, whose task is to operate in order to serve the public interest. Basically, it is operating to provide a set of requirements that companies have to follow when preparing financial statements and their content.

The set of requirements given by the International Accounting Standards Board is called IFRS Standards. They concern publicly accountable companies, which are those listed on the stock exchange and financial institutions such as banks. IFRS states that its mission is “To develop IFRS Standards that bring transparency, accountability, and efficiency to financial markets around the world. Our work serves the public interest by fostering trust, growth, and long-term financial stability in the global economy” (IASB Who, 2017).

IFRS 16 on leasing contracts:

According to IFRS 16 (IFRS 16, par. 63), there are several situations that typically lead to a lease being classified as a finance lease, and these are largely similar to those outlined in the older IAS 17 standards. One such situation is when the lease transfers ownership of the asset to the lessee

by the end of the lease term. Another scenario occurs if the lessee has the option to purchase the asset at a price that is expected to be significantly lower than its fair value at the time the option is exercisable, and it is reasonably certain at the start of the lease that this option will be exercised. Additionally, if the lease term covers a substantial part of the economic life of the asset, even if ownership is not transferred, it is generally considered a finance lease. Furthermore, at the inception of the lease, if the present value of the lease payments is at least substantially equal to the fair value of the leased asset, the lease would also qualify as a finance lease. Lastly, leases that involve assets of such a specialized nature that only the lessee can use them without requiring major modifications are also classified as finance leases (Silvia, 2024).

In Ethiopia, the primary regulator of the financial leasing sector is the National Bank of Ethiopia (NBE). The NBE oversees non-banking financial institutions, including equipment financing businesses. The regulatory framework is built upon five indicators. The NBE's regulatory role stems from the Capital Goods Lease Business Proclamation No. 807/2013 and subsequent directives. These legal instruments define licensing requirements, lease agreement specifics, and the rights and obligations of involved parties. The mission of the NBE is to ensure financial stability and promote a sound financial system. To achieve this, the NBE has enacted directives to regulate the leasing business, addressing the characterization of equipment leasing, the nature and propriety of current regulations, and the distinction between financial leasing companies and other financial entities.

2.6. Legal and regulatory framework

Capital goods leasing is a vital component of the economic framework, particularly for businesses that require significant machinery and equipment without the hefty upfront costs of purchase. The governing regulations for this sector, specifically Capital Goods Leasing in Ethiopia Proclamation No. 103/1998 and Proclamation No. 807/2013, have established a comprehensive legal environment that dictates Capital Goods Leasing in Ethiopia licensing, lease agreement specifics, and the rights and obligations of the involved parties. This article dives into the nuances of these proclamations and their amendments, offering a clear understanding of how capital goods leasing in Ethiopia operates, and highlighting the impact these laws have on both lessors and lessees in the industry (FALO, 2024).

2.6.1. Legal Framework

An enabling regulatory system is also necessary for leasing institutions to survive and make a profit. This suggests that procedures for obtaining a leasing license must be transparent; capitalization requirements of the scheme should be less stringent than for deposit-taking financial intermediaries, procedures for lessors to repossess equipment in the case of default should be straight forward and the tax treatment of lessors and lessees should be consistent and favorable to leasing. The legal framework governing lease financing should include a Leasing Act which covers issues such as the rights and obligations of the parties, claims on residual value as well as licensing and prudential requirements (Senior, 2012).

The effectiveness of a legal framework for leasing depends on several fundamental components: First, it must provide clear definitions by precisely outlining what constitutes a lease contract, specifying the leased assets, and clearly delineating the rights and responsibilities of both the lessor and lessee. Second, the parties' liability should be clearly defined, addressing matters like loss, damage, and maintenance commitments. Third, the framework must establish the lessor's priority claim over the leased asset to ensure that the lessor's rights are protected even in the face of third-party claims or insolvency. Finally, an important advantage for lessors is the ability to repossess leased assets efficiently. Therefore, the legal framework should allow for non-judicial repossession meaning the lessor can reclaim the asset without court intervention, provided the lessee does not dispute the action. This expedites asset recovery and minimizes costs and delays for the lessor (Nair et al., 2004)

Ethiopia's legal framework for capital goods leasing, particularly through Proclamation No. 103/1998 and Proclamation No. 807/2013, along with subsequent amendments and directives, establishes a robust system for both lessors and lessees. By clearly defining the licensing requirements, the features of lease agreements, and the rights and obligations of the contracting parties, these regulations ensure that the leasing of capital goods safeguards the interests of all parties involved (FALO, 2024).

2.6.2. Regulatory Framework

Regulatory aspects have proven to be especially challenging for policies intended to develop asset-based lending in transition economies and emerging markets as these generally present

deficiencies in areas such as the scope of assets that can be secured, registration and filing, priority, and enforcement (EBRD, 2003).

Regulation and oversight of lessors are typically the responsibilities of a country's Central Bank or Ministry of Finance. These regulatory bodies establish specific financial and administrative criteria that all leasing companies are required to meet in order to operate legally within the market. According to the International Labour Organization (ILO, 2003), some of the most common requirements include minimum capital requirements, which ensure that leasing companies maintain adequate financial stability. To control the leverage and financial risk of these businesses, a maximum debt-to-equity ratio is frequently enforced. In order to promote transparency and industry comparability, leasing companies are also typically required to prepare standardized financial statements. Regulations also frequently deal with customs and foreign exchange issues, making sure that cross-border leasing operations adhere to applicable customs and currency laws. Together, these specifications seek to establish a stable and safe leasing environment that safeguards lessees as well as the larger financial system.

According to FALO (2024), Proclamation No. 103/1998 was the pioneering legal framework set up to govern capital goods leasing in Ethiopia. It outlined the basic requirements needed for entities to be licensed to lease capital goods. The primary criterion was financial stability, alongside the need for a clear business plan that demonstrated the feasibility and sustainability of the leasing operations.

Proclamation No. 807/2013 brought significant updates to the licensing requirements. It increased the minimum capital requirements for leasing companies, introduced stricter governance and transparency measures, and set forth more comprehensive criteria concerning the management and operational capabilities of leasing firms. This revision aimed to ensure that only capable entities could enter the leasing market, thereby protecting lessees and enhancing the quality of service in the sector.

2.7. Future Changes in Regulation

In January 2016, the International Accounting Standards Board published a new IFRS 16, which no doubt started a new era in the accounting principles of leasing contracts, at least from the lessees' point of view. According to the earlier International Accounting Standards (IAS 17), the

lessee had to make a clear difference between finance and operating leases. Defining the difference between these two leasing types created many of the problems associated with the IAS 17 (IFRS effect analysis, 2016). Finance lease contracts had to be included on the balance sheet, but operating lease contracts were recorded simply as expenses in the income statement. The regulations on the new IFRS 16 describe that the classification between finance and operating leases is not made and from an accounting perspective, every leasing contract is treated as a finance lease. This means that all of the lessees' lease contracts have to be recorded on the financial statements. If the company has many operating leases, this could have a big impact on the company's financial statements.

The current IFRS allows companies to record some of their leased assets and the payments they include as expenses. That means that leasing doesn't affect the company's balance sheet performance in any way. This way companies can hide their actual financial liabilities from the audience and be more leveraged than it seems from the financial statements. The new IFRS 16 is making this hiding of the indebtedness through operating leasing impossible since the leased assets have to be recorded as they are assets and liabilities (Churyk et al., 2015).

First and foremost, this new regulation will have an impact on the balance sheet. Key ratios related to debt, equity, and their relationship will change if the company has operating leases on their account. Secondly, the income statement is going to be under the influence of the new accounting standards. According to the current IAS 17 company records both the principal and the interest expenses related to the operating lease as rent expenses to the income statement. The rent expenses are recorded as earnings before interest, taxes, depreciation, and amortization. The result in the income statement is that EBIT and EBITDA will grow in companies, that use operating leasing in larger content since now depreciation, amortization, and interest expenses are separated. Another factor increasing the EBIT and EBITDA is the fact that the operating lease contracts are currently creating less expense at the beginning of the leasing period since the payments are fixed, whereas in finance lease, to which the operating leases are going to be transferred into, payments are high at the beginning and decrease gradually. All these changes in the income statement will have an effect on the statement of cash flows as well. According to IAS 17 leasing contracts named as operating leases and lease payments related to them are presented as operating cash flows of the company. When IFRS 16 becomes the new standard

only the interest of the lease payments is stated on the operating cash flows and the principal amount is recorded on the financing cash flows (EY IFRS, 2016).

Overall the new IFRS 16 Leases will have a substantial effect on many companies' financial statements since many of them are using operating lease contracts to finance their assets. Despite the new standards doesn't have many new accounting regulations related to the lessor, they have to adjust their contracts and procedures to match their customers' needs and requirements. Currently, companies are preparing for the changes, since the new IFRS 16 will become effective for annual periods beginning on or after the 1st of January 2019 (EY IFRS, 2016).

2.8. Why Is Leasing Different from Bank Financing?

With both leasing and bank financing involving credit decisions and financial risks, the key differences are that two additional factors apply to leasing companies:

First, they have knowledge of the asset (and often the industry) and hence are lending to some degree on an asset basis. This is different from collateral-based lending, however, in that they are lending based on the ability of the asset to contribute to cash flow (either to the lessee or in case of forced sale/liquidation). Banks and other lenders tend to look at the balance sheet value of collateral.

The second is that leasing companies are more sales and service-oriented they are using their specialized knowledge to "bridge the gap" between suppliers and purchasers, and the specialized knowledge of leasing companies may also give them an advantage in disposing of the repossessed leased assets. Suppliers are generally not specialists in finance or credit decisions, while lessees are not specialists in finance or equipment acquisition; leasing companies specialize in finance, credit, and equipment acquisition and disposal (equipment dealing). In effect, both the supplier and the lessee are "outsourcing" certain portions of their business to a service provider that also happens to have a certain capacity to borrow and lend money (IFC, 2005).

The trade-off theory states that leases and debt have essentially the same effect on a company. They are an even trade-off with respect to usefulness and ultimate expense. This is based on the notion that any fixed payment can, over time, become a burden for the company to support

during difficult economic times. The overhang of fixed lease or debt payments will cause the credit of the company to decline, resulting in higher borrowing costs in the future (Ikhtiar, 2021).

2.9. Source of funds for leasing company

Capital Goods Finance Companies do not accept deposits and rely on banks for a significant portion of their financing. This exposes Capital Goods Finance Companies to the risk of contagion from adverse shocks in the banking sector (NBE, 2024).

Leasing companies typically do not accept deposits and instead depend on capital markets to obtain equity and debt financing. In developing countries, securing medium-term debt to support leasing operations can often be challenging. Funding is essential for leasing companies. Stand-alone leasing companies, unlike those owned by banks, lack a parent institution to provide reliable funding. As a result, these independent companies without secure financing can find their sources of funding totally disappearing and, even if they can have access to finance, their cost of funds will inevitably rise, not only affecting their profits but also their ability to on-lend at a reasonable cost (IFC (2009).

2.10. Financial Performance Analysis

Financial statement analysis is the selection, evaluation, and interpretation of financial data along with other pertinent information to assist in investment and financial decision-making. Moreover, it is also the process of identifying the financial strengths and weaknesses of the firm by properly establishing a relationship between the items on the balance sheet and the profit and loss account. It also helps in short-term and long-term forecasting and growth can be identified with the help of financial performance analysis (Drake, 2010).

The analysis of a financial statement is a process of evaluating the relationship between the component parts of a financial statement to obtain a better understanding of the firm's position and performance. This analysis can be undertaken by the management of the firm or by parties outside the namely, owners, creditors, and investors Thus financial analysis helps to highlight the facts and relationships concerning managerial performance, corporate efficiency, financial strength and weakness, and credit worthiness of the company (Kieso, et al., 2012).

2.10.1. Profitability performance

The profitability performances of three capital finance companies are assessed based on the Return on Equity, Return on Equity, and Net Income framework. The ROE framework starts with the most frequently used measure of profitability, ROE, and then breaks it down for a convenient and systematic way to identify strengths and weaknesses in a business company's profitability performance. Identification of strengths and weaknesses, and the reasons for them provides an excellent tool for researchers as a means to look profitability performance.

2.10.1.1. Return on Asset

Return on Assets (ROA) is one of profitability ratios. It is able to measure the company ability to generate profits in the past to then be projected in the future. Assets in question are overall company properties, obtained from the capital itself or from foreign capital that has been converted into company assets used for corporate sustainability (Rosikah et al., 2018). ROA can be calculated as: $ROA = NI / \text{Average Total Assets}$

Higher return on assets is appreciated and favorably considered by the owners of the banks. On the other hand, it is usually affected by the disposal and acquisition of assets. When the level of assets increases, it is likely that ROA will decrease and vice versa (Thukaram, 2006).

2.10.1.2. Return on Equity

ROE is the most important indicator of a bank's profitability and Growth Potential. It measures the amount of net income after taxes earned for each Birr of equity capital contributed by the bank's stockholders. ROE can be calculated as: $ROE = NI / \text{Average Total Equity}$.

Higher ROE increases the price of shares in the capital market and shareholders also expect higher dividend distribution (Thukaram, 2006).

2.11. Prospects of lease financing

Lease financing in Ethiopia is still in its early stages of development, yet it possesses considerable potential within the country. Studies indicate that Small and Medium Enterprises (SMEs) in Ethiopia face challenges in accessing conventional bank loans or financial services due to insufficient collateral or limited credit history. Lease financing serves as an alternative to conventional financing options, especially for SMEs (Asfaw, 2026).

Leasing in Ethiopia has enormous potential. Provided an enabling environment for leasing is present, Ethiopia has good economic growth prospects and is a large market, with a growing population, and approximately 80% engaged in agriculture. IFC's leasing support analysis points to agricultural equipment such as tractors, irrigation equipment, basic food processing, and drying equipment having the greatest potential for entry in leasing. Currently, access to finance is one of the biggest challenges in the country. Thus, leasing as an alternative to lending would be an attractive option primarily due to the leasable asset serving as collateral, and equipment that would have been out of reach, becoming possible to obtain. Work is ongoing by NBE and IFC to address and close the gaps and challenges in the leasing sector. Even the current scarcity of leasing professionals/skill sets could improve in the medium- to long-term, as concerted efforts are made to make available extensive and widely available training and capacity building by NBE. The private leasing companies also plan to address the skill set gaps in the sector by drawing expatriates to train their local staff (Helen, 2014).

Growing Market: Ethiopia's leasing market had grown to \$153.7 million by the end of December 2017, serving tens of thousands of MSMEs. The estimated potential market value is more than \$1 billion, making Ethiopia's equipment leasing sector attractive for investment (Ethiopian Investment Commission, 2019).

The Ethiopian government recognizes leasing as a crucial instrument to bridge the significant gap in access to finance and to achieve its economic growth targets (Mengistu, 2019).

By strengthening Ethiopia's leasing infrastructure, the International Finance Corporation (IFC) has made it possible for more businesses to expand and obtain lease financing. Over 8,600 MSMEs have benefited from this partnership's assistance in obtaining \$240 million in lease financing to date. In contrast to other financial services that are still mostly closed to foreign participation, Ethiopia's leasing industry stands out as the only one that is accessible to foreign investors. Micro, small, and medium-sized businesses (SMEs) in a variety of industries, including manufacturing, health, and agribusiness, can benefit greatly from lease financing since it offers a flexible and easily accessible financing solution that takes into account their particular difficulties obtaining credit (IFC, 2020).

2.12. Empirical studies:

The empirical study reveals that lease financing in Ethiopia is still in its early stages of development but holds significant growth potential despite numerous challenges. These include contradictions in legal provisions, awareness about lease financing, weak supply chain linkages, and the lack of mechanisms for easy repossession of leased assets, particularly for hire-purchase agreements, without judicial intervention. Despite these obstacles, leasing presents a promising market opportunity for expansion. As an alternative financing method, it offers substantial benefits to SMEs in Ethiopia by reducing the need for collateral, which is a major barrier to accessing finance, as the equipment itself serves as security.

Asfaw (2016) conducted a research titled *Lease Financing in Ethiopia: An Assessment of Five Regulated Lease Financing Companies*. The main objective of the research was to evaluate the current state of lease financing in Ethiopia, identify the challenges facing the sector, and review its legal and regulatory framework. The study employs a mixed-methods approach, collecting primary data through structured questionnaires from employees and management of the selected companies, alongside secondary data from industry reports and financial statements. The study used both primary and secondary data as evidence. The study identified several major challenges in Ethiopia's lease finance sector, including the unavailability of affordable and sustainable funding; unclear interpretation of tax incentives under the law; a shortage of leasing expertise in the market; weak supply chain connections as well as procurement difficulties; a limited number of domestic suppliers; and absence of specialized leasing training center. The researcher suggests that addressing these challenges is crucial for the growth and effectiveness of lease financing in Ethiopia, emphasizing the need for a supportive regulatory framework and improved operational practices within the leasing sector.

Befikadu (2018) conducted research entitled *Assessment of Lease Financing in Ethiopia among DBE, ACGFC, and OCGFC*. The main target of the study was to assess the current situation of lease financing by focusing on some basic points like: internal factors and external factors that affect lease financing, the nature and benefit of lease financing, and future prospects. The study uses both qualitative and quantitative methods. The study used both primary and secondary data as evidence. The findings highlight several key issues, including: a shortage of leasing expertise in the market, insufficient supply chain connections, a limited number of domestic suppliers, and

absence of specialized leasing training center, lack of stakeholder integration, shortage of hard currencies and re-possession, absence of adequate local manufacturers, long lease processing time, awareness gap and rental problem were identified. In spite of these challenges, the study recognized that leasing holds significant growth potential in Ethiopia, largely driven by government support, economic growth, and industry focus of the country. The study concludes that leasing is the best opportunity to get finance without collateral and credit history.

Mengistu (2019) conducted research entitled *Challenges and Prospects of Lease Financing Small and Medium Enterprises in Ethiopia: Evidence from Development Bank of Ethiopia*. The study aims to examine the challenges and prospects of lease financing for Small and Medium Enterprises (SMEs) in Ethiopia, specifically focusing on the role of the Development Bank of Ethiopia (DBE). The research employs a mixed-methods approach, utilizing both qualitative and quantitative data collection methods. This includes surveys and interviews with stakeholders, including SME owners and bank officials, to gather insights on the current state of lease financing. The study identifies several challenges hindering lease financing for SMEs, such as stringent collateral requirements, inadequate supply chains, macroeconomic instability, poor financial reporting by SMEs, and limited awareness of leasing options. Despite these obstacles, it also highlights significant prospects for growth, driven by government support for the manufacturing sector and the potential for leasing to reduce collateral requirements.

Yosef (2022) conducted research entitled *Challenges of Lease Financing Practice in Development Bank of Ethiopia: The Case of Addis Ababa District*. The primary objective of the study was to identify the key challenges faced by SMEs in accessing lease financing and to explore potential improvements in the financing process. Utilizing a mixed research methodology, the study combines quantitative data from structured questionnaires and qualitative insights from interviews and document reviews. The findings reveal significant challenges, including confusion in SME classification, bureaucratic hurdles, and a lack of awareness about lease financing options, which hinder access to finance. Based on these findings, the study recommends enhancing clarity in SME definitions, improving bank policies to better align with SME needs, and increasing awareness and education about lease financing among potential users.

Ahmed et al. (2003) conducted research entitled *Leasing Industry in Pakistan: Problems and Prospects*. The primary aim of the research was to identify the major issues adversely affecting the performance of the leasing sector in particular and the financial sector in general. Accordingly, the study outlined two general issues related to the macroeconomic environment and four specific challenges faced by leasing companies in Pakistan. Regarding the first two general issues, the paper discusses in detail about the negative impact of economic slowdown and interest rate volatility on financial institutions, including leasing companies. Additionally, it identifies four key challenges specific to leasing companies includes: resource constraints due to funding difficulties, the absence of a level playing field, a lack of innovative leasing products, and tax-related complications. The study further argues that to improve the future demand for leasing sector, leasing companies should focus on developing creative products and encouraging the leasing of equipment and plants in priority sectors such as energy, IT (computers and hardware), and textiles, etc. subject to their intrinsic value.

Mungami (2013) conducted study on determinants of lease financing decisions by nonmonetary companies quoted on the Nairobi Securities Exchange, Kenya. Mann-Whitney test, Pearson correlation, and logit model were used to find out the influence of share possession structure, debt capacity, level of profitability, size, cash flow conservation, legal environment, accounting treatment, chief executive share ownership, institutional investor ratio, cross-listing, liquidity, cash flow, cost of funds, industrial type, effective tax, investment opportunities and growth, pricing, bankruptcy costs, risk sharing, access to capital market, regulatory environment and judicial efficiency on lease funding resolutions by non-monetary businesses quoted on the Nairobi Securities Exchange. The results indicated that cost of capital, financial distress, size, share ownership, management compensation, total debt ratio, chief executive share ownership were important in explaining lease decisions in the case of operating leases and cost of capital, size, performance, management compensation, chief executive share ownership were important for capital leasing decision. The results of the study indicated that just like in developed countries effective tax rates and size of the firms were important in making leasing decisions. However, financial distress and leverage were not major considerations by firms in making leasing decisions.

Muhammad, et al. (2012) did a study on the factors influencing the profitability of leasing firms in Pakistan. They analyzed a pool of data of 28 leasing companies the period of 2006-2008. The variables used to determine profitability were size, leverage liquidity, age and net investment in lease finance. The study applied the ordinary least square (OLS) model and Logistic (Logit) models for the estimation of results. The results indicated that size, net investments in lease finance and liquidity had a positive relationship with the profitability of leasing companies whereas leverage and age had a negative relationship with the profitability of the leasing companies.

Justine Obiero (2016) conducted a research entitled Effects of Lease Financing on the Financial Performance of Companies Listed on Nairobi Securities Exchange. The primary objective of the research was to determine the significant impacts of lease financing on the financial performance of corporations registered at the Nairobi Securities Exchange (NSE), specifically measured by Return on Assets (ROA). The study employed a descriptive research design, focusing on factors determining the use of lease financing among companies listed on the NSE. Secondary data was collected from the annual financial reports of 33 out of 65 registered companies. Various statistical methods, including regression analysis, were utilized to assess the relationship between lease financing and financial performance. The findings revealed that lease financing had a positive but statistically insignificant effect on ROA, while liquidity positively influenced financial performance, and size and leverage had negative effects. The study concluded that although lease financing can be beneficial, its impact is not significant, and it emphasized the importance of liquidity management. Limitations included a small sample size, and the author suggested future research could explore lease financing effects in different contexts to enhance understanding.

2.13. Summary of Literature Review and Research Gap

The literature review highlights leasing as a significant alternative financing mechanism that facilitates access to capital, particularly for small and medium enterprises (SMEs) that often struggle to secure traditional bank loans due to insufficient credit history or collateral. Studies indicate that leasing can mitigate market weaknesses in SME lending, as it allows businesses to utilize capital equipment without the immediate financial burden of purchasing it outright. Empirical evidence suggests that leasing is associated with lower risk compared to other financing forms, primarily due to the presence of physical collateral. This underscores the potential of leasing to enhance financial performance and support the growth of SMEs, which are crucial for economic development and diversification.

Overall, academic literature underlines the advantages of leasing as an additional financing form for businesses. It is an alternative mechanism to facilitate access to finance, especially for SMEs.

Despite the advantages of leasing, the literature reveals a gap in research, particularly in developing markets like Ethiopia. While extensive studies have been conducted in developed economies, local research on leasing practices in Ethiopia remains limited. Previous studies by Asfaw (2016), Befekadu (2018), Mengistu (2019), and Yosef (2022) have begun to address this gap, but more comprehensive investigations are needed to fully understand the dynamics of the leasing sector in the Ethiopian context. The review emphasizes the necessity for further research to explore the effects of lease financing in various settings, which could enhance the understanding of its role in supporting SMEs and contributing to economic growth in Ethiopia. Thus, this study sought to address the identified research gap by examining the performance, challenges, and prospects of the lease finance sector in Ethiopia: focusing on three capital finance providing companies (ACGFC, OCGFC, and DCGFC).

CHAPTER-THREE

3. METHODOLOGY OF THE STUDY

This chapter presents the research methods that were used to address the study objectives. Specifically, this chapter discusses the research and sample design, the population and sample size, data source and collection methods, data analysis methods and concludes with the validity of the study.

3.1. Research approach and design

The paper employed mixed a research approach for the data collection and analysis. In other words, this study used both quantitative and qualitative approaches. The research was designed to assess the performance, challenges, and prospects of the capital goods finance sector in Ethiopia: the case of ACGFC, OCGFC, and DCGFC. Thus, the study used descriptive research design.

3.2. Sample design

The study used both random and purposive sampling. Employees were selected through random sampling to gather comprehensive information, while management was intentionally chosen to obtain detailed and reliable insights.

3.3. Population and sample size

The population of the study covered the head office staff of the three capital goods finance-providing companies in Ethiopia those found in Addis Ababa and Awasa city. NBE officials participated in the interviews solely to ensure the credibility of the research. The study focused on three capital finance companies licensed and regulated by the National Bank of Ethiopia. Thus, the population comprises Addis Capital Goods Finance Company, Oromia Capital Goods Finance Company, and Dehub Capital Goods Finance Company. The head offices of the first two companies are based in Addis Ababa while one company is in Awassa City. Yamane's (1967) formula has been employed to draw an adequate sample size from a given population at a 95% confidence level and 5% degrees of variability. The researcher assumed an error limit of less than 10% and a confidence level of higher than 90% can be regarded as acceptable.

$$n = N / 1 + e^2 (N)$$

Where n= the sample size

N= the total SMEs

e= allowable error

Hence, based on this formula, the sample size was determined. Hence 81 sample respondents were selected from the total 102 staff of three capital finance providing companies.

Accordingly, based on the formula

$$\begin{aligned} n &= 102 / 1 + 102(0.05)^2 \\ &= \mathbf{81} \end{aligned}$$

Therefore, using Yamane's formula, the recommended sample size for a population of 102 is 81, assuming a 5% margin of error

3.4. Data source and collection methods

This research employed data from both primary and secondary sources. Primary data were collected through questionnaires and interviews. Secondary data were obtained from a range of published materials, including company financial reports from the National Bank of Ethiopia, NBE financial stability reports, company documents, proclamations, and relevant regulations or directives. Information on the legal and regulatory framework for leasing was sourced from the National Bank of Ethiopia, the Ministry of Trade, and the Ethiopian Investment Commission. Additionally, the study consulted the latest leasing-related publications such as the World Leasing Year Book as well as leasing laws, regulations, and directives pertinent to the leasing sector. To source primary data from respondents structured questionnaires were prepared by incorporating some focus areas. Eight years of audited financial statements data of the three capital goods finance companies since its operation were analyzed. This is due to the new phenomenon of the business.

3.4.1. Questionnaire

A structured questionnaire was prepared, incorporating key focus areas, to collect primary data from respondents. Twenty-seven (27) structured questions and three (3) open-ended questions were distributed to the staff of three capital finance-providing companies in Ethiopia in the area of two research questions. The respondents were selected to represent both management and staff of leasing companies. Out of 81 distributed questionnaires, 76 were returned due to concerted

follow-up efforts, and all 76 completed questionnaires were used in the study. The collected responses were analyzed in Chapter Four using the latest version 25 of SPSS. The structured questionnaires were designed around three main focus areas: respondents' background information, challenges facing the lease finance sector in Ethiopia including the case of Ethio-Lease Finance Company and the prospects of the leasing industry.

The five-point Likert rank order scale measurement was prepared to request respondents to indicate their level of agreement with the following ratings: Strongly Agree (SA; or 5), Agree (A; or 4), Neutral (N; or 0), Disagree (D; or 2) and Strongly Disagree (SD; or 1)

3.4.2. Interview

Key informant interview was conducted using purposive selection of senior leasing experts of the listed companies. On top of this, interviews were conducted with NBE officials to gain deeper insights into leasing practices within the country and to ensure the validity of the study. The interview was allowed the researcher to get some degree of flexibility at the time of interviewing for the pursuit of unexpected line of inquiry which arises at the study progresses.

3.4.3. Document review

Eight (8) years of financial reports of three capital finance companies were analyzed. The financial performance of the listed companies during the study period was analyzed. The data was obtained from the audited annual report (which was compiled by the National Bank of Ethiopia), and recent leasing publications, leasing laws, regulations, and directives pertaining to the leasing industry were consulted.

3.5. Method of data analysis

The data gathered from the questionnaires were analyzed using descriptive statistics, including frequency distributions, percentages, and bar charts. Return on Assets (ROA) and Return on Equity (ROE) served as the primary measures to analyze the financial performance of three capital finance companies and to evaluate their year-to-year achievements. The 25th version of the Statistical Package for Social Sciences (SPSS) was utilized to generate statistical analyses. Secondary data were analyzed using quantitative methods using tables, percentages to show the financial performance the companies, whereas primary data collected through open-ended

questionnaires and interviews were interpreted qualitatively and summarized according to relevant themes, aligned with the research questions and objectives.

3.6. Validity of the study

The validity of a study refers to the extent to which a research instrument examines what should be assessed (Hair et al., 2020).

The validity of this study was established through multiple methods. Experts in leasing and the researcher's advisor assessed the questionnaires' validity. Construct validity was strengthened by incorporating diverse data from leasing providers and regulatory body. Internal validity was enhanced by testing questions for clarity, while external validity was improved by targeting respondents familiar with leasing. Content validity was supported by triangulating primary data from questionnaires with secondary data from credible sources. Subject matter experts were consulted during questionnaire development, and the structured questionnaire was based on a thorough literature review. Finally, the researcher included the views of key leasing stakeholders, such as the NBE in the interview to ensure the study's validity.

CHAPTER-FOUR

4. DATA ANALYSIS AND DISCUSSION

4.1. Introduction

This chapter presents and discusses the results of findings based on the analysis of the data collected and generated. The results of the study were presented by using questionnaires, as well as a document review. The objectives of the study would find the response in the result of the discussion and data analysis.

A total of 81 questionnaires, comprising 27 closed-ended and 3 open-ended questions, were distributed to professional employees across three capital finance companies. Out of 81 questionnaires 76 were returned. Thus, only five questionnaires were not collected. Therefore, a response rate of approximately 94% is very significant for further assessment.

Table 2: The total head office Staff of capital-providing company

No.	Company	Number of staffs
1.	ACGFC	40
2.	OCGFC	32
3.	DCGFC	30
Total	3	102

Source: Own compilation reports from NBE, 2025

4.1.1. Leasing industry in Ethiopia

The leasing industry is undeveloped and a recent phenomenon in Ethiopia. The first leasing law, Capital Goods Leasing Business Proclamation No. 103/1998, was established in 1998 and subsequently revised by Proclamation No. 807/2013 in late July 2013.

The five leasing companies Addis CGFC, Oromia CGFC, Waliya CGFC, Debub CGFC, and Kaza CGF Cwere granted capital goods finance business licenses in 2014. They are currently operating in the regions of Addis Ababa, Oromia, Amhara, former SNNP, and Tigray, respectively. The primary shareholders of these companies are the regional governments along with the country's five major microfinance institutions (MFIs). One foreign owned leasing company, namely Ethio-lease received a license from the National Bank of Ethiopia to operate a leasing company in July of 2019, becoming the first foreign-owned entity to be granted a

financial services license in the country. However, the company officially entered into voluntary liquidation on April 12, 2024.

Table 3: Total capital-providing company and year of establishment

No.	Company Name	Region	Date of Establishment
1.	Addis Capital Goods Finance S.C	Addis Ababa	27/03/14
2.	Oromia Capital Goods Finance S.C	Oromia Region	15/04/14
3.	Waliya Capital Goods Finance S.C	Amhara Region	09/02/14
4.	Debub Capital Goods Finance S.C	Sidama Region	25/04/14
5.	Kaza Capital Goods Finance S.C	Tigray Region	14/05/14
6.	Ethio lease Capital Goods Finance S.C	Addis Ababa	July, 2019

Source: Own compilation reports from NBE, 2025

4.2. Discussion and Analysis

4.2.1. Background of the questionnaire respondents

Table 4: Gender and Age of Respondents

Variable	Variable categories	Frequency	Percentages
Sex	Male	62	81.58
	Female	14	18.42
	Total	76	100%
Age group	<25	0	0
	26-35	22	28.95
	36-45	39	51.32
	46-55	15	19.74
	>55	0	0
	Total	76	100%

Source: Own Survey, 2025

As Table 4 indicates, out of the 76 respondents, 62 (81.58%) are male, while 14 (18.42%) are female. In terms of age, the largest group consists of 39 respondents (51.32%) aged between 36-45 years, followed by 22 respondents (28.95%) aged 26-35 years, and 15 respondents (19.74%) aged 46-55 years. This gender imbalance may reflect the male-dominated nature of the sector or context under study, which aligns with common trends in many business and finance environments where male participation tends to be higher.

When we examine the educational background, as shown in the table below, out of 76 respondents, 51 (67.11%) hold a master's degree, while the remaining 25 (32.89%) have a first

degree. This implies that the respondents are well-qualified to provide the necessary information, and the study has received the required input for important discussions and conclusions.

In terms of working experience, a significant portion (36.84%) has worked in capital finance institution and other organizations for 11-15 years, while 32.89% have served in various organizations, primarily in lease finance institutions, for 6-10 years. The remaining participants, accounting for 15.79% and 14.47%, possess experience in various organizations, primarily within lease finance, with tenure ranging from 16 to 20 years and more than 20 years, respectively. This further indicates that the study relies on well-experienced employees in the leasing finance sector.

Regarding the current positions of the respondents, 32.89% are leasing experts from the three leasing companies, while 21.05% are senior staff and 19.74% are team leaders in the same companies. The remaining 10.53% and 2.63% represent directors and chief executives in the same companies, respectively.

Table 5: Educational qualification, working experience and position

Educational Background	Masters and above	51	67.11
	First degree	25	32.89
	Diploma	0	0
	Technical/certificate	0	0
	Other	0	0
	Total	76	100%
Working experience	<5	0	0
	6 up to 10	25	32.89
	11 up to 15	28	36.84
	16-20	12	15.79
	>20	11	14.47
	Total	76	100%
Position	Chief Executive	2	2.63
	Director	8	10.53
	Team leader	15	19.74
	Senior staff	16	21.05
	Leasing expert	25	32.89
	Total	76	100%

Source: Own Survey, 2025

4.3. Performance of leasing companies

4.3.1. Return on total assets (ROA)

ROA measures profit per dollar of assets. It shows the proportion of net income to the total assets generated from creditors and stockholders of the company. It quantifies the financial performance of the company in meeting the returns expected by creditors and shareholders. When the amount of assets increases without a corresponding increase in net profit, it negatively affects the ROA of the company.

The ROA of three Companies from 2016-2023 is presented in the following table. It can be calculated as: **ROA = NI /Average Total Assets**

Table 6: Return on Asset Ratio as of June:-

No.	Name of Company	Year							
		2016	2017	2018	2019	2020	2021	2022	2023
1.	Addis Capital Goods Finance S.C	2.71	3.10	3.45	5.04	5.07	4.52	3.95	2.82
2.	Oromia Capital Goods Finance S.C	1.45	2.17	2.51	-1.34	-3.75	1.63	4.44	2.42
3.	Debub Capital Goods Finance S.C	-2.71	-0.71	-2.98	-4.08	-0.77	-3.53	-2.34	-1.44
	Average	0.48	1.52	0.99	-0.13	0.19	0.87	2.02	1.27
	Growth in %	-	213.53	-34.50	-112.83	-245.37	371.26	130.53	-37.04

Source: Own compilation, 2025

The above table shows the ratio of Net Income to total average assets and measures the return on total assets. The ROA of Addis Capital Goods Finance Share Company shows a general upward trend from 2016 to 2019, peaking at 5.07 in 2020. However, it declined significantly in the following years, dropping to 2.82 in 2023. The initial growth indicates effective asset utilization and profitability, but the decline in later years suggests potential challenges in maintaining profitability with a potentially larger asset base without corresponding increases in income. Meanwhile, Oromia Capital Goods Finance Share Company experienced a more volatile performance, with negative ROA in 2019 and 2020, indicating financial losses. However, it rebounded in 2021 and 2022, reaching 4.44 in 2022 before falling to 2.42 in 2023. The volatility in ROA suggests that this company faced operational challenges or market conditions that impacted profitability. The recovery in 2021 and 2022 indicates a potential turnaround, but the

decline in 2023 raises concerns about sustainability. Dehub Capital Goods Finance Company has consistently reported negative ROA values throughout the studied period, peaking at -4.08 in 2019. This indicates ongoing financial distress, likely related to poor asset management and failure to generate sufficient income.

The researcher believes that the ROA for three leasing companies reveals a mixed performance landscape. While two companies have shown the ability to generate profits relative to their assets, but one company i.e. DCGFC has struggled significantly.

As is presented in Table 6, it can be interpreted as for each 100 Birr of average total assets invested by the companies the value that is converted to net income after tax was Br. 0.48 in 2016, Br. 1.52 in 2017, Br. 0.99 in 2018, Br. -0.13 in 2019, Br. 0.19 in 2020, Br. 0.87 in 2021, Br. 2.02 in 2022 and Br. 1.27 in 2023. The consolidated ROA across the three companies fluctuates over the years, with a notable peak in 2022 at 2.02 and the worst performance in 2019 at (0.13). The fluctuations reflect a combination of internal operational efficiencies and external macroeconomic and regulatory influences that impacted the companies differently across various years.

4.3.2. Return on Equity (ROE)

It measures the overall effectiveness of the company in generating profit from total equity. Return on equity is considered a gauge of a corporation's profitability and how efficiently it generates those profits. The higher the ROE, the more efficient a company's management is at generating income and growth from its equity financing. It is computed by the following formula.

$$\text{ROE} = \text{NI} / \text{Average Common Equity}$$

Table 7: Return on Equity Ratio as of June:-

No.	Name of Company	Year							
		2016	2017	2018	2019	2020	2021	2022	2023
1.	Addis Capital Goods Finance S.C	2.74	3.16	3.90	6.17	6.06	6.04	6.37	5.47
2.	Oromia Capital Goods Finance S.C	3.03	5.36	5.93	-3.19	-9.28	3.17	5.60	3.50

3.	Debub Capital Goods Finance S.C	-4.37	-1.10	-4.39	-5.94	-0.97	-3.82	-2.50	-1.75
	Average	0.47	2.47	1.82	-0.99	-1.40	1.80	3.16	2.40
	Growth in %		427.11	-26.63	-154.41	41.71	-228.55	75.58	-23.88

Source: Own compilation, 2025

As the above table indicates the ratio of net income to common equity measures the return on total equity. Addis Capital Goods Finance Share Company displayed healthy growth in ROE, increasing steadily from 2.74 in 2016 to 6.37 in 2022, before declining to 5.47 in 2023. The consistent rise indicates a strong ability to generate profits relative to equity, although the slight decrease in 2023 may warrant further investigation into operational or market challenges.

The ROE of Oromia Capital Goods Finance Share Company also showed improvement in ROE through 2018 but faced negative returns in 2019 and 2020. This suggests periods of operational difficulties or losses. The performance rebounded in 2021 and 2022, although it again dropped to 3.50 in 2023, suggesting fluctuations in profitability.

Debub Capital Goods Finance Company has consistently reported negative ROE values throughout the studied period, peaking at -5.94 in 2019. The negative figures suggest ongoing challenges in profitability and may reflect issues such as high operational costs or ineffective capital management.

The visual representation allows for easy comparison between the companies. Addis Capital stands out as the most stable performer, while Oromia Capital shows potential for recovery, and Debub Capital requires significant strategic changes to improve its financial health.

The average consolidated ROE across the three companies peaked at 3.16 in 2022 and hit -1.40 in 2020, reflecting both the overall profitability trends and the changing financial health of each company during the analyzed years. While two companies demonstrated the ability to generate profits from capital, one company i.e. DCGFC, failed to record a profit.

As is presented in Table 7, it can be interpreted as for each 100 Birr of equity Capital contributed by the companies the amount of net income after tax earned was Br. 0.47 in 2016, Br. 2.47 in 2017, Br. 1.82 in 2018, Br. -0.99 in 2019, Br. -1.40 in 2020, Br. 1.80 in 2021, Br. 3.16 in 2022 and Br. 2.40 in 2023. The consolidated ROE across the three companies fluctuates over the years, with a notable peak in 2022 at 3.16 and the worst performance in 2020 at (1.40).

The fluctuation signifies the sensitivity of leasing companies' profitability to external macroeconomic shocks and internal strategic responses. It underscores the importance of resilient management practices and adaptive strategies to navigate market volatilities.

4.4. Challenges of the Leasing Sector in Ethiopia

The lease sector encounters so many challenges that hinder its development and current effectiveness. Seventeen (17) questions related to the challenges in the lease finance sector were presented to the respondents. All of these questions were answered completely by the participants.

Table 8: Descriptive Statistics of Challenges of the Lease Finance Sector in Ethiopia

	N	Min	Max	Mean	Std.
Lack of adequate leasing expertise in the market	76	1	5	3.61	1.059
Difficulty in asset management due to the absence of a secondary market for disposing of repossessed leased equipment	76	1	5	3.36	1.029
Absence of asset/equipment valuers in the market	76	2	5	3.75	0.954
Third-party players like insurance, asset registry, and supplier roles and responsibilities are clearly identified	76	1	5	3.54	1.183
There is a limited number and type of products allowed by the law	76	1	5	3.84	0.967
Shortage of foreign currency	76	2	5	4.71	0.629
Lack of credit history	76	1	5	3.68	1.048
Lack of Proper and Integrated Accounting Standards and MIS	76	2	5	3.86	0.934
There are significant funding constraints and resource mobilization faced by leasing companies in Ethiopia	76	2	5	4.32	0.820
The regulatory framework for leasing in Ethiopia is not adequate for business operations	76	1	5	3.67	1.112
Leasing companies in Ethiopia lack innovative financial products	76	1	5	3.66	1.001
The leasing sector has strong competitors from different financial institution; It may be from Banks	76	1	5	2.67	1.237
Currently, there are a limited number of domestic equipment suppliers in the market	76	2	5	4.03	0.748
The tax policies in Ethiopia negatively impact the leasing sector	76	1	5	2.82	1.116

The general public lacks awareness of the nature and benefits of leasing	76	2	5	4.01	0.792
The lack of awareness about leasing options among SMEs is a significant barrier	76	1	5	3.93	0.806
Absence of specialized leasing training centers or resident leasing trainers in the country	76	2	5	4.13	0.772
Valid N (listwise)	76				

Source: Own Survey, 2025

As indicated in the table above, the average response for all questions exceeded a mean value of 3.00 (except two questions), with standard deviations of approximately 1.00. This indicates that most respondents are in agreement and that there is minimal variation in their responses. The results in the table above reveal that respondents have generally agreed on the challenges facing the lease finance sector.

The challenges that a majority of respondents agreed upon include: insufficient leasing expertise in the market; challenges in asset management caused by the lack of a secondary market for selling repossessed leased equipment; the absence of asset or equipment valuers in the market; the limited number and variety of products permitted by law; Shortage of foreign currency; lack of credit history; lack of Proper and Integrated Accounting Standards and MIS; significant funding constraints and resource mobilization faced by leasing companies; the regulatory framework for leasing in Ethiopia is not adequate for business operations; leasing companies in Ethiopia lack innovative financial products; a limited number of domestic equipment suppliers; the general public has limited knowledge of the features and benefits of leasing; lack of awareness about leasing options among SMEs is a significant barrier; the lack of specialized leasing training centers or resident leasing instructors in the country are the main challenges currently exist in the lease sector.

Thus, out of the seventeen challenges introduced in the questionnaire, most respondents (with a mean response greater than 4.00) indicated their agreement, primarily concerning the five challenges mentioned below. Additionally, they agreed with the other challenges in significant numbers. However, the respondents disagreed on two specific challenges: the strong competition the leasing sector faces from various financial institutions, particularly banks, and the negative

impact of Ethiopian tax policies on the leasing sector. This is evidenced by mean scores of 2.67 and 2.82, with standard deviations of 1.237 and 1.116, respectively.

The survey respondents strongly agreed on a shortage of foreign currency (with a mean response of 4.71). This high mean highlights a severe challenge; limited access to foreign currency severely restricts leasing operations due to reliance on imported assets representing a critical barrier to operational success for leasing companies.

Table 9: Shortage of foreign currency

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	1.3	1.3	1.3
	Neutral	4	5.3	5.3	6.6
	Agree	11	14.5	14.5	21.1
	Strongly agree	60	78.9	78.9	100.0
	Total	76	100.0	100.0	

Source: Own Survey, 2025

The other major challenges experienced by the leasing companies were significant funding constraints and resource mobilization, the absence of specialized leasing training centers or resident leasing trainers within the country, a limited number of domestic equipment suppliers in the market, and the general public’s lack of awareness regarding the nature and advantages of leasing. Large numbers of respondents with a mean response of (4.32), (4.13), (4.03), and (4.01) responded with their agreement in the above mentioned challenges, respectively. Most of the respondents also agreed and wrote the above problems in their opinion section.

Table 10: Funding constraints and resource mobilization faced by leasing companies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	3.9	3.9	3.9
	Neutral	8	10.5	10.5	14.5
	Agree	27	35.5	35.5	50.0
	Strongly agree	38	50.0	50.0	100.0
	Total	76	100.0	100.0	

Source: Own Survey, 2025

As indicated in the table above, 85% of respondents agreed with the challenges that the significant funding constraints faced by leasing firms, substantiated by a mean score of 4.32, this reflects consensus that accessing finance remains a significant barrier for leasing companies that impede the sector's growth. The high mean score underscores the urgency of the funding issues, indicating that a majority of respondents believe that difficulties in securing adequate funding severely limit their operational capacity. This situation is particularly concerning for leasing companies, which rely on sufficient financial resources to provide leasing services.

Table 11: Absence of specialized leasing training centers or leasing trainers in the country

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	3	3.9	3.9	3.9
Neutral	9	11.8	11.8	15.8
Agree	39	51.3	51.3	67.1
Strongly agree	25	32.9	32.9	100.0
Total	76	100.0	100.0	

Source: Own Survey, 2025

With a reported mean score of 4.13 and a standard deviation of 0.772, this data demonstrates a strong agreement among respondents regarding the critical need for specialized training resources in the leasing industry. Respondents also highlighted the absence of specialized leasing training centers or resident leasing trainers within the country which could hinder the development and competitive edge of the leasing industry in the country.

According to the respondents' opinions in the open-ended questions, most of the above-mentioned challenges were addressed. They indicated that capital financing companies in Ethiopia face several significant challenges that hinder their operations and growth. One of the primary issues is the political instability in the country, which disrupts the ability of small and medium enterprises (SMEs) to sell their products and meet repayment obligations. Additionally, the rising prices of machinery, driven by inflation and fluctuations in foreign exchange rates, create a financial strain on both leasing companies and their clients. A critical challenge raised by respondents was the lack of sufficient capital to finance SMEs, compounded by a shortage of domestic suppliers for capital machinery, which limits the availability of necessary equipment. Furthermore, there is a notable absence of professionals with expertise in leasing, as well as a lack of training centers to develop the required skills in the sector. The limited societal awareness

of lease financing also poses a barrier to expansion, as potential clients may not fully understand the benefits or processes involved. Moreover, issues related to debt repayment, including customers providing incomplete business plans and failing to return loans on time, exacerbate the financial risks for leasing companies. Furthermore, inadequate infrastructure and a poorly defined legal framework for lease financing exacerbate these challenges. Overall, these challenges create a complex environment that leasing firms must navigate to succeed in Ethiopia's evolving market.

According to the interviewer result, most of the above mentioned challenges were addressed. The NBE officials also believe that a lack of a comprehensive legal framework for the business and that hinders the growth of the industry. And also, they have limited prior experience in supervising and regulating capital finance companies due to the new phenomena of the business in Ethiopia. There is a knowledge gap on how to supervise and regulate leasing companies. They have participated in a limited number of exposure visits to selected countries and received some short-term lease finance training programs organized by the IFC in partnership with the National Bank of Ethiopia (NBE). The interviewees from capital finance companies have had limited on-the-job training and possess only modest experience in the industry, which results in a restricted technical capacity among staff in the leasing sector.

The interviewer primarily agreed that there is a lack of public awareness about leasing and strongly recommended that all stakeholders and participants in the leasing sector collaborate to increase awareness in order to support the sector's development.

In the above problems, the interviewers were recommended that specialized leasing training center should be open. Unlock the sector by updating and establishing comprehensive legal and regulatory framework by NBE and the government. Empowering and equipping human resource.

Furthermore, respondents reasoned out their perception towards Ethio-lease Finance company and why it resigned from the market. According to the respondents' opinion, Ethio-Lease Finance Company resigned from the market due to a confluence of challenges that hindered its operations. A significant factor was the sudden regulatory changes implemented by the National Bank of Ethiopia (NBE), which restricted the company's ability to write new leases, thereby limiting its growth potential. Additionally, the lack of support from the government and relevant

organizations created an unfavorable environment for the company to thrive. Adverse market conditions, particularly the impact of ongoing conflict, further complicated its ability to operate effectively. Management issues, including difficulties in navigating various business risks, also contributed to the company's struggles and pricing strategies the company follows. Moreover, Ethio-Lease faced challenges in understanding customer behaviors and the leasing landscape in Ethiopia, which affected its service delivery. Constraints related to the availability of foreign currency added another layer of difficulty, impacting the company's ability to finance its operations. Lastly, the respondents reasoned out why the company resigned from the market was, that the absence of collateral in financing arrangements increased the risks associated with leasing, ultimately leading to the company's decision to exit the market. Thus, the company's resignation from the market is influenced by both internal and external factors. Finally, the interview result was also supported by these.

4.5. Prospects of the lease finance sector in Ethiopia

Besides the challenges, the leasing sector in Ethiopia presents a unique landscape of many future opportunities that foster its development and current effectiveness. One of the most significant prospects for the leasing sector in Ethiopia is the rising demand for alternative financing options among SMEs. Banking systems often impose stringent collateral requirements that many small businesses cannot meet, thus limiting their access to essential capital.

Ten (10) questions introduced to respondents related to prospects of lease finance sector. All of these questions were answered completely by the participants. All questions received a mean response above 3.00 and a standard deviation below 1.00, with the exception of one question (refer to the table below). This indicates that the respondents' answers were closely aligned with each other.

Table 12: Descriptive Statistics of Prospects of the Leasing Sector in Ethiopia

	N	Min	Max	Mean	Std. Dev.
Leasing has high market potential for growth in Ethiopia.	76	2	5	4.59	0.677
Lease financing services of CGFCs enhance SMEs development in the country	76	2	5	4.55	0.681
Leasing is a viable financing option for SMEs in Ethiopia	76	2	5	4.59	0.636

The government's current policy encourages the development of the leasing sector.	76	2	5	3.78	0.873
The economic growth of the country contributes to the growth potential of the leasing sector	76	2	5	4.08	0.845
Massive involvement of foreign investors in the leasing business could develop the sector in general	76	1	5	3.78	0.918
The current legal and regulatory environment encourages leasing activities.	76	1	5	3.50	0.792
There is a growing demand for leasing services among SMEs in Ethiopia	76	3	5	4.20	0.517
There are sufficient investment opportunities in the leasing sector in Ethiopia	76	2	5	3.54	0.871
The leasing sector is well-positioned to adapt to changing market conditions	76	1	5	3.33	1.076
Valid N (listwise)	76				

Source: Own survey, 2025

The survey results reveal significant insights into the prospects. A notable majority of respondents 94.7% (see table below) affirmed that leasing holds high market potential for growth, reflected in a robust mean score of 4.59. This suggests a strong consensus among respondents that there is significant growth potential in the leasing sector, indicating optimistic future outlooks. Thus, offering lease financing services supports the growth of SMEs in the country, which subsequently promotes economic development and generates more employment opportunities.

Table 13: Leasing has high market potential for growth in Ethiopia

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	2.6	2.6	2.6
	Neutral	2	2.6	2.6	5.3
	Agree	21	27.6	27.6	32.9
	Strongly agree	51	67.1	67.1	100.0
	Total	76	100.0	100.0	

Source: Own survey, 2025

The associated data demonstrate that 94.7% of respondents agree on the viability of leasing services for SMEs, evidenced by a mean score of 4.59, affirming that leasing can effectively meet the capital needs of businesses that struggle with banking due to collateral requirements. This indicates a strong belief in leasing as a viable financing option for small and medium enterprises (SMEs).

Table 14: Leasing is a viable financing option for SMEs in Ethiopia

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	1.3	1.3	1.3
	Neutral	3	3.9	3.9	5.3
	Agree	22	28.9	28.9	34.2
	Strongly agree	50	65.8	65.8	100.0
	Total	76	100.0	100.0	

Source: Own survey, 2025

According to the respondents' opinions in the open-ended questions, most of the above-mentioned prospects were addressed. They indicated that the leasing sector in Ethiopia exhibits significant growth potential and promising prospects, driven by increasing public awareness and a rising demand for leasing services. As clients often prefer leasing over bank financing due to issues related to collateral, this sector is well-positioned to meet the needs of small and medium enterprises (SMEs) that require capital to start or expand their businesses. The government's focus on supporting the manufacturing sector further enhances the opportunities for leasing companies, as it aligns with the broader economic goals of import substitution and job creation. Additionally, the sector is expected to grow rapidly, particularly as more individuals and businesses recognize the benefits of leasing as a viable financing option. With sufficient investment opportunities and a growing market, the leasing industry is likely to play a crucial role in facilitating economic development in Ethiopia, especially as awareness and understanding of leasing practices continue to improve among potential clients. Overall, the leasing sector is poised for substantial growth, making it an attractive area for investment and development in the coming years.

According to the interviewer, the leasing sector is recently experiencing positive developments and there is a growing interest by the government and NBE, to integrate leasing as a crucial instrument to address the gap in access to finance and meet economic growth targets. They also mentioned that increasing demand for leasing services and permitting foreign investors to participate in the leasing business legally may contribute to expanding the business and foster the growth of the sector. Therefore, the researcher believes that lease financing in Ethiopia has good opportunities in the future.

The findings align with the literature discussed by the researcher in Chapter Two. The empirical results support the literature's characterization of Ethiopia's leasing industry as still developing, with performance varying due to macroeconomic factors, sector-specific challenges, and potential growth opportunities through strategic and policy interventions.

CHAPTER- FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This end chapter represents the summary, conclusion, and recommendation of the paper.

5.1. SUMMARY

The ultimate goal of this paper is to assess the financial Performance, Challenges, and Prospects of the lease finance sector in Ethiopia in the case of Addis Capital Goods Finance, Oromia Capital Goods Finance, and Dehub Capital Goods Finance companies. The study tried to look different aspects of lease financing based on three research objectives which are; financial performance of three lease providing companies between FY 2016-2023, challenges of lease providing companies, and finally prospects and opportunities of leasing sector in the future.

This study adopted both quantitative and qualitative methodology approaches. The population of the study was mainly made up of three lease-providing companies, namely, (ACGFC, OCGFC, and DCGFC). Regulatory body (NBE) staffs were incorporated in the interview only. Both random and purposive sampling methods were used to draw a sample for the study. The instruments used to collect the needed data were questionnaires, interviews, and Audited data/document reviews. The interview and questionnaire covered two research objectives, which sought to assess lease financing. On the other side, audited data was used to cover one research objective i.e. financial performance of the listed companies. A five-point Likert scale was designed to ask respondents to express their level of agreement. Data from the questionnaire was analyzed using version 25 of the Statistical Package for Social Sciences (SPSS). Descriptive analysis was used to present the result of the study.

The results in Chapter Four show that the financial performance of lease financing companies in Ethiopia varies considerably over the studied years. Addis Capital Goods Finance has demonstrated steady improvement in profitability, reflecting effective management and operational efficiency. In contrast, Oromia Capital Goods Finance experienced fluctuations, with some periods of negative returns, indicating operational challenges. Dehub Capital Goods Finance faced persistent losses, highlighting more fundamental issues that require strategic intervention.

The high response rate to the questionnaires suggests strong engagement from industry professionals, providing reliable insights into the sector's current state. The sector continues to grapple with several challenges, such as a shortage of leasing expertise, an inadequate regulatory framework, and lack of training center. Additionally, operational difficulties like asset management problems, including asset valuers, hinder growth.

External macroeconomic factors also play a significant role in shaping the sector's performance. Shortages of foreign currency, rising inflation, and foreign exchange rate fluctuations create financial constraints for leasing companies and their clients. These conditions increase risks and limit the expansion of leasing activities.

Despite these difficulties, some signs of recovery appeared in 2022, suggesting the sector has potential for future growth. Increased government support, ongoing economic development, and rising demand from SMEs contribute to a cautiously optimistic outlook. Overall, while the leasing sector in Ethiopia remains underdeveloped and faces persistent hurdles, there are notable opportunities for expansion if structural reforms and supportive policies are effectively implemented.

5.2. CONCLUSIONS

Based on both primary and secondary data, the following conclusions are presented.

Based on major findings in the previous section the researcher conclude the following points regarding financial performance of the three listed lease providing companies with in previous two performance measurement metrics i.e., RoA and RoE.

Firstly, the financial performance evaluation showcases a mixed picture across the three leasing companies Addis Capital Goods Finance, Oromia Capital Goods Finance, and Dehub Capital Goods Finance, and reveals a nuanced landscape characterized by significant variability in both Return on Assets (ROA) and Return on Equity (ROE) from 2016 to 2023.

Addis Capital Goods Finance Company demonstrated a consistent upward trend in ROE, reflecting effective management and capacity to generate profits relative to equity, its ROA peaked in 2020 but showed subsequent signs of decline, indicating challenges in asset utilization without corresponding increases in income. While, Oromia Capital Goods Finance Company

exhibited volatility in both ROA and ROE, marked by periods of negative returns, it also showed potential for recovery, highlighting the importance of addressing operational challenges. In stark contrast, Debut Capital Goods Finance Company faced persistent negative values in both metrics, suggesting fundamental issues in profitability and asset management that necessitate immediate strategic intervention.

Collectively, the performance trends underscore a complex financial landscape in the leasing sector, indicating the need for further investigation into the factors influencing their financial health, prompting a need for thorough evaluations and targeted strategies aimed at enhancing profitability and operational efficiency across these companies. This is also supported by NBE, financial stability report, 2023. Therefore, it calls for corresponding policy measures to help the sector return to profitability.

In Ethiopia lease financing is a recent concept and the leasing sector is undeveloped. In its infancy, the sector faces so many challenges even if the degree is declining over time. These include insufficient leasing expertise in the market; challenges in asset management caused by the lack of a secondary market for selling repossessed leased equipment; absence of asset/equipment valuers in the market; the limited number and variety of products permitted by law; shortage of foreign currency; lack of credit history; lack of Proper and Integrated Accounting Standards and MIS; significant funding constraints and resource mobilization faced by leasing companies; the regulatory framework for leasing in Ethiopia is not adequate for business operations; leasing companies in Ethiopia lack innovative financial products; a limited number of domestic equipment suppliers; lack of awareness about leasing options among SMEs; the lack of specialized leasing training centers or resident leasing instructors in the country. Additionally, the study identified issues such as political instability in the country and the rising prices of machinery, driven by inflation and fluctuations in foreign exchange rates, creating financial strain on both leasing companies and their clients. The general public's lack of awareness regarding the nature and advantages of leasing; this is supported by both the survey and interview result.

Finally, despite these challenges, the research underscores significant growth prospects for the leasing sector in Ethiopia. The study identified the potential prospect of leasing.

The findings on the prospects of the leasing sector in Ethiopia indicate a strong positive outlook for growth and development. Survey results reveal that a significant majority of respondents (94.7%) believe in the high market potential of leasing, with a mean score of 4.59, reflecting optimism about its role in supporting small and medium enterprises (SMEs).

The leasing sector is recognized as a viable financing option, especially for SMEs that face challenges in obtaining bank loans due to collateral requirements. This sentiment is echoed by the 94.7% who agree on its viability, suggesting that leasing can effectively meet the capital needs of these businesses.

Moreover, the sector's growth is bolstered by increasing public awareness and rising demand for leasing services, which aligns with government goals such as import substitution and job creation. The potential for substantial investments and a favorable regulatory environment further enhances the attractiveness of the leasing market.

In conclusion, survey result retails the leasing sector in Ethiopia is well-positioned for significant growth, making it an essential component of the country's economic development strategy. The continued evolution of client awareness about leasing practices is expected to facilitate this growth, thereby reinforcing its critical role in fostering SME development and contributing to broader economic progress.

Therefore, leasing demonstrates strong potential for market growth in Ethiopia, as supported by the findings from both the survey analysis and interview results. All of the respondents agreed with the points raised related to prospects and opportunities. A significant market demand among small and medium enterprises (SMEs) that prefer leasing over bank loans due to collateral challenges; supportive government policies aimed at promoting the manufacturing sector and job creation; the country's ongoing economic growth, which necessitates capital investment; increasing public awareness of the benefits of leasing; abundant investment opportunities that attract both foreign and domestic investors; and the sector's ability to adapt to changing market needs. Collectively, these elements create a favorable environment for the leasing sector, positioning it as a crucial component of economic development in Ethiopia.

5.3. RECOMMENDATIONS

In this section, the researcher as a professional person recommends possible solutions to the outlined findings to align with the objectives of the paper, which aim to enhance the effectiveness and growth of the leasing industry in Ethiopia. The following recommendations are proposed:

- Both OCGFC and DCGFC should conduct a comprehensive review of their current strategies and operational frameworks. Specifically, these companies need to: analyze and respond to customer needs through targeted market research, strengthen marketing efforts to increase market share and customer engagement, refine risk assessment methodologies to better manage credit and operational risks, regularly adapt their business models to keep pace with the evolving market landscape. The researcher also added that, ACGFC should benchmark its financial performance against other financial sectors in Ethiopia and implement best practices to strengthen its financial position.
- The Ethiopian government should introduce guarantee schemes for commercial banks, enabling them to provide more funding to specialized leasing companies.
- Lease providing companies should be granted access to Credit Reference Bureau services from the National Bank of Ethiopia, similar to banks, in order to mitigate credit risks.
- All leasing stakeholders should collaborate to increase awareness of leasing for the sector's development. The International Finance Corporation (IFC), in partnership with the National Bank of Ethiopia (NBE), should organize and deliver specialized leasing training programs.
- The National Bank should prioritize the creation of a robust regulatory framework tailored to the leasing industry.
- All stakeholders should establish a formal platform for collaboration to address the challenges identified in this study within a short timeframe.
- Potential investors are advised to consider investing in Ethiopia's leasing sector due to its demonstrated growth potential.
- Finally, future researchers are encouraged to conduct similar empirical studies to monitor the sector's development and address emerging challenges.

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Appendix (A)



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ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE
MASTER'S PROGRAM: MSc IN ACCOUNTING & FINANCE

Research Questionnaire

Name of Researcher: Temesgen Menza (MSc Student)

E-Mail: temumenz@gmail.com

Dear Sir/Madam,

This questionnaire is designed to conduct academic research on “Performance, Challenges, and Prospects of the Leasing Sector in Ethiopia as part of the requirement to earn MSc Degree in Accounting and Finance at Addis Ababa University. The main objective of the study is to assess the performance, challenges, and prospects of the lease financing sector in Ethiopia.

The data you provide in response to the questionnaires will be only used for academic purposes to accomplish the said study. Thus, respondents are encouraged to provide their opinions objectively, independently, and free from any bias. Your responses are strictly kept confidential and they are used exclusively for this research. Your input is highly valuable for the completion of this study. To indicate your choices, please put an "X" mark on your selected choice. The completed questionnaire is expected to be collected by December 18, 2024.

Should you have any enquiries or clarifications, kindly please contact me in person through my e-mail: temumenz@gmail.com or give me a call at 0912-89-47-09.

Thank you very much for your valuable time and cooperation in the data supply.

Yours Sincerely,

Temesgen Menza

Section I: Respondent Profile

Please kindly put an “X” mark or respond in writing as appropriate.

1. Gender

Male

Female

2. Age

Less than 25

26 – 35

36 – 45

46 – 55

Above 56

3. Educational Qualification

Master’s Degree and above

First Degree

Diploma

Technical/Vocational certificate

other (please specify)

4. Working Experience

Less than 5 years

6 – 10 years

11 – 15 years

16 – 20 years

over 20 years

5. Current position in your organization_____

In the following sections, the researcher is seeking your specific perceptions towards each question under five sub-topics as mentioned below. Please kindly indicate (X) mark to express the extent to which you agree or disagree on the given statement from the choices:

- a) 1= SD = Strongly Disagree
- b) 2= D = Disagree
- c) 3= N = Neutral
- d) 4= A = Agree
- e) 5= SA = Strongly Agree

Section II: Challenges of the Lease Finance Sector

No.		SD (1)	D (2)	N (3)	A (4)	SA (5)
1.	Lack of adequate leasing expertise in the market					
2.	Difficulty in asset management due to the absence of a secondary market for disposing of repossessed leased equipment.					
3.	Absence of asset/equipment valuers in the market					
4.	Third-party players like insurance, asset registry, and supplier roles and responsibilities are clearly identified.					
5.	There is a limited number and type of products allowed by the law.					
6.	Shortage of foreign currency					
7.	Lack of credit history					
8.	Lack of Proper and Integrated Accounting Standards and MIS					
9.	There are significant funding constraints and resource mobilization faced by leasing companies in Ethiopia					
10.	The regulatory framework for leasing in Ethiopia is not adequate for business operations.					
11.	Leasing companies in Ethiopia lack innovative financial products.					
12.	The leasing sector has strong competitors from different financial institution; It may be from Banks.					
13.	Currently, there are a limited number of domestic equipment suppliers in the market.					
14.	The tax policies in Ethiopia negatively impact the leasing sector.					
15.	The general public lacks awareness of the nature and benefits of leasing					
16.	The lack of awareness about leasing options among SMEs is a significant barrier					
17.	Absence of specialized leasing training centers or resident leasing trainers in the country					

Section III: Prospects of the leasing sector

No.		SD (1)	D (2)	N (3)	A (4)	SA (5)
18.	Leasing has high market potential for growth in Ethiopia.					
19.	Lease financing services of CGFCs enhance SMEs development in the country					
20.	Leasing is a viable financing option for SMEs in Ethiopia					
21.	The government's current policy encourages the development of the leasing sector.					
22.	The economic growth of the country contributes to the growth potential of the leasing sector					
23.	Massive involvement of foreign investors in the leasing business could develop the sector in general					
24.	The current legal and regulatory environment encourages leasing activities.					
25.	There is a growing demand for leasing services among SMEs in Ethiopia					
26.	There are sufficient investment opportunities in the leasing sector in Ethiopia					
27.	The leasing sector is well-positioned to adapt to changing market conditions					

Section IV: General Comments, Please express your opinion for the following questions in the space given below and if not sufficient you can write on the back of the paper.

28. In your opinion, what are the major challenges encountered by lease financing companies in Ethiopia?

29. Express your perception towards the growth potential and prospects of the leasing sector in Ethiopia.

30. Express your perception towards Why Ethio-lease finance company resigned from the market?

I cordially appreciate your time and cooperation!

Thank you very much!

Appendix (B)

Department of Accounting and Finance

Master's Program: MSc in Accounting and Finance

Research Interview Guide

Name of Researcher: Temesgen Menza (MSc Student)

E-mail: temumenz@gmail.com

Dear Sir/Madam,

The primary purpose of this interview is to gather detailed insights into the challenges and prospects of lease financing, complementing the data obtained through the distributed questionnaires. The interview will involve selected senior leasing experts from leasing companies and senior staff members of the National Bank of Ethiopia (NBE) associated with the leasing sector. The information you provide will be used exclusively for academic research. Your participation is vital to enhancing the quality of the study's outcomes, and I am confident that your input will significantly contribute to this research.

Thank you sincerely for your time and thoughtful responses.

Yours Sincerely,

Temesgen Menza

Interview questions for senior leasing experts of the companies and NBE staffs whose are familiar with the issue

- A. What are the main challenges of the lease finance sector in Ethiopia? And what actions do you recommend to addressing those challenges?
- B. How do you look the current level of leasing awareness of the public?
- C. What are the prospects and market potential of leasing in Ethiopia?
- D. Express your perception towards Why Ethio-lease finance company resigned from the market?

Appendix (C)

Key Financial Statement Items

Amount in Millions of Birr

As of June	2015	2016	2017	2018	2019	2020	2021	2022	2023
ACGFC									
T/Asset	448,559	469,443	505,066	704,782	753,710	759,925	1,039,423	1,261,633	1,662,693
T/Liability	3,769	7,193	11,648	127,867	139,033	106,854	347,628	527,115	886,777
T/Capital	444,790	462,250	493,419	576,915	614,677	653,071	691,795	734,519	775,916
N/Income	6,789	12,440	15,082	20,883	36,745	38,394	40,632	45,450	41,275
OCGFC									
T/Asset	355,016	576,360	566,311	587,144	583,890	566,639	233,968	259,713	775,208
T/Liability	135,670	351,191	328,845	336,111	340,734	345,127	43,820	58,647	259,605
T/Capital	219,346	225,169	237,466	251,033	243,156	221,512	190,148	201,066	515,604
N/Income	7,656	6,745	12,401	14,483	(7,871)	(21,570)	6,535	10,955	12,544
DCGFC									
T/Asset	321,452	324,063	414,035	411,980	393,396	299,417	291,588	292,684	402,671
T/Liability	119,350	126,520	133,809	131,267	121,717	24,235	21,324	15,113	108,987
T/Capital	202,102	197,543	280,226	280,713	271,679	275,183	270,264	277,571	293,765
N/Income	507	(8,732)	(2,619)	(12,304)	(16,419)	(2,657)	(10,418)	(6,841)	(5,006)