College of Business and Economics

Factors Affecting Lease Financing Practices of Manufacturing Industries: The Case of Medium Manufacturing Enterprises in Addis Ababa

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A Thesis Submitted to Department of Masters of Business Administration in Partial Fulfillment of the Requirements for the Award of Master's Degree in Business Administration

Addis Ababa University

Addis Ababa, Ethiopia

June, 2024

Factors Affecting Lease Financing Practices of Manufacturing Industries: The Case of Medium Manufacturing Enterprises in Addis Ababa

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Declaration

I, Abrham Kassaun, hereby declare that the theses entitled "Factors Affecting lease Financing Practices of Manufacturing Industries: The case study of Medium Manufacturing Enterprises in Addis Ababa "is my own original work and has not been submitted for any degree or other qualification in any other university. It is offered for the award of the master of Business Administration from Addis Ababa University.

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APPROVAL

The undersigned certify that they have read and hereby recommend to Addis Ababa University to accept the thesis submitted by Abraham Kassahun and entitled Factors Affecting Lease Financing Practices in Manufacturing Industries: The Case of Medium Manufacturing Enterprises in Addis Ababa in partial fulfilment of the requirements for the award of a Master's Degree in Business Administration.

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ACKNOWLEDGMENTS

First and foremost, I would like thank My Almighty God for his guidance. I thank my Advisor, Degefe Duressa (PhD) for his being supportive and for giving me continuous guidance and encouragement to use my potential till the end of the work. Moreover, I thank my family and friends for supporting me in various ways.

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ABSTRACT

With a focus on demand-side issues that prevent medium manufacturing enterprise from participating in lease financing, this study sought to evaluate the factors influencing the lease financing practices of medium-sized manufacturing enterprises in Addis Ababa. The study Uses primary and secondary data as supporting evidence. The research population's respondents were selected using a straightforward random sampling technique. Based on this, 381 sample medium manufacturing enterprises were selected from the 8,152 medium manufacturing enterprises that make up the entire research population within Addis Ababa medium manufacturing enterprises. The factors identified as those affecting the lease financing practices of the enterprises were procedures and processes, awareness creation, availability of facilities, credit worthiness. The findings of the study demonstrated that medium manufacturing enterprises' practice of lease financing are significantly affected the mentioned factors. The effect significant awareness about lease financing and procedures and processes has a positive correlation with the participation level of enterprises. procedure of lease financing and creditworthiness of enterprises can have a significant correlation with participation level of enterprises in lease financing. Therefore, in order to increase medium manufacturing enterprises' participation in lease financing, government and nongovernmental organizations should support the training of medium manufacturing enterprises' managers, raise awareness about lease financing services, make working premises available, and improve the availability of electricity in the study area.

Key Terms: Internal Auditing, Financial Controls, Management Support, Audit Quality, Independence, Competence.

ACRONYMS

ACGFC	Addis Capital Goods Finance share Company
CGLB	Capital Goods Leasing Business
CSA	Central Statistical Agency
DBE	Development Bank of Ethiopia
DCGFC	Debub Capital Good Finance Company
FEMSEDA	Federal Micro and Small Enterprises Development Agency
EIC	Ethiopia Investment Commission
IFC	International Finance Corporation
ILO	International Labor Organization
MEA	Machinery, Equipment and Accessories
MSME	Micro, Small and Medium Enterprise
MME	Medium Manufacturing Enterprises
NPLs	Non-Performing Loans
SME	Small and Medium Enterprise
UK	United Kingdom
USA	United State of America

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

Lease financing dates back thousands of years, when people worked in the agricultural sector and rented out agricultural equipment and land. This practice dates back to the time of the Pharaohs. Since industrial machinery and equipment were required to keep up with advancements during both the Industrial Revolution and World War II, leasing in the modern era is primarily based on Western experience. Particularly in the United States and Europe, leasing corporations were founded following World War II (Marwan, 2014).

Leasing has become more and more common for various reasons. The first, and most crucial, is that leasing offers a viable alternative to traditional funding sources. In most circumstances, it is less expensive for businesses without a demonstrably successful track record. Furthermore, leasing is a substitute for investing. Leasing an asset can be a more cost-effective option than buying it if you depend on it for operating or growing your company. These days, the developed markets view leasing as a 100% funding source and believe that leases replace debt. In actuality, leasing lowers a company's demand for leverage (Ariful et al., 2014).

Since 2008, the World Bank group of Africa's leasing facility has been the main driver behind the implementation of leasing on the continent. By assisting in removing the primary obstacles to expansion, the facility hopes to establish a leasing industry that is sustainable. The biggest obstacle facing small business owners is their inability to obtain financing. Acquiring the proper equipment is crucial in order to facilitate business expansion. Many don't have many assets; thus, they don't have the collateral that most lenders need to approve a loan. Leasing offers a creative answer to this problem. (IFC, 2018).

A medium-sized business's ability to fund itself through equipment leasing is strongly correlated with its performance, as the organization's investment determines its level of profitability and profit. Leasing of equipment also directly affects how the organization's funds are managed, which in turn affects how well the organization performs. Therefore, instead of buying machinery and equipment outright with cash and carry, every company should try to lease it. (Sarat and Olatunji, 2017)

Ethiopia has a lot of potential for leasing to grow as a substitute for lending, just as other emerging nations. However, due to their lack of cash and collateral, many prospective borrowers find it difficult to obtain credit from financial institutions; for this reason, leasing is a desirable alternative financial product (Helen, 2014).

The Ethiopian Ministry of Trade defines SMEs as follows:

- Micro enterprises: are small businesses with total capital investment not exceeding Birr 4, 20,000 and excluding these enterprises with high technical consultancy and another high-tech establishment.
- Small enterprises: are businesses with a total investment between Birr, 20,000 up to Birr, 500,000 and do not include these enterprises with advanced technology and high technical consultancy.
- Medium enterprises: are these business enterprises with a total investment between Birr, 500,000 up to Birr 1 million and including those enterprises that have high technical consultancy and excluding another high-tech establishment.

Medium Manufacturing Enterprises are Ethiopia's missing middle class and the primary source of lease financing possibilities. According to Fredu and Edris (2016), Medium Manufacturing Enterprises are typically seen as the driving force behind long-term economic expansion and the creation of jobs in emerging nations. They have a variety of functions, including fostering innovation and competition, developing human resources, and building a financial system. Despite playing a crucial role in long-term economic growth, SMEs have disadvantages and are sometimes referred to as the "missing middle." Presumably, the biggest obstacle they face is not being able to obtain financing on fair terms (Firewoini, 2016).

The Ethiopian government has created an environment that is supportive of the establishment of alternative financing sources in order to assist those investors who possess the knowledge, expertise, and motivation to engage in various investment activities but are unable to do so because they lack the necessary funds or collateral. Proclamation No. 807/2013 on CGLB, Directive No. CGEB 102/2013 for the licensing of capital goods finance service by the NBE, and the Capital Goods Finance Service Modality issued by the FEMSEDA are some of the significant and noteworthy actions taken by the government to finance SMEs by MEA (DBE, 2016).

Ethiopia's main growth industries demand large machinery and equipment, which are not easily accessible without large cash, which the majority of small and medium-sized manufacturing enterprises lack. Leasing offers a way to assist them in purchasing equipment. Capital Goods Finance Companies are the term used to describe leasing organizations. There are now seven leasing businesses authorized to operate in Ethiopia. The five regional leasing companies—Addis CGFC, Oromia CGFC, Waliya CGFC, Debub CGFC, and Kaza CGFC—as well as the Development Bank of Ethiopia, or DBE (EIC, 2020).

The goal of lease financing, according to the DBE lease financing handbook (2016), is to give money to government priority area projects that involve medium manufacturing enterprises in order to support the growth and development of the nation's economy. The bank's lease financing program will: support the goal of structural transformation; encourage import substitution; generate employment opportunities; advance the nation's export promotion goal and support foreign exchange earnings; and provide medium manufacturing enterprises, especially the missing middle, with access to financing.

The geographical scope of this study covers Addis Ababa, where there are Addis Capital Good Finance Company and Development Bank of Ethiopia as sources of lease financing. The aforementioned lease companies in the research region have been using lease finance. Thus, the purpose of this study was to assess the factors that affect lease financing practices of medium manufacturing enterprises in Addis Ababa.

1.2. Statement of the Problem

Medium manufacturing enterprises are viewed as the main drivers of economic growth in practically all developing nations, and the availability of external financing for them is a topic that researchers and decision-makers from all over the world are particularly interested in learning more about. Medium manufacturing enterprises require easier access to funding, particularly for the purchase of capital equipment and the implementation of new technologies in their daily operations. However, due to their lack of sufficient capitalization, extra assets for collateral, or trustworthy credit records, their access to financing is constrained. The majority of banking institutions are hesitant to lend to the medium manufacturing enterprises on a term or cash flow basis. As a result, medium manufacturing enterprises have a harder time getting funding than bigger, more established businesses (Mosharref, 2013).

For medium manufacturing enterprises, leasing is a crucial source of funding since it offers financing that is comparable to the asset investment durations. It is an alternate tool to help with financing access; it allows the use of capital equipment, especially for new businesses with no credit history and few opportunities to offer collateral. Thus, it also lessens the market vulnerabilities associated with financing to medium manufacturing enterprises (Helmut and Frank, 2012).

In order to provide SMEs leasing training and to talk about the government's sector growth objective, the Africa Leasing Facility started collaborating with the Ethiopian government in 2008. In 2013, the government began to take the leasing product into account and realized its potential. As a result, it included leasing market development in its five-year growth plan and asked the World Bank Group to provide funding for these kinds of initiatives. As a result, the World Bank established the $276 million SME funding Facility, which was intended to be made available directly to banks and leasing businesses beginning in 2017 for the purpose of funding SMEs' working capital and leases (IFC, 2018).

So far Dagnachew (2019), Mengistu (2019), Befikadu (2018) and Asfaw (2016) are the pioneers in conducting studies about lease financing in the case of DBE as well as other lease companies in Ethiopia. They found that:- macro-economic instability; poor quality of financial statement of SMEs; absence of SMEs; lack of the companies proper policy and procedure, lack of leasing expertise in the market; existence of inadequate capital goods supply chain linkages, absence of specialized lease training center, lack of stakeholder integration, absence of adequate local manufacturers, long lease processing time, SMEs selection criteria problem, poor management of credit risk by the bank, lack of availability of low cost and sustainable funding; lack of clarity on interpretation of tax incentives provided by law and lack of leasing expertise in the market were identified obstacle factors of lease financing practice. These pioneers conducted study on the supply sides factors that affect lease financing practices.

On the other hand, other academics have studied the factors that influence SMEs' ability to obtain financing from demand or SMEs themselves. Ayalneh (2018), Firewoini (2016), Fredu and Edris (2016), Nguyen (2017), and Meghana et al (2017) were those researchers. The primary factors preventing SMEs from participating in finance were determined to be: firm characteristics, cost of borrowing and awareness, lack of access to finance on reasonable terms and conditions, limitation of financial intermediaries, lack of high collateral, lack of transparency of loan conditions, lengthy application and disbursement process, age of the SMEs, manager inexperience, higher interest rate, owner ship classification, lack of SMEs engagement with banks, lack of credit information, and weak legal institution.

Upon reviewing many articles, the researcher discovered that none of the studies had examined the impact of crucial elements that were overlooked, such as production facilities, and electricity availability, and lease finance procedures. Furthermore, many scholars like Dagnachew (2019) and Mengistu (2019) have proposed that additional study be done on the demand or SMEs side aspects that influence lease finance practices. As a result, this study aims to close the research gap by adding the crucial but overlooked elements in order to assess the factors that influence lease financing practices of medium manufacturing enterprise income in Addis Ababa.

1.3. Objectives of the Study

1.3.1. General objective

The general objective of this study is to assess factors affecting lease financing practices in medium manufacturing enterprises in Addis Ababa.

1.3.2. Specific objectives

- To investigate that effect of procedures and processes, awareness creation, availability of facilities, credit worthiness on medium manufacturing enterprises to participate in lease financing practice;
- To analyze extent of medium manufacturing enterprises participation in lease financing;

1.4. Research question

General research question

- What extent SMEs participate in lease financing?

Specific research question

- Does the procedures and processes affect medium manufacturing enterprises in participation on lease financing?
- To what extent availability of facilities affect the medium manufacturing enterprises in lease financing practices?
- To what degree awareness creation influence the medium manufacturing enterprises in practicing lease financing?
- To what extent does credit worthiness influence the medium manufacturing enterprises in lease financing practices?

1.5. Scope of the Study

The study focused on Addis Ababa, where the concentration of medium manufacturing enterprises is considered as significant. Additionally, out of the whole SMEs group, only medium level enterprises that operates in the manufacturing sector are considered.

1.6. Significance of the Study

The study's findings give banks, capital good finance companies, medium manufacturing enterprises, and the general public useful information and a knowledge base for leasing financing. However, the findings of this study also point to a significant role for this research in bridging the knowledge gap by adding significant but overlooked demand-side variable variables that were overlooked by earlier researchers. Moreover, leasing finance can be taken into account by policy makers as a development alternative and a way to create jobs for medium manufacturing enterprises. In addition, the study serves as supporting documentation and a body of literature for future researchers wishing to investigate this subject further.

1.7. Limitation of the study

The scope of the study is on Addis Ababa which limits the geographical coverage and also it only focused on medium manufacturing enterprises this can limit the sample size.

1.8. Hypothesis

- Availability of Facilities have impact on business such availability of electricity and water can impact the viability of business operations. If these facilities are unreliable or insufficient, enterprises may face productivity challenges, increased downtime, and higher operational costs. In such cases, businesses may be hesitant to commit to lease financing

- Credit worthiness have impact on business Enterprises with a strong creditworthiness are more likely to have easier access to lease financing. Lenders and lessors consider creditworthiness as a key factor in determining the risk associated with extending financing
- Awareness The provision of awareness about lease financing can have a positive correlation with the participation level of enterprises. When enterprises are well-informed and educated about the benefits, procedures, and potential risks of lease financing, they are more likely to consider it as a viable option for acquiring assets.
- Procedures and processes the correlation between the procedure of lease financing and the participation level of enterprises in lease financing can be significant. The ease, transparency, and efficiency of the lease financing procedure can influence the willingness of enterprises to engage in lease financing

1.9. Organization of the study

There are five chapters in the study. The introduction is covered in the first chapter. The literature review is presented in the second chapter, and a brief summary of the research strategy is provided in the third chapter. The results are presented and discussed in the fourth chapter. Chapter five presents summery conclusions and recommendations.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1. Theoretical Literature Review

2.1.1. Concepts of Lease Financing

A leaser provides specific capital goods to a lessee on a financial lease or hire purchase agreement basis, without the need for collateral, for a predetermined period of time in exchange for a set amount of periodic payments over that time. Leasing is a form of in-kind financing for production and service purposes. Hire-purchase leasing is a form of leasing in which a lessor rents out specific capital goods to a lessee in exchange for payments made in mutually agreed-upon installments over a predetermined period of time. At each lease payment, the lessor transfers an equivalent portion of the ownership to the lessor, and upon the last payment, the lessor automatically acquires ownership of the capital goods. Karuanga,(2009). Another way to finance SMEs in Ethiopia that are not included in the sector is through lease financing. Increased domestic investment within economies can be achieved through leasing Bafekadu, (2018)

Furthermore, a lease is an agreement whereby an entity pays the owner a series of installments in exchange for the right to use property that it does not own. As a result, the company to whom such a permit is provided, the lessee, may profit from its use. To put it simply, leasing is an additional financing option to bank loans, private placements, and other financing methods (Asya, 2017). Accordingly, leasing was defined by Mohajan (2012) as an agreement between the lessee, or customer, and the asset owner, or leaser, who want to lease the equipment to a firm. In its broadest sense, leasing is a trade and financing strategy used by financial institutions that specialize in these operations, either directly from manufacturers or through financial institutions, to businesses that perform certain tasks or lack the necessary borrowed or own cash. Furthermore, leasing is among the most often used ways for businesses of all sizes to finance their fixed asset purchases. When choosing how to finance an investment, one must determine which of the available financing choices is the most effective by applying discount methods (Wysłocka and Szczepaniak, 2012).

A medium-term financial tool for the purchase of machinery, equipment, cars, and/or real estate is leasing. Instead, than providing direct capital, it offers finance for assets like vehicles and equipment. Leasing organizations buy the equipment, typically in accordance with the lessee's preferences, then lend it to enterprises for a predetermined amount of time. Lessee pays lessor on a regular basis for the term of the lease based on a prearranged payment plan. When the lease expires, the equipment is either sold to a third party, returned to the lessor, or becomes the lessee's property (secondary lease) (IFC, 2018).

Generally speaking, leasing finance is an asset management-based industry requiring certain knowledge. In certain niche markets, it is more profitable than conventional forms of finance, when lease financing yields higher profits. These days, the focus for any institution or organization looking to expand its financial resources, along with the goal of maximizing owner equity or profit, is mostly on lease finance. Leasing is related to all asset classes, including land, buildings, plant & machinery, equipment, and transportation (Mohajan, 2012).

2.1.2. Overview of Global and African Lease Financing

According to Asya's (2017) research, the UK and Germany lead all European nations in terms of the quantity of newly purchased equipment that was financed through leasing in 2015. Furthermore, the United States of America boasts the biggest leasing sector globally, with lease finance accounting for nearly one-third of all corporate investments. According to Mohajan (2012), Bangladesh is a small but densely populated South Asian nation whose citizens primarily rely on agriculture. Globalization and liberalization have caused the nation to progressively move toward industrialization, and leasing has emerged as a novel and cutting-edge approach to industrialization and business-led national development.

The global leasing industry has maintained an optimistic view and seen increase in new business volumes for the fifth consecutive year since the global economic crisis, according to the White Clarke Global Leasing Report 2017, which was received from IFC (2018). The survey also reveals that, in terms of asset finance through leasing and hire purchase, China ranked as the world's second-largest leasing industry in 2015. This kind of success story highlights how crucial leasing is to the growth of the country's financial sector. The survey went on to say that four African nations are in the top 50 leasing thresholds globally. These nations are Nigeria, Egypt, Morocco, and South Africa (IFC, 2018).

2.1.3. The Economic Impacts of Lease Financing

Every company that operates in the modern market does its hardest to secure funding at the lowest cost and to ensure its stability, particularly in light of the current economic crisis. Reducing the cost of capital required to finance fixed assets is one of the main responsibilities of an organization's management. Both the fiscal and balance sheet effects of the financing option they select must be considered in their decisions. Obtaining traditional types of financing for fixed assets can be challenging during economic downturns. As a result, leasing is becoming more popular as a contemporary, adaptable financing option with greater availability. Furthermore, it is important to stress how flexible leasing is as a financing option. All entities have access to it, regardless of the size of their operations (Wysłocka and Szczepaniak, 2012).

In fact, leasing financing has a number of benefits: A leasing agreement is beneficial to all parties involved. Furnishers benefit from broad market leasing. Lease finance is different from basic loans in that it does not require a guarantee (Elidiana and Fatbardha, 2013).

According to Mazharul (2013), leasing is important because it's easier to obtain than taking out a loan to purchase all of your fixed assets. Operating expenses for lease finance will be the monthly rent payment. The entire income will be deductible. Thus, a corporation using lease finance can profit from tax advantages. It may appear on the financial sheet of the corporation as invisible debt. If you have a direct contract with the asset owner, you can include leasing finance in the balance sheet footnote. The fact that it is a more flexible method of financing is one of the main points. With lease finance, you can determine what item you need and obtain a single lease.

Leasing facilitates the creation of jobs and economic growth by giving micro, small, and medium-sized enterprises access to capital that they frequently lack through other means. Within economies, leasing offers a way to bring in more domestic investment. It is possible to deepen the activity of the financial sector by introducing new goods and industry players by producing more financial tools. Leasing is a useful tool for small businesses that lack a substantial asset base since it allows them to leverage a cash deposit by using the item's inherent worth as collateral. This is its main advantage. There are no other assets that these tiny enterprises may use as loan collateral. In addition to creating jobs, leasing is essential for integrating small firms into the established banking system. It encourages employment development, economic expansion, and home production. According to Bafekadu (2018), lease finance makes it easier to invest in capital assets, which close the most important mechanization gaps in agricultural value chains.

According to an analysis of Karuanga,(2009) document review, the goal of lease finance is to give money to government priority area projects that include SMEs and promote the growth and development of the nation's economy. The bank's lease financing program will: support the goal of structural transformation; encourage import substitution; generate employment opportunities; advance the nation's export promotion objective and support foreign exchange earnings; and provide SMEs, especially the missing middle, with access to financing.

2.1.4. Lease Financing in Ethiopia

Capital Goods Finance Companies is the term used to describe leasing companies in Ethiopia. There are now seven leasing businesses authorized to operate in Ethiopia. The five regional leasing companies—Addis CGFC, Oromia CGFC, Waliya CGFC, Debub CGFC, and Kaza CGFC—as well as the Development Bank of Ethiopia, or DBE. The first privately held, foreign company to be granted a license to lease equipment in Ethiopia was African Asset Finance Company, based in New York, in August of 2019. By the end of March 2019, these leasing companies have given local MSMEs over 9,000 leases for over ETB 4 billion ($US 140 million) (EIC, 2020).

In Ethiopia, the industry’s most likely to gain from capital goods financing are essentially those that produce goods and services that can be substituted for imports and exported, as well as those that have the capacity to provide significant job possibilities. As of right now, leasing businesses are supposed to supply priority areas with lease financing for machinery and equipment (Bafekadu, 2018).

Ethiopia has seen a sharp increase in the leasing of corporate assets since leasing is essential to meeting the financial demands of different economic sectors and, as a result, advances both the nation's financial system and its overall economic growth. The leasing industry in Ethiopia has grown rapidly in a very short amount of time, and it continues to grow despite several negative effects on other industries (Mengistu, 2019).

Small and Medium Enterprises (SMEs) are businesses with six or more people that engage in the manufacturing, agro-processing, tourism, construction, mining, and quarrying sectors and have total capital between Birr 500,000 and Birr 7.5 million. The lease financing service is not available to micro and small businesses with less than birr 500,000 in total capital. Instead, it is limited to financing new capital goods from government priority areas for SMEs, solely for the purpose of purchasing capital goods for their projects. DBE (2016).

Prospective SMEs must submit the necessary paperwork in order to be eligible for leasing finance. Application letters, letters of support and recommendation for lease financing from responsible organizing government bodies, contracts for land leases or shade rent, sufficient production areas or shade and sales areas, business licenses, Performa invoices of capital goods from authorized manufacturers or suppliers, utility (electricity and water) bills, business track records, credit histories, tax clearance certificates, sources of equity in cash, management experience and educational background, and business plans or feasibility studies are some examples of these documents (DBE, 2016).

2.1.5. Lease Financing Policy in Ethiopia

Ethiopia has laws designed specifically for the leasing sector. The first leasing proclamation, CGLB proclamation No. 103/1998, was issued in 1998 and offers a thorough legislative framework for the leasing industry. But it may be claimed that, aside from operating leasing, finance leasing and hire-purchase were not really in existence for the past sixteen years or so, so this statement has not really served its purpose. The micro-financing business proclamation No. 626/2009 permits microfinance institutions to offer financial leasing services; however, because of a deficiency in leasing expertise, this product has not been delivered in a significant and professional manner. Therefore, the government of Ethiopia issued amendment proclamation No. 807/2013, which is applicable to the leasing business along with the former proclamation, in order to address this gap and create alternative sources of financing for SMEs through the establishment of specialized leasing companies in a manner that supports the manufacturing sector (Dagnachew, 2019).

2.1.6. Types of Lease Financing

"Operational," "financial," and "hire purchase" leases are the three primary categories of leasing. They often differ in terms of who owns something, who controls the asset, and who is accountable for upkeep, damage, and insurance. Leasing is useful for almost every industry and can be used for a variety of equipment sizes (Helen, 2014).

A. Financial Lease

Financial leases are a particular kind of leasing in which the lessor leases to the lessor the use of capital goods that are either already owned by the lessor or are purchased from a third party, referred to as the manufacturer or supplier, and chosen and specified by the lessor. During the term of the lease agreement, the lessor retains full ownership of the capital goods, and, subject to an agreement between the parties, the lessor may have the option to buy the capital goods outright at an agreed-upon price at the end of the lease period. The price will be specified in the lease contract and will be decided upon by mutual agreement between the parties, with a maximum of 0.5% of the capital items' initial cost (DBE, 2016). At the conclusion of the lease term, the lessee acquires ownership of the asset; the lessee has the option to buy the asset at a price that is anticipated to be much less than the asset's true value at the time this option becomes available, and it is evident that this option agreement will be used at the outset; Even if title has not yet been transferred, the lease period represents the asset's most economic life; The leased assets are unique in that only the lessee is able to use them without completing significant modifications, and at the beginning of the lease, the present value of the total minimum lease payments is significant in relation to the fair value of the leased asset (Elidiana and Fatbardha, 2013).

B. Operating Lease

Operating leases require payment from the machinery's user in exchange for the asset's temporary use. Operating leases are essentially identical to rentals in that the lessee retains control over the assets but is not granted ownership rights (Helen, 2014). The lessee does not acquire ownership rights or advantages from an operating lease. Legal title of the property is retained by the lessee. The leaser is entitled to all ownership-related tax benefits in this transaction, including accelerated depreciation. At the conclusion of the lease, the lessee also holds the right to the property's residual value. The original lease agreement's length is typically much shorter than the property's economic life in operational leases (Comptroller's Handbook, 2014).

Furthermore, there is a kind of lease known as operational leasing, when the lessor purchases the asset at their own risk and then transfers it to the lessee as the leased asset. Operational leasing is an option available to lessees in the following situations: 1. When it's necessary to lease the property temporarily in order to complete a single task; 2. When the leased property is quickly becoming outdated and the lessee anticipates obtaining a new, more advanced, and useful property after the lease term expires (Eugenyet al, 2016).

C. Hire-Purchase Lease

A variant of financing leasing that is currently being promoted in Ethiopia is hire-purchase. In order to eventually become the owner of an asset, a lessee consents to pay for it in installments or in part over a period of months or years. Until the final payment is received, the lessee retains ownership of the asset. Hire-purchase is essentially like a mortgage system in that the user's ownership rights grow with each installment until the system is paid off.. The goal in Ethiopia is to create a dynamic and supportive environment for finance leases, especially hire-purchase leases, which result in the asset's ultimate ownership. The following are the main attributes of finance lease, including hire-purchase: The lessee chooses the asset; the leaser, not the lessee, purchases the asset; the lessee has control over how the asset is used during the lease term; the lessee is fully protected in the event of damage or destruction; the lessee is responsible for paying the lease fee; and the lessee is required to maintain the asset in accordance with the terms of the lease. Among other things, the lease agreement is non-refundable. Among other things, the agreement specifies what should happen in the case of a default (Helen, 2014).

2.2. Empirical Literatures

Muhaiminul et al. (2016) studied how lease financing affected employment, profitability, and production in Bangladeshi SMEs. They discovered that lease financing has favorable effects on employment, profitability, and productivity in SMEs in the research area using SPSS analysis. A company's ability to grow economically through productivity and profitability gave it a competitive advantage and more room to make profits. These tiny businesses were able to implement innovation and technology thanks to financing. It affects social welfare as well.

A study on financing SMEs: factors of bank loan application was carried out by Khalin and Kalson (2014). Through the use of logistic regression analysis, they discovered that the owner's educational background, the size of the business, the collateral, and the loan interest were all adversely correlated with the business's propensity to ask for bank loans. Nonetheless, they discovered that the bank loan was favorably correlated with the business plan of the company and its initial interactions with bankers.

According to Michael (2015), who studied lease financing in Kenya, the Kenyan Leasing Association has to take the initiative to market and educate Kenyans about leasing options. This might include monthly updates on the leasing items, incentives to promote leasing, and lease usage expenses. This will significantly boost the usage of operating and finance leases, thereby elevating the importance of lease financing in Kenyan businesses.

Mengistu (2019) conducted research on Ethiopia's lease finance potential and problems. He used SPSS to examine data using descriptive statistics. The difficulties he identified for the bank included its criteria for selecting small and medium-sized businesses, an inadequate supply chain due to a lack of suitable and sufficient capital goods suppliers, macroeconomic instability, the poor quality of the financial statements of these businesses, the complete absence of these businesses, absence of appropriate internal policies and procedures that reduce the cost associated with Small and Medium Enterprise lease financing loans, inadequate credit risk management by the bank, and ignorance of Small and Medium Enterprise lease financing. Upon concluding his research, he recommended that future studies on a similar topic, using a sample of all stakeholders to represent their challenges with leasing finance, be conducted with a concentration on Mengistu (2019) personnel in the Addis Ababa regions.

Research on the difficulties with lease finance in the instance of DBE was conducted by Dagnachew (2019). He discovered that the lack of adequate and suitable capital goods suppliers, macroeconomic instability, low-quality SME financial statements, a lack of SME availability or creditworthiness, ignorance of SME lease financing, inadequate bank credit risk management, and a lack of appropriate bank policy and procedure to lower SME lease financing costs are all contributing factors. Lastly, he demonstrated how his focus had been limited to the bank or supply side and suggested that further study be done on the demand side or SMEs to better understand the factors that influence lease financing practices.

Fredu and Edris (2016) carried out research on Ethiopian SMEs' access to financing. Using ordered logistic regression analysis, they discovered that the main barriers to SMEs participating in finance were: lack of access to financing on reasonable terms and conditions; financial intermediary limitations; high levels of collateral requirements by financial institutions; lack of transparency of loan conditions; drawn-out application and disbursement processes; recent establishment of the SMEs; lack of SMEs engagement with banks; lack of experience of SMEs manager; and lack of owner manager.

Research on the Evaluation of Financing Accessibility and Availability for SMEs in Addis Ababa was conducted by Ayalneh (2018). Through the application of logistic regression analysis, he discovered that the availability and accessibility of financing are significantly influenced by firm characteristics, collateral requirements, borrowing costs, and funding opportunity awareness. Additionally, the outcome of the structured questioner's descriptive nature verified that every aspect of his investigation affected the availability and accessibility of financing. It also showed that, in addition to the contributions from banks and MFIs, SMEs primarily obtain funding from their own profits and savings as well as "ekub.". Lack of sufficient collateral, a drawn-out loan application process, and a high interest rate are found to be the main barriers to obtaining a loan from banks and MFIs.

2.3. Research Gaps

A topic area for which absent or inadequate information makes it difficult to draw a conclusion about an issue is known as a research gap. A gap that prevents decision-makers from making decisions is called a research need (Ayalney, 2018).

Upon reviewing many articles, the researcher has found that the general SMEs had been the subject area in almost all studies; hence focused on the middle manufacturing enterprises which are considered as the missing middle in the economy. In addition, most of the previous studies overlooked factors such as a lack of adequate space for production and a lack of access to electricity and water, which might have significant influence on the lease financing practice of the middle manufacturing enterprises.

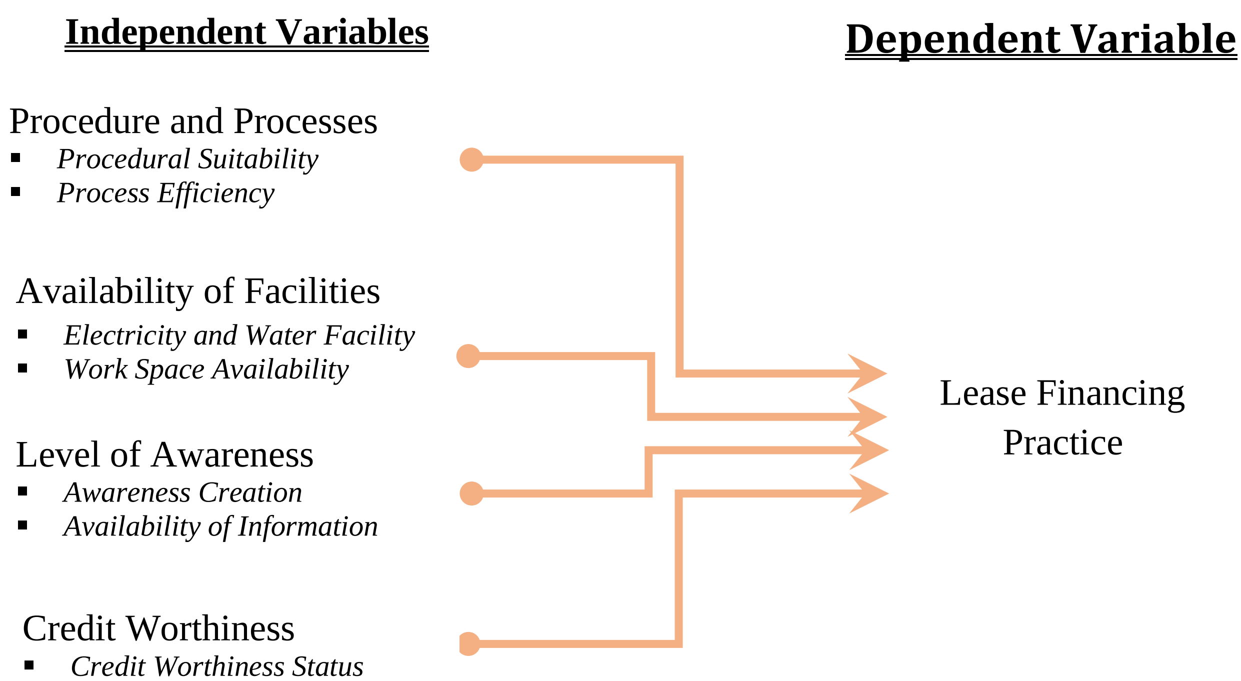
Generally speaking, it is clear from the research gap discussion that additional research is needed to have a more thorough understanding of this subject. Thus, the purpose of this study was to look at the factors that influence lease finance practices of middle manufacturing enterprises in Addis Ababa.

2.4. Conceptual Framework

Medium manufacturing enterprises generate a variety of products through the use of lease financing services. Consequently, the following conceptual framework is established to provide a rationale for the study in light of the numerous literatures studied.

2.5. Conceptual Framework

Figure 1:



CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Research Design

Descriptive and Explanatory research designs were utilized, taking into account the nature of the study and the research aims. Studies that attempt to characterize the traits of a specific person or group are known as descriptive research studies (Kothari 2004). Descriptive research was therefore chosen for this investigation. Therefore, it was employed in this study to describe the respondents' general and demographic data. The primary method of data gathering for the study was a cross-sectional research survey, which gathers data from respondents all at once.

3.2. Research Approach

A problem can be solved systematically using research technique. It is a science that studies the best ways to do research. Research technique essentially refers to the processes that scientists use to describe, explain, and forecast events. It is also defined as the study of knowledge-gathering strategies. Its goal is to provide the research work plan (Rajasekar et al, 2013). As a result, the technique and model specifications used to examine the factors influencing lease financing practices and their impact on SMEs' revenue were provided in this part.

3.3. Data Type and source

Two types of data were used in the study: primary and secondary. Using structured questionnaires and interviews, the primary data—both qualitative and quantitative—was gathered from a sample of medium-sized manufacturing enterprises. Tools used for gathering data was survey questionnaire. Secondary data were gathered from reports of Central Statistics Agency, National Bank of Ethiopia, Entrepreneurship Development Institute. One of the most important issues was the respondents' interest in participating in the survey. If respondents' concerns are not addressed seriously, they may not cooperate as much. Therefore, the respondents were fully informed about the survey's goals and the benefits that would accrue to them both directly and indirectly in order to earn their trust.

3.4. Method of Data Collection and Instruments

To choose the sample of respondents for this study, a straightforward random sampling procedure was used. Therefore, a simple random sampling method was used to select the sample respondents from the list of medium manufacturing enterprises. Simple random sampling offers several benefits in the field of research and data analysis. Here are some key advantages:

- Representativeness: Simple random sampling provides each member of the population an equal chance of being selected, ensuring that the sample is representative of the entire population. This helps to minimize bias and allows for generalizations and inferences to be made about the larger population based on the sample.
- Unbiased Results: By randomly selecting individuals from the population, simple random sampling reduces the potential for selection bias. Every member has an equal probability of being included, which ensures that the sample is not skewed towards any particular characteristic or subgroup. This enhances the fairness and objectivity of the results.
- Simplicity: Simple random sampling is straightforward and easy to implement. It involves randomly selecting individuals from the population without any complex procedures or stratification. This simplicity makes it a convenient sampling method, particularly when the population is relatively small or easily accessible.

3.5. Population and Sampling

Data gathered from Addis Ababa City Administration Micro and Small Enterprise Development Bureau showed that more than 8,152 enterprises are registered as/ upgraded to medium manufacturing enterprises so far. However, there is no adequate information about how many of them are currently operational. Using the Yamane (1967) formula, one may determine an appropriate sample size from a given population with 0.5 degrees of variability and a 95% confidence level.

$$n = \frac{N}{1+e^2\,(N)}$$

Where n= the sample size N= the total SMEs e= allowable error

Hence, based on this formula, the sample size was determined. To determine sample size, Yamane formula was used by previous researchers like Befekadu (2018), Mengistu (2019) and Tesfaye (2019). Hence 91 sample respondents were selected from the total of 1,052 SMEs.

381 = 8,152 /1+ 0.5^2(8,152) Therefore, 381 is the sample size of the survey.

3.6. Definition of Independent Variables

Dependent variable: Participation in lease financing is dependent variable;

Independent variables:

- Procedure = Procedure and processes of lease financing services
- Facility = Availability of facilities such as electricity, water, and other supports
- Awareness = Provision of awareness and information about lease financing services
- Credit Worthiness = The status of credit worthiness of enterprises

3.7. Methods of Data Analysis

Several closely related processes must be carried out in order to analyze data, including category creation, application of these categories to raw data through coding, tabulation, and statistical inference. Following tabulation, analysis work was typically centered on calculating different percentages, coefficients, etc. using a variety of precise statistical formulas. In order to ascertain the validity of the data and draw any conclusions, linkages between differences that support or contradict the original or new hypothesis should be subjected to tests of significance during the analysis process (Prabhat and Meenu, 2015). Both descriptive and regression analysis techniques were used in this study by the researcher. The model specified to analyze the subject matter is seen as follows:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$$

Where: α = Constant

$\beta_1, \beta_2, \beta_3, \beta_4,$ = Coefficients

X_1 = Procedure, X_2 = Facility, X_3 = Awareness, X_4 = Credit

3.8. Reliability Test

Table 1: Reliability Statistics

Reliability Statistics

Cronbach's Alpha	N of Items
.899	9

CHAPTER FOUR

4. RESULT AND DISCUSSION

This section presents results of the survey and analysis based on the results obtained. The survey questionnaire was distributed to 400 respondents and 381 of them were filled and returned on time, i.e., 95.3 percent of the return rate.

4.1. Respondents Demographic Profile

For the various demographic parameters of respondents and their opinion of medium manufacturing enterprises in their respective firms, descriptive statistics in the form of frequency mean and standard deviations are produced. The following is a presentation of the demographic characteristics of the businesses, or respondents, that are important for this study.

A. Educational Status

Demographic Item	Frequency	Percent	Valid percent	Cumulative percent
Below grade 12	*150*	*39.4*	*39.4*	*39.4*
TVET Certificate	*98*	*25.7*	*25.7*	*65.1*
Diploma	*94*	*24.7*	*24.7*	*89.8*
Bachelor degree	*29*	*7.6*	*7.6*	*97.4*
Masters or above	*10*	*2.6*	*2.6*	*100.0*
Total	*381*	*100.0*	*100.0*	

Table 2: Education Level of Respondents

As shown in the table above, the majority of respondents have education levels below grade 12 (40%), TVET certificates (25.7%), diplomas (24.7%), 7.6% bachelor degrees, and the remaining 2.6 have master's degrees or higher. This suggested that around 90% of the respondents had a diploma or lower. Consequently, the majority of business responders lack a college degree.

B. Current Job Position in the Company

Demographic Item	**Frequency**	**Percent**	**Valid percent**	**Cumulative percent**
Manager	*90*	*23.6*	*23.6*	*23.6*
Owner & manager	*212*	*55.6*	*55.6*	*79.3*
Sales person	*57*	*15.0*	*15.0*	*94.2*
Others	*22*	*5.8*	*5.8*	*100.0*
Total	*381*	*100.0*	*100.0*	

Table 3: Current Job Position of Respondents

The employment position of the respondents who took part in this study is described in detail in the table above. As shown in the table, owners and managers accounted for the majority of respondents (55.6% of all valid respondents), followed by managers (23.6%), and sales person (15.0%) of all respondents. As a result, they are expected to apply comprehensive information about medium enterprises' growth in their businesses. As a result, we anticipate the accuracy of their comments.

C. Work Experience

Demographic Item	**Frequency**	**Percent**	**Valid percent**	**Cumulative percent**
Less than one year	*215*	*56.4*	*56.4*	*56.4*
1-5 years	*133*	*34.9*	*34.9*	*91.3*
6-10 years	*23*	*6.0*	*6.0*	*97.4*
More than 10 years	*10*	*2.6*	*2.6*	*100.0*
Total	*381*	*100.0*	*100.0*	

Table 4: Experience of Respondents

The above table shows that out of all respondents, 56.4% have worked for their current companies for less than 1 year, 34.9% have worked there for one to five years, and 6.0% have six to ten years of experience.

D. Main Manufacturing Activity

Demographic Item	**Frequency**	**Percent**	**Valid percent**	**Cumulative percent**
Leather	*98*	*25.7*	*25.7*	*25.7*
Garment	*63*	*16.5*	*16.5*	*42.3*
Agro-processing	*74*	*19.4*	*19.4*	*61.7*
Metal Works	*77*	*20.2*	*20.2*	*81.9*
Construction	*32*	*8.4*	*8.4*	*90.3*
Wood Works	*37*	*9.7*	*9.7*	*100.0*
Total	*381*	*100.0*	*100.0*	

Table 5: Main Manufacturing Activity

According to Table 5, the Leather sector accounts for 25.7% of all respondents' employment, followed by garment with 16.5%, metal works with 20.2%, agro-processing with 19.4%, and wood works with 9.7%.

E. Source of Fund to Start Business

Demographic Item	**Frequency**	**Percent**	**Valid percent**	**Cumulative percent**
Personal saving	*130*	*34.1*	*34.1*	*34.1*
Family & friends	*52*	*13.6*	*13.6*	*47.8*
Loan	*104*	*27.3*	*27.3*	*75.1*
Credit association	*81*	*21.3*	*21.3*	*96.3*
NGOs	*14*	*3.7*	*3.7*	*100.0*
Total	*381*	*100.0*	*100.0*	

Table 6: Source of Fund to Start Business

As can be seen from Table 6 personal saving (34.1%) are the most sources of fund, followed by Loan (27.3%), Credit association (21.3%), Family and friends (13.6%). This demonstrates that personal savings and loan are the primary sources of funding for medium enterprises of the survey. Credit association and Family and friends also plays the significant role.

F. Business Establishment Type

Demographic Item	**Frequency**	**Percent**	**Valid percent**	**Cumulative percent**
Sole proprietorship	*130*	*34.1*	*34.1*	*34.1*
Partnership	*205*	*53.8*	*53.8*	*87.9*
Private Limited company	*46*	*12.1*	*12.1*	*100.0*
Total	*381*	*100.0*	*100.0*	

Table 7: Business Type

By way of can be seen from the Table above partnership is the main type of business (53.8%), followed by sole proprietorship (34.1%), private limited company are rare (12.1%) in the survey. This shows that the main types of business are partnership and sole proprietorship

G. Duration in the Business

Demographic Item	**Frequency**	**Percent**	**Valid percent**	**Cumulative percent**
Less than one year	*132*	*34.6*	*34.6*	*34.6*
1-5 years	*203*	*53.3*	*53.3*	*87.9*
6-10 years	*46*	*12.1*	*12.1*	*100.0*
Total	*381*	*100.0*	*100.0*	

Table 8: Business Establishment Type

As indicated in Table above, from the total respondents, more than half (53.3%) of responding enterprises stayed in the industry between 1 and 5 years, followed by 34.6% for lessthan1year

4.2. Reliability Test of the Survey

Cronbach's alpha test is employed in order to check whether or not internal consistency of the survey questionnaire. Cronbach's alpha is tested by checking whether or not each of the observation are correlated and checking the variance of each score. The score of Cronbach's alpha ranges from 0 to 1. 0 indicates no probability of questions measuring similar issue while results closure to 1 indicates that questions are talking about similar concept. As a rule of thumb, Cronbach's alpha score below 0.5 are considered as invalid.

Reliability Statistics

Cronbach's Alpha	N of Items
.899	9

Table 9: Reliability Statistics

Source: Own Computation of Survey Result using SPSS-IBM 20.0

Therefore, as the table above shows, the result of reliability test, the variables is pretty higher than the minimum acceptable limit which is 0.5 which indicate that the survey questions under each variable are well constructed to talk about same issues (Scherpenzeel & Saris, 1997).

4.3. Results

4.3.1. Descriptive Statistics Results

This section presents the descriptive statistics results of the survey.

A. Process and Procedure of Lease Financing Services

	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
The procedure of lease financing is cumbersome	*381*	*3*	*5*	*4.24*	*.672*
The process of lease financing is time taking	*381*	*3*	*5*	*3.96*	*.850*
Valid N (listwise)	*381*				

B. Availability of Facilities

	N	**Minimum**	**Maximum**	**Mean**	**Std.**

					Deviation
There is no adequate electricity and water facility in my working place	*381*	*3*	*5*	*4.47*	*.720*
Renting cost of working premises is too high	*381*	*2*	*5*	*4.05*	*1.271*
Valid N (listwise)	*381*				

C. Awareness Creation

	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
There is no adequate awareness creation about lease financing	*381*	*2*	*5*	*4.10*	*1.036*
There is no available information about lease financing in my area	*381*	*2*	*5*	*3.94*	*.723*
Valid N (listwise)	*381*				

D. Credit Worthiness

	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
There is credit worthiness problem that challenges lease financing problem	*381*	*3*	*5*	*4.30*	*.554*
Credit worthiness affects decision for Lease Financing	*381*	*1*	*5*	*4.32*	*.731*
Valid N (listwise)	*381*				

E. Participation in Lease Financing

		Frequency	Percent	Valid percent	Cumulative percent
Valid	*Yes*	*184*	*47.9*	*48.3*	*48.3*
	No	*197*	*51.3*	*51.7*	*100.0*
	Total	*381*	*99.2*	*100.0*	
Missing	*System*	*3*	*.8*		
Total		*384*	*100.0*		

Table 10: Descriptive Statistics Results

4.3.2. Inferential Statistics Results

4.3.2.1. Correlation Results

Pearson's correlation coefficient (r) is used widely used to understand the type and strength of correlation between variables. As noted by Peter (2014), the Pearson's correlation coefficient (r) ranges from -1.0 to +1.0. As a rule of thumb Pearson coefficient, p = 0.05 or 0.01 show strong relationship between variables at 95 and 99 percent of confidence interval respectively. The table below presents the correlation results of the survey.

Correlations

		mean_ Procedure	Mean_ Facility	mean_ Awareness	mean_ Credit	mean_ LFParticipate
mean_ Procedure	Pearson Correlation	1	.535**	.476**	.267	.370*
	Sig. (2-tailed)		.001	.004	.121	.029
	N	381	381	381	381	381
mean_ Facility	Pearson Correlation	.535**	1	.650**	.624**	.492**
	Sig. (2-tailed)	.001		.000	.000	.003
	N	381	381	381	381	381
mean_ Awareness	Pearson Correlation	.476**	.650**	1	.266	.466**
	Sig. (2-tailed)	.004	.000		.123	.005
	N	381	381	381	381	381
mean_ Credit	Pearson Correlation	.267	.624**	.266	1	.634**
	Sig. (2-tailed)	.121	.000	.123		.000
	N	381	381	381	381	381
mean_ LFParticipate	Pearson Correlation	.370*	.492**	.466**	.634**	1
	Sig. (2-tailed)	.029	.003	.005	.000	
	N	381	381	381	381	381

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 11: Correlation Statistics Results

Source: Own Computation of Survey Result using SPSS-IBM 20.0

The result of the study reveals that **procedure** is positively and significantly correlated with **participation in lease financing** with a p-value of 0.370 at the 5 percent significance level. Given 95 percent of confidence;

Availability of **facilities** also showed significant correlation with **participation in lease financing**. With the p-value of .492 at 1 percent of significance level.

Status of **awareness**, the correlation analysis result showed positive and strong relationship with **participation in lease financing**. 0.466 p-value with 1 percent of significance level is resulted from the correlation analysis. Same wise, **Credit worthiness** is significantly and positively correlated with **participation in lease financing**. The P-value scores 0.634 at 1 percent of significance level.

4.3.2.2. Regression Results

A) Assumption Testing

1) Normality:

The Shapiro-Wilk test is used widely used to analyze the normality of data whenever the survey is conducted in less than 2,000 respondents (otherwise, the Kolmogorov-Smirnov test is used) (Zofia and Joanna, 2016). Hence, the Shapiro-Wilk test was run over the survey.

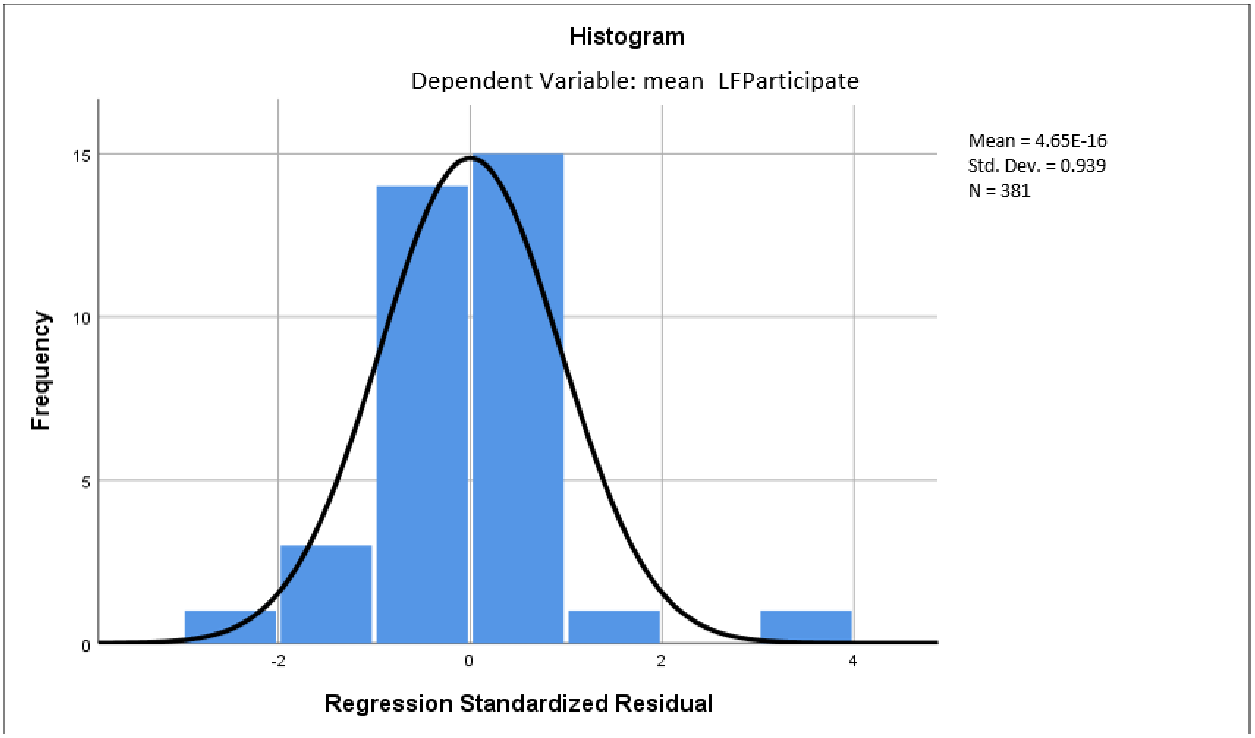
Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Mean_ LFParticipate	.219	35	.000	.912	35	.009

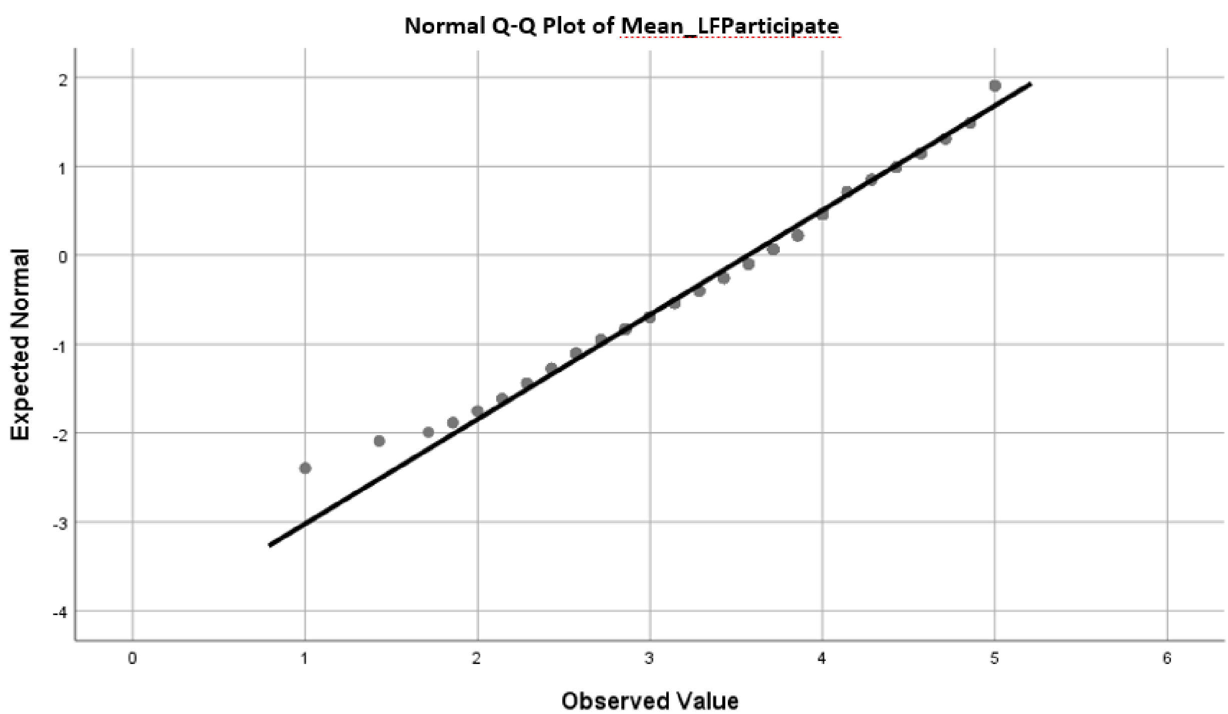
a. Lilliefors Significance Correction

Table 12: Tests of Normality

As the table above shows, participation in lease financing (presented as Mean_ LFParticipate) has a p-value of 0.974 with significant level of 0.009. If alpha-value of the Shapiro-Wilk test lies below 0.05, the survey is conceded as normally distributed. Hence, 0. 009 is far lower than 0.05 which indicates that the data has normal distribution (Zofia and Joanna, 2016). Graphically, it shows a symmetric and bell-like shape of the distribution curve.



The line graph presented below also shows the similarity between what is expected and what is observed from the model analysis and confirms the normality of the distribution.



2) Autocorrelation

In order to check the existence and degree of correlation between the values of variables within observation, Durbin-Watson test is employed (Bradley & Sean, 2006).

The result of the test is shown below.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.721[a]	.520	.456	2.42885	1.835

a. Predictors: (Constant), mean_Procedure, mean_Facility, mean_Awareness, mean_Credit

b. Dependent Variable: mean_LFParticipate

As it is shown above, the Durbin-Watson test result of the model is 1.835 which is very close to 2. Since the Durbin-Watson test result ranges from 0 to 4 and 2 is the middle indicating that there is no correlation between values of variables across observed data, this model can be considered as a model with no autocorrelation.

3) Collinearity

As the table below shows all of the independent variables are not subject to multicollinearity since their VIF (Variance Inflation Factor) values are close to 0 (as it ranges from 0 – no collinearity to 10 – high collinearity) (Jamal, 2017).

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Mean_ Procedure	.683	1.464
	Mean_ Facility	.325	3.074
	Mean_ Awareness	.528	1.895
	Mean_ Credit	.575	1.740

a. Dependent Variable: Mean_ LFParticipate

B) Regression Result Outputs

A step-wise multiple regression analysis method is employed in this study. This method is chosen to identify less relevant predictors that might decrease the precision of estimated coefficients. Here the first step includes all variables while the second step deals with reduced number of predictors based on their significance of contribution. The step-wise multiple regression analysis result and discussion begins with presenting the model summary of the survey:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.721[a]	.520	.456	2.42885	.520	8.127	4	30	.000

a. Predictors: (Constant), MeanProcedure, MeanFacility, MeanAwareness, MeanCredit

b. Dependent Variable: MeanLFParticipate

The same is true with the results in the coefficients as the following output table presents:

Predictors	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	6.609	1.861		5.044	.001
MeanFacility	.128	.139	.141	3.753	.364
MeanCredit	-.171	.168	-.225	-1.014	.319
MeanAwareness	.434	.201	.376	2.158	.039
MeanProcedure	.651	.171	.637	3.815	.001

a. Dependent Variable: MeanFinControl

As the regression analysis result shows, beta, the coefficients for each of the independent variables (presented as MeanFacility, MeanAwareness, MeanProcedure) are positive except that of MeanCredit.

4.4. Discussion

1) Procedures and Processes with Participation in Lease Financing

The correlation between the procedure of lease financing and the participation level of enterprises in lease financing can be significant. The ease, transparency, and efficiency of the lease financing procedure can influence the willingness of enterprises to engage in lease financing. Here's how the procedure can impact participation:

Simplicity and Clarity: A straightforward and well-defined lease financing procedure can attract more enterprises to participate. If the process is simple, transparent, and easily understood, it can encourage businesses to explore lease financing as a viable option for acquiring assets.

Streamlined Application and Approval Process: A streamlined application and approval process can positively impact participation. If the procedure is efficient, with minimal paperwork and quick decision-making, enterprises may find it more convenient and time-saving compared to other financing methods.

Flexible Terms and Conditions: Lease financing procedures that offer flexibility in terms and conditions can attract a broader range of enterprises. Customizable lease structures, including lease duration, payment options, and end-of-lease options, allow businesses to tailor the financing to suit their specific needs.

Access to Information and Support: Availability of comprehensive information and support throughout the lease financing process can boost participation. Clear guidance on eligibility criteria, asset valuation, lease documentation, and legal requirements can help enterprises navigate the process with confidence.

Cost and Affordability: The cost-effectiveness of lease financing, including competitive interest rates and favorable leasing terms, can influence participation. If the procedure offers affordable financing options, enterprises may be more inclined to consider lease financing as an attractive alternative to purchasing assets outright.

Legal and Regulatory Environment: The legal and regulatory framework surrounding lease financing can impact participation levels. If the procedure aligns with clear and supportive regulations, enterprises may have more confidence in engaging in lease financing.

Awareness and Education: The level of awareness and education about lease financing can also affect participation. If enterprises have access to information and resources that explain the benefits, risks, and procedures of lease financing, they are more likely to consider it as a viable financing option

2) *Awareness Creation with Participation in Lease Financing*

The provision of awareness about lease financing can have a positive correlation with the participation level of enterprises. When enterprises are well-informed and educated about the benefits, procedures, and potential risks of lease financing, they are more likely to consider it as a viable option for acquiring assets. Here's how the provision of awareness can impact participation:

Understanding of Benefits: Awareness initiatives can help enterprises understand the advantages of lease financing, such as improved cash flow management, reduced upfront costs, tax benefits, and flexibility in asset acquisition. When businesses are aware of these benefits, they are more likely to consider lease financing as a viable alternative to traditional financing methods.

Knowledge of Procedures: Awareness programs can educate enterprises about the lease financing process, including eligibility criteria, application procedures, documentation requirements, and evaluation criteria. When enterprises have a clear understanding of the procedures involved, they can navigate the process more confidently and with a higher likelihood of participation.

Risk Perception: Awareness initiatives can address the potential risks associated with lease financing, such as residual value risk, early termination penalties, and obligations during the lease term. By providing information on risk management strategies, enterprises can make informed decisions and mitigate potential risks, thereby increasing their willingness to participate.

Access to Resources: Awareness programs often provide enterprises with access to resources such as guidelines, case studies, and expert advice. These resources can help businesses assess their specific needs, evaluate the suitability of lease financing, and make informed decisions. When enterprises have access to such resources, they are more likely to feel supported and empowered to participate in lease financing.

Industry-specific Insights: Awareness initiatives can offer industry-specific insights and success stories related to lease financing. By showcasing how lease financing has been successfully utilized by similar enterprises in their industry, businesses can gain confidence and trust in the viability of lease financing for their own operations.

Engagement with Financial Institutions: Awareness programs can facilitate direct engagement between enterprises and financial institutions that offer lease financing. This interaction allows businesses to ask questions, seek clarifications, and build relationships with lenders, fostering a sense of trust and partnership. This, in turn, can increase the likelihood of enterprises participating in lease financing.

3) Availability of Facilities with Participation in Lease Financing

The availability of electricity and water facilities to enterprises can have a correlation with the participation level of enterprises in lease financing, although the relationship may not be direct. Here are a few ways in which these factors can impact participation:

Operational Efficiency: Access to reliable electricity and water facilities is crucial for the efficient operation of businesses. Enterprises require a stable power supply to operate machinery, equipment, and other assets effectively. Similarly, water facilities are essential for various industrial processes. When these facilities are readily available, enterprises are more likely to engage in lease financing to acquire assets that require electricity and water for their operations.

Business Viability: The availability of electricity and water can impact the viability of business operations. If these facilities are unreliable or insufficient, enterprises may face productivity challenges, increased downtime, and higher operational costs. In such cases, businesses may be hesitant to commit to lease financing as it requires them to acquire assets that rely on these facilities. The lack of confidence in the sustainability of operations can affect participation in lease financing.

Asset Utilization: Lease financing involves acquiring assets for a specific duration. If enterprises do not have access to reliable electricity or water facilities, it may limit their ability to fully utilize the leased assets. This can reduce the attractiveness of lease financing as businesses may not see value in acquiring assets that they cannot fully utilize due to infrastructure constraints.

Sector-specific Impact: The availability of electricity and water can have varying impacts depending on the industry or sector. Some industries, such as manufacturing, agriculture, or food processing, have higher dependencies on these utilities. In such cases, the availability of electricity and water can significantly influence the decision to participate in lease financing, as it directly affects the operational requirements of these industries.

Infrastructure Development: The availability of electricity and water facilities is often linked to the overall infrastructure development of a region or country. Areas with well-developed infrastructure tend to attract more businesses and investment. In such regions, enterprises may find it more favorable to participate in lease financing as they have confidence in the supporting infrastructure required for their operations.

4) *Credit Worthiness with Participation in Lease Financing*

The creditworthiness of enterprises can have a significant correlation with the participation level of enterprises in lease financing. Creditworthiness refers to an enterprise's ability to fulfill financial obligations and repay debts, which is assessed by considering factors such as credit history, financial stability, and repayment capacity. Here are a few ways in which creditworthiness can impact participation:

Access to Financing: Enterprises with a strong creditworthiness are more likely to have easier access to lease financing. Lenders and lessors consider creditworthiness as a key factor in determining the risk associated with extending financing. Enterprises with a positive credit history, stable financials, and a good repayment track record are generally viewed as lower-risk borrowers, making them more attractive to lenders and increasing their chances of participating in lease financing.

Loan Terms and Conditions: Creditworthiness can influence the terms and conditions offered for lease financing. Enterprises with a higher creditworthiness may be able to negotiate more favorable terms, such as lower interest rates, longer lease durations, or more flexible payment options. This can make lease financing a more appealing option for businesses, leading to increased participation.

Risk Assessment: Lenders and lessors assess the creditworthiness of enterprises to evaluate the risk of default or non-payment. A higher creditworthiness indicates a lower risk profile, which can instill confidence in the lessor that the enterprise will fulfill its lease obligations. This can result in greater willingness from lessors to engage in lease financing with creditworthy enterprises, thereby increasing participation.

Larger Financing Amounts: Creditworthy enterprises may have access to larger financing amounts through lease financing. Lenders and lessors may be more willing to provide higher financing limits to businesses with a strong creditworthiness, enabling them to acquire more valuable assets through lease financing. This expanded financing capacity can incentivize participation in lease financing for creditworthy enterprises.

Competitive Advantage: Enterprises with a strong creditworthiness often have a competitive advantage in the market. A good credit rating can indicate financial stability and reliability, which can enhance the enterprise's reputation and credibility. This can lead to increased business opportunities and growth prospects, making lease financing an attractive option to support expansion plans.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATIONS

In this chapter, the study is Summarized, concluded and recommendations are given based on the findings of this research.

5.1. Summary of Findings

.Awareness creation about lease financing:

awareness, the correlation analysis result showed positive and strong relationship with participation in lease financing. 0.466 p-value with 1 percent of significance level is resulted from the correlation analysis. Having a good effective awareness direct effect on lease financing, it can positively impact the adoption and utilization of lease financing practices. The correlation can be indicated in terms of improved understanding of lease financing.

Efficient lease financing procedures and processes:

procedure is positively and significantly correlated with participation in lease financing with a p-value of 0.370 at the 5 percent significance level. Given 95 percent of confidence; When lease financing procedures are efficient, it can positively impact the adoption and implementation of lease financing practices. The correlation can be manifested through streamlined processes, ease of application, faster approval and disbursement, improved customer experience and reduced errors and disputes.

Availability of facilities:

facilities also showed significant correlation with participation in lease financing. With the p-value of .492 at 1 percent of significance level The availability of working space for the enterprises can impact their lease financing practices in terms of asset acquisition, cost considerations, flexibility and scalability, location and accessibility, and also market competition. industry specific requirements and also cost considerations.

Credit worthiness of the enterprises:

Credit worthiness is significantly and positively correlated with participation in lease financing. The P-value scores 0.634 at 1 percent of significance level. Creditworthiness refers to an enterprise's ability to repay its financial obligations, and it plays a crucial role in lease financing practices in access to lease financing, loan terms and conditions, lease approval and limit, competitive advantage and also business expansion opportunities.

5.2. Conclusion

Lease financing, which is used to finance medium manufacturing enterprises, promotes economic growth by creating jobs and income, replacing imports, and encouraging exports. Nevertheless, the research area does not adequately practice or take into account lease finance services. The study's findings indicate that the following factors have a major impact on medium manufacturing enterprises' lease finance participation in the study area:

Awareness creation about lease financing:

When there is effective awareness creation about lease financing, it can positively impact the adoption and utilization of lease financing practices. The correlation can be indicated in terms of improved understanding of lease financing, knowledge of available options, access to information, industry-specific awareness, and influence on decision making.

Efficient lease financing procedures and processes:

When lease financing procedures are efficient, it can positively impact the adoption and implementation of lease financing practices. The correlation can be manifested through streamlined processes, ease of application, faster approval and disbursement, improved customer experience and reduced errors and disputes.

Availability of facilities:

Such facilities include working spaces for production, electricity and water supply that can be used for production in the medium manufacturing enterprises. The availability of working space for the enterprises can impact their lease financing practices in terms of asset acquisition, cost considerations, flexibility and scalability, location and accessibility, and also market competition. On the other hand, the supply of electricity and water for the enterprises can also positively affect their lease financing practice in terms of operational requirement, productivity and efficiency, industry specific requirements and also cost considerations.

Credit worthiness of the enterprises:

Creditworthiness refers to an enterprise's ability to repay its financial obligations, and it plays a crucial role in lease financing practices in access to lease financing, loan terms and conditions, lease approval and limit, competitive advantage and also business expansion opportunities.

5.3. Recommendations

Planning and implementing relevant programs to address the difficulties of lease financing in our nation require an understanding of the factors that influence lease finance practice. Therefore, in order to improve medium manufacturing enterprises' use of lease finance services, policymakers and planners must comprehend medium manufacturing enterprises' needs as well as their capacity to acquire these services in order to develop policies that will work for them.

The study's conclusions support the following policy recommendations, which should be taken into account going forward to enhance lease financing procedures in the study area, as well as in other areas of the country. Despite the fact that the study showed that involvement in lease financing might boost medium manufacturing enterprises' performance, there isn't enough capital good awareness generation. Thus, it is imperative that Capital Good Financing Companies and relevant government agencies focus on raising awareness about lease financing in order to motivate prospective medium manufacturing enterprises to take advantage of the lease financing services that are offered in the study area.

Making industrial space available is crucial to boosting medium manufacturing enterprises' use of lease financing. This is because medium manufacturing enterprises' participation in lease financing is influenced by their ability to access workspace. Therefore, it would be better for governments or nongovernmental organizations to focus on providing potential medium manufacturing enterprises with working premises.

Governmental and nonprofit organizations should prioritize developing power stations for medium manufacturing enterprises. The ability of medium manufacturing enterprises to participate in lease financing is favorably correlated with the availability of electricity. The current electric power is insufficient to operate the leased machinery, even in cases when the location has access to electricity. In order to further boost the involvement of medium manufacturing enterprises in lease finance, it is necessary to address the issue of electricity scarcity by providing electricity to prospective medium manufacturing enterprises.

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Appendix – 01: Questionnaire

Addis Ababa University

Department of masters of Business Administration

Questionnaire to be filled by Employees

Dear Respondents:

This questionnaire is developed for an academic purpose planned for the collection of data to conduct a thesis paper on the title "**Assessment of Factors Affecting Lease Financing Practices in Manufacturing Industries: The Case of Medium Manufacturing Enterprises in Addis Ababa**." In order to fulfill the university's requirement, set for awarding of a masters of **Business Administration**. The Information obtained from this questionnaire will be kept confidential and will not be used for any other purposes.

NB:

❖ For the closed ended questions use mark (✓) for the choice in the given box.

PART 1: Personal Information

1. Please indicate your gender.
   Male ☐ Female ☐
2. Your educational level
   Below grade 12 ☐ *Diploma* ☐ *Bachelor degree* ☐
   Masters or above ☐
3. Current Job Position in the Company
   Manager ☐ *Owner & manager* ☐ *Sales person* ☐ *Others*_________
4. Your work experience in the company?

Less than one year ☐ *1-5 years* ☐ *6-10 years* ☐

More than 10 years ☐

5. Main manufacturing activity of the company?

Leather ☐ *Garment* ☐ *Agro-processing* ☐ *Metal Works* ☐

Construction ☐ *Wood Works* ☐ *Others*_________

6. What was the source of fund for the company to start business?

Personal saving ☐ *Family & friends* ☐ *Loan* ☐

Credit association ☐ *NGOs* ☐ *Others*_________

7. What is the establishment type of the business?

Sole proprietorship ☐ *Partnership* ☐ *Private Limited company* ☐

*Others*_________

8. What is the duration of the company in the business?

Less than one year ☐ *1-5 years* ☐ *6-10 years* ☐

More than 10 years ☐

PART 2: Questions directly related with the Study

9. Does your enterprise participate in lease financing services?

Yes ☐ *No* ☐

10. If your answer for Q 9 is Yes, from which source did you participate in lease financing?

Addis Capital Goods Finance Share Company ☐

Development Bank of Ethiopia ☐

*Others*_________

Please indicate your choice by putting (X) on your answer (Single Selection Only)

Statements	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
Procedures and Processes					
The procedure of lease financing is cumbersome					
The process of lease financing is time					
Availability of Facilities					
There is no adequate electricity and water facility in my working					
Renting cost of working premises is too high					
Awareness Creation					
There is no adequate awareness creation about lease financing					
There is no available information about lease financing in my					
Credit Worthiness					
There is credit worthiness problem that challenges lease financing problem					
Credit worthiness affects decision for Lease Financing					

Qualitative Questions

5) *If you think that Procedures and Processes can affect Participation of enterprises in Lease Financing, what are the reasons?*

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6) *If you think that Availability of Facilities can affect Participation of enterprises in Lease Financing, what are the reasons?*

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7) *If you think that Awareness Creation can affect Participation of enterprises in Lease Financing, what are the reasons?*

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8) *If you think that Credit Worthiness can affect Participation of enterprises in Lease Financing, what are the reasons?*
