



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

**“CHALLENGES OF SMALL AND MEDIUM ENTERPRISE LEASE  
FINANCING: THE EXPERIENCE OF DEVELOPMENT BANK OF  
ETHIOPIA”**

**By**  
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A Thesis to be Submitted to the Department of Accounting and Finance College of Business and Economics, Addis Ababa University in Partial Fulfilment of the Requirements for the Degree of Masters of Science (MSC) in Accounting and Finance

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## **DECLARATION**

I hereby declare that this thesis is my original work has not been presented for a degree in any other university and that all sources of material used for the thesis have been duly acknowledged.

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## Acronyms

|        |   |
|--------|---|
| CBE    | Commercial bank of Ethiopia                           |
| DBE    | Development bank of Ethiopia                          |
| EBA    | Ethiopian Bankers Association                         |
| ELFA   | Equipment Leasing and Finance Association (US)        |
| GDP    | Gross Domestic Product                                |
| GTP II | Growth and transformation Plan II                     |
| IFC    | International Finance Corporation                     |
| IFRS   | International financial reporting standard            |
| IMF    | International Monetary Fund                           |
| LDC    | Least Developed Countries                             |
| MEA    | Machinery, Equipment and Accessories                  |
| MFI(s) | Microfinance Institution(s)                           |
| MoTI   | Ministry of Trade and Industry                        |
| NBE    | National Bank of Ethiopia                             |
| OECD   | Organization for Economic Cooperation and Development |
| SME(s) | Small and Medium Enterprise(s)                        |
| SPSS   | Statistical package for social science                |
| US     | United States   |
| WB     | World Bank  |
| WLYB   | World Leasing Year Book                               |

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## Abstract

*This paper was aimed at assessing and identifying the challenges that Development Bank of Ethiopia faces in Small and Medium Enterprise lease financing. The factor of commencement of the study is the fact that the Small and Medium Enterprise play a vital role in development of our country and at the same time Small and Medium Enterprise lease financing is the new and infant mode of financing in the country as well as in the specific company which is Development Bank of Ethiopia. Due to this fact the bank was perceived to face challenges in financing Small and Medium Enterprises through lease. The population of the study was Development Bank of Ethiopia and Purposive sampling design has been used. Since Development Bank of Ethiopia is the only bank who implement Small and Medium Enterprise lease financing program the supply side population was Development Bank of Ethiopia itself and the Small and Medium Enterprise Lease financing directorate of the bank have been identified as target sample based on purposive sample design . Questionnaire, key informant interview and document review were used as data collection instrument. Summary statistics from Statistical package for social science have been used as analyzing tool for the data collected through questionnaire from Development Bank of Ethiopia staffs. Based on the result, the study has identified challenges that the bank faces as, the bank's Small and Medium Enterprise selection criteria, poor supply chain with absence of proper and sufficient suppliers of capital goods, macro-economic instability like inflation and currency fluctuation, poor quality of financial statements of Small and Medium Enterprises, lack of sufficient demand (absence of Small and Medium Enterprises), Lack of knowledge about Small and Medium Enterprise Lease financing, poor management of credit risk by the bank and lack of proper internal policy and procedures that minimizes the cost associated with Small and Medium Enterprise lease financing loans. Even though previous research works have boldly identified legal, regulatory and directives of governing Small and Medium Enterprise lease financing was inconsistent, in this specific study it is not identified as challenge. The study has given recommendation to three parties who are directly concerned with Small and Medium Enterprise lease financing based on the nature of identified problems so that they can use the research as input to give solution or pave way to solution of the underlined problems. These parties are Development bank, government of Ethiopia and existing and potential Small and Medium Enterprises. Since Small and Medium Enterprise lease financing is government development program launched through Development Bank of Ethiopia, most of the challenges have highly recommended that they should catch eyes of government while the remaining two parties have also recommended for their own issues to take into consideration.*

**Keywords: Small Medium Enterprise, lease finance, capital goods finance.**

# CHAPTER 1: INTRODUCTION

## 1.1 BACKGROUND OF THE ORGANIZATION

Development Bank of Ethiopia (DBE) is one of the state-owned financial institutions engaged in providing short, medium and long term credits over the last 110 years. The Bank is playing central role in promoting the over-all economic development of the country since its establishment. In its over a century longstanding service, DBE has established recognition at the national and international levels.

Countrywide, it is the sole Bank with reputable experience in long-term investment financing. Globally, it is recognized as an important on-lending channel for development programs financed by bilateral and /or multilateral sources. The recent focus of the government in relation to the revised credit policy of DBE is to provide medium and long term loans for investment projects in the Government priority areas such as Commercial Agriculture, Agro-processing, Manufacturing Industries, Mining and Extractive Industries preferably, export focused as well as lease financing for Small and Medium Enterprises.

### **Mission**

“The Development Bank of Ethiopia is a specialized financial institution established to promote the national development agenda through development finance and close technical support to viable projects from the main concern areas of the government by mobilizing fund from domestic and foreign sources while ensuring its sustainability. The Bank earnestly believes that these highly valued objectives can best be served through continuous capacity building, customer focus and concern to the wider environment”.

### **Vision**

“100% Success for All Financed Projects by 2020”

### **Services**

#### **Credit Services**

The Bank extends loan services to applicants after undertaking appraisal studies in reliable methods to ascertain the viability of the proposed projects and provides technical support to new applicants and its clients.

## **Banking services**

The Bank provides services such as deposit facilities in the form of time deposit and current accounts as well as money transfer services. These services are provided to its clients and funding institutions. The Bank also gives international banking service and related activities, providing L/C services to its clients to import capital goods and raw materials and to export produces.

## **Economic Sectors Financed by the Bank**

DBE's major area of focus is provision of medium and long-term loans for investment projects in the Government priority areas. In line with the Agriculture Development Led Industrialization Strategy (ADLI) of the Country, the Bank provides finance to encourage investment in Commercial Agriculture, Agro-processing Industries, Manufacturing Industries, Mining and Extractive as well as lease financing for Small and Medium Enterprises (SMEs). The Bank also finances large scale irrigable and rain fed agricultural farms with minimum equity capital Birr 7.5 million and above.

Financing for rain fed agricultural farms is to be only for the production of sesame and cotton located in agro-ecological zones with reliable rain fall.

The Bank also gives loan for project expansion in the primacy area: priority area project requesting for expansion will be those projects which have been properly implemented and proved to be successful financially as well as in the area of project management.

## ***1.2 Background of the study***

Globally, financial access is one of the most widely discussed topic in business (World Bank, 2015 and IFC, 2009). Absence of access to finance is the biggest obstacle affecting SMEs, micro enterprises and new firms in developing countries (IFC, 2009). Though it is believed that SMEs play a key role in economic development and make an important contribution to employment and GDP (Ayyagari, 2007), access to finance remains a key limitation to SME development, especially in emerging economies. Access to finance is excessively difficult for SMEs in Least Developed Countries (LDCs), with 41 percent of SMEs in LDCs reporting access to finance as a major constraint to their growth and development, as compared with 30 percent in middle income countries, and only 15 percent in high-income countries (IFC, 2011).

Yet, many governments have recognized the SME sector as an important driver of economic development and employment creation, and also see as a priority ( IFC, 2011).

Moreover, according to IFC (2011), access to finance for managing cash flows, funding investments, and insuring against risk is one important barrier for SMEs' growth, alongside non-financial barriers such as infrastructure. Nevertheless, higher income countries tend to have more developed SME finance markets than that of developing countries as measured by ratios of SME finance volume-to-GDP and SME loan accounts-to-total firm loans. In scanty low income countries, only a small percentage of enterprise loan accounts are held by SMEs.

Likewise, in Ethiopia, as in many developing economies, SMEs have very limited access to bank credit or other financial services. According to a study conducted by IMF (2013), in 2012/13, 79 percent of total loans issued by the banking sector were allocated to the big public enterprises, with only 21 percent going to the private sector which mainly comprises SMEs. This is due to the fact that SMEs hold insufficient collateral or credit history to access more traditional bank finance. Evidence from the recent study of SME finance in Ethiopia by the World Bank (2015) reveals that only 3% of small enterprises and 23% of medium have a loan facility or a line of credit mainly due to extreme high value of collateral needed for a loan.

Among the alternative sources of funding, leasing can be an effective mechanism for enhancing the Ethiopian economy by providing long-term finance to SMEs (World Bank, 2015).

The international leasing performance as indicated in World Leasing Year Book (2014) reported that annual leasing volume in 2013 was USD 868 Billion. According to this explosion, four countries (US, China, Germany and Japan) represented 60% of world leasing volume. The White Clarke Global Leasing Report (2012) also indicated that US is the principal player in the leasing industry with more than 30% of the world market. The total equipment-leasing industry in the United States is reported by ELFA as \$650 Billion, which is about 5.9% of 2008 real GDP (Schroth, 2010). On the other hand, the African leasing industry is still in its early stages as the region represents around 1% of world leasing volume in 2012 (The White Clarke Global leasing report, 2012).

In Ethiopia the major problem for the industry now is those sectors like micro, small and medium sized enterprises in particular and other larger new and established projects in general are becoming increasingly uncovered for financial services because of the limited service provided by both federal and regional governments. (Anteneh, 2016)

Several concurrent actions are being taken by various stakeholders and the federal and Regional governments to deal with natural and growth related problems. Other than the effort being made to address inadequacies in the area of management through continuous training, especially for small and medium sized projects (SMEs), measures are also being put in place to alleviate the acute financial problems of enterprises for capital goods through such measures like access to improved Machinery, Equipment and Accessories (MEA) in order to improve productivity and advance the production of quality of goods. .(Development Bank of Ethiopia lease financing procedure manual, 2015)

The major and eye-catching steps taken by the federal government in this respect include the enactment of Proclamation no. 807/2013 on Capital Goods Leasing Business (actually an amendment to proclamation no. 103/1998), Directive no. CGEB 102/2013 for the Licensing of Capital Goods Finance Service by the National Bank of Ethiopia(NBE) and the Capital Goods Finance Service Modality issued by the Federal Micro and Small Enterprises Development Agency. These government measures support those investors who have the desire, knowledge and profession to participate in various investment activities but could not act due to lack of capital and collateral through creating an enabling environment for the establishment of alternative sources of financing.(Development Bank of Ethiopia lease financing procedure manual, 2015)

### ***1.3 Statement of the problem***

The financing of small and medium enterprises (SMEs) has been a topic of ardent 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 and Fuchs, 2013). Numerous studies have discussed that SMEs are financially more constrained than larger firms in both developed and developing countries. In developing economies including Sub-Saharan Africa, SMEs are typically more credit-constrained than large firms, severely affecting their possibilities to grow (Beck et al, 2005; Beck and Demirguc-Kunt, 2006; Beck et al, 2006; Ayyagari et al, 2008; Beck et al, 2008; Ayyagari et al, 2012). Calomiris and Hubbard (1990) noted that when the company is smaller, the restrictions on credit are greater. Furthermore, according to Beck et al. (2006) cited in El-Said et al. (2013), small firms consistently report more financing difficulties than medium and large enterprises.

Smaller, younger and domestic—as opposed to foreign-owned—enterprises report more financing obstacles even after controlling for other firm characteristics. The probability that a small firm lists financing as a major obstacle (as opposed to moderate, minor or no obstacle) is 39% compared to 36% for medium-sized firms and 32% for large firms. El-Said et al. (2013)

In a similar way, comparing small and large firms the World Bank finds that small firms face more challenges in obtaining formal financing than large firms; they are much more likely to be rejected for loans, and are less likely to have external financing (World Bank, 2015).

The financing gap to SMEs in Ethiopia can be attributed to both the demand side and supply side. The demand side has to do more on the characteristics of enterprises that limit their ability to fulfil the criteria for bank loans leading to financial limitations. The supply side could be more related to the banking sector reform and the perceived risks by banks to finance SMEs without having collateral. In Ethiopia, despite the introduction of banking sector reform in 1994 that led to expansion of the banking industry, SMEs' problem of credit access has persisted implying that changes in the banking sector structure per sector are not sufficient to introduce competition in the banking industry and an improvement in SME credit access (Ashenafi, 2012).

Government has given responsibility to Development bank of Ethiopia to provide lease financing for Small and medium Enterprises in order to alleviate financial problems of these enterprises. In pursuit of this objective the bank has officially began SME Lease financing on October 2016. Currently it is only Development Bank of Ethiopia that engages in SME Lease financing in Ethiopia. SME lease financing is the new and infant mode of financing in the country as well as in the specific company which is development bank of Ethiopia. In addition to what literatures show about bank SME lease financing challenges, annual report of Development bank of Ethiopia regarding small and medium lease financing shows that the performance of the directorate was under achievement. According to development bank of Ethiopia fourth quarter and annual lease financing activity report as of June 30, 2018, the amount planned to be disbursed in the quarter under review was Birr 1.23 billion while the actual disbursement is Birr 496.84 million. Thus, only 40% of the plan is performed whereas the planned annual disbursement was Birr 3.53 billion with actual annual disbursement of Birr 1.39 billion performing 39%.

The targeted lease collection amount in the quarter under review is Birr 140.92 million while the actual collection was Birr 41.34 million which is 29% of the plan. On the other hand, targeted annual lease collection amount was Birr 399.61 million while the actual annual collection was Birr 69.22 million performing 17% of the target. These indicates the existence of challenges and its severity. The problem under the study was not researched in Ethiopia and overall it lacks empirical studies.

Thus, this study aimed to assessed and identified challenges of SME lease financing in the country i.e in Development bank of Ethiopia. The key areas of assessment was: adequacy and appropriateness of government's development and growth programs affecting the bank, level of leasing awareness of lessees/SMEs, the bank's policies and procedures in reducing associated cost and risks regarding small and medium enterprise lease financing. The study have focused on these areas by considering experiences of different countries from reviewed literatures.

### ***1.4 Objective of the study***

#### **General objective**

The main objective of this study was to assess challenges that Development Bank of Ethiopia face in Small and medium enterprise lease financing

#### **Specific objectives of this paper are the following.**

- To describe the bank's involvement in SME Lease financing.
- To examine extent of adequacy of leasing laws, regulations and directives affecting the SME leasing business in Development Bank of Ethiopia.
- To identify whether the bank's policies and procedures to finance small and medium enterprises reduces costs associated with the program.
- To assess the bank's credit risk management regarding SME lease financing.
- To analyze the bank's bad loan recovery process regarding Small and medium enterprises.

#### 1.4.1 Research question

To achieve the above mentioned main and specific research objectives the study will answer for the following research questions.

- ❖ How the bank does involve with SMEs with regard to SME Lease Financing?
- ❖ To what extent does the leasing laws, regulations and directives affecting SME lease financing are adequate.
- ❖ Do the bank's policies and procedures to finance SMEs reduce the associated costs?
- ❖ What are the bank's credit risk management processes?
- ❖ What are the bank's bad loan recovery processes?

#### ***1.5 Scope and limitation of the study***

The study mainly focuses on the challenges that the bank faces during Lease financing of Small and Medium Enterprises (supply side) and won't covered the other side of the challenges that SMEs can face.

The vanishing point of the study was limited to identification of challenges lessor company\_ Development Bank of Ethiopia faces, with particular emphasis on the supply side. Analysis of financing modes other than Lease financing won't covered in this study.

The other limiting factor was the fact that Development Bank have a practicing experience of not more than 2 years which constrains to conduct a detailed review of financial and operational trend performance over years.

#### ***1.6 Significance of the study***

Small and medium Enterprise Lease financing is a new phenomenon and new concept in Ethiopia as well as in Development bank of Ethiopia, thus it needs studying. It is newly implemented Financing mode and may face different difficulties for both financiers and fund seekers. Identifying the challenges of such financing mode may help investee and investors of the sector to do their SME lease financing business. Accordingly, the study will contribute and have a paramount importance in providing a better understanding for existing and potential leasing investors, policy makers, practitioners, lessee firms and other stakeholders. It can also serve as a stepping stone for further research on the subject.

This work, in addressing above mentioned gap, will contribute to the national SME lease financing awareness regarding its challenges to the financial institution who finances and plan to finance SMEs through lease so that they can do their business and contribute to the development of the nation. In Addition the study can add knowledge to existing stock.

### ***1.7 Organization of the paper***

The rest of the paper have been organized in the following manner. Chapter two presents the review of theoretical and empirical literatures on Small and Medium enterprise lease financing including concepts, principles, lesson from other countries, Rationales and principles. The third chapter clearly states about the research methodology employed while chapter four presents findings, discussion and analysis of the study. Finally, conclusions and recommendations of the study have been presented in the fifth chapter of the paper.

## CHAPTER TWO: LITERATURE REVIEW

This section presents the review of related literature in the area of Small and medium enterprises Lease Financing. It focuses on definitions, concepts/principles, evolution and historical development; debates and approaches to leasing as well as legal and regulatory environment. In addition to this, empirical evidence from different scholars that are related to the topic under research have been reviewed. Conceptual framework from the literature have been used to summarise the section and to show variables of the study. In addition the conceptual framework is used to show the importance of the study in precise manner.

### ***2.1 Theoretical Definition of SMEs***

There is no universally accepted definition of SMEs because in each economic system every country has its own classification according to their industrial regulation. The categorization of SMEs depends on qualitative judgment such as number of paid up employees, size of enterprise, and amount of capital employed. In Britain and USA small and medium scale industries classified based on yearly gross revenue and the number of workers they employ.

In Britain small scale businesses classified based on paid up employees that do not exceed 200 and annual gross revenue of 2 million pound. Japan classifies SMEs as manufacturing enterprises with total capital not exceeding 100 million yen with 300 employees. In the whole sale trade the classification requires capital not exceeding 30 million yen and less than 100 employees. In retail and service trade SMEs classified based on total capital not exceeding 10 million yen and 50 employees respectively, Yared (2012 p16).

This indicates that the industrial regulation of different country treat and categorize SMEs in different ways.

The Ethiopian Ministry of Trade and Industry (MoTI), 1997 defines SMEs as follows:

*Micro enterprises:* are small businesses with total capital investment not exceeding Birr, 20,000 and excluding these enterprises with high technical consultancy and other 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 other high-tech establishment.

Therefore, MoT classifies SMEs in Ethiopia based on capital investment and on the bases of establishment. This is important because the sector accounts for large businesses throughout the country so that proper definition and classification is of essence for policymakers in their dealings with SMEs.

Judging from the foregoing, it is easy to see that the main criteria for the definition of what constitutes SMEs stem from considerations of the labor pool and turnover level, also viewed as capitalization of a firm. Still, a number of scholars prefer to use the legal terminology to serve their definition goals. In an apparent effort to reconcile the widening gulf in conceptualization of firms, Storey (1994) takes issue with the use of size to define firms as one that is inherently limiting. The crust of his contention is that sizes vary often times based on the standard benchmark used by a specific industry. Thereby, insisting that using firm size alone lacks the tentative whims to be universally accepted.

A pioneering effort at putting forward a credible definition of SMEs began in the UK with the publication of the so-called Bolton Committee Report of 1971.

The author sought to categorize his definitions in terms of a statistical and an economic model. By way of summary, the report's statistical categorization outlined three features to suit the statistical definition. They are measuring the changing trend of a small firm's overall economic contribution, how the size of the small business enterprise influences its input to overall national output measured in terms of GDP and resorting to off-road assessment to know what constitutes small firms using verifiable statistical instruments.

On the other hand the economic categorization has the following related three features as presented by the Bolton Committee (1971) are that a small firm is one whose management style is not within the conventional style but run along the interests of the owners, the firm occupies a limited share of the total market of the industry within which it operates and its operations are independently run without representing any external parent company.

As noted in the preceding paragraph, the definitions put forward by the UK's Bolton Committee (1971), though commendable is formed with technical difficulties in the phase of evolving trends in the conduct of businesses over the last several decades. Consequently, other attempts have come from among others the European Commission, whose chief criteria for defining SMEs<sup>5</sup> is drawn from the employee size of the firm.

The European Commission has therefore defined Micro enterprises as those employing less than 10 employees. Those that employ between 10 and 99 are classified as small enterprises and those that employ between 100 to less than 500 are considered medium enterprises. Storey (1994) says, by the definition put forward by the European Commission the blanket definition of SMEs in terms of employee pool is simply a labour force that is less than 500 people.

Apart from aggregating the SME sector along employee lines, the European Commission's definition highlights the different subsectors within the industry to the extent that it separates them into micro, small and medium enterprises. Going by what is already known, Weston and Copeland (1998) acknowledge that the main challenge within the SME literature is the explicitly lack of consensus regarding theoretical definitions. For this reason, it is left to individual scholars to pick and choose from the definition pool the one that best suits their interest at any given moment.

## ***2.2. Definition of Leasing***

Definitions of leasing differ considerably in different jurisdictions for tax purposes, legal, and accounting: under local and international accounting standards. Leasing has been variously defined in the literature. According to Bruce (1988) equipment leasing is defined as a contract under which one party, the lessor and owner of equipment, agrees to allow the use of that equipment to the lessee, in exchange for periodic rental payments.

Leasing, in effect, separates the legal ownership of an asset from the economic use of that asset (IFC, 2009). IFC (2009) further explained the definition that leasing is a medium-term financial instrument for the procurement of machinery, equipment, vehicles, and/or properties. In this logic, it can be argued that leasing has become a source of financing for medium-term investments able to support the development of various sectors of the national economy at competitive financing costs. Leasing avails financing of assets like equipment, vehicles and so on rather than direct capital.

Leasing organisations (lessors) includes banks, leasing companies, insurance companies, equipment producers or suppliers, and non-bank financial institutions - purchase the equipment, usually as selected by the lessee, providing the equipment for a agreed period of time to businesses.

The accounting definition of a lease as provided by **IFRS** is “an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments.” IFRS rules are applied to the substance of the agreement rather than their legal form. In other words, IFRS highlights the economics of the transaction, as its substance, over the legal form of the transaction.

According to Collins Dictionary of Business, 3rd edition, 2005; leasing is the hiring out by one firm (the lessor) of an ASSET such as a factory building, quantity of machinery or vehicle to another firm, the lessee in yield for the payment of an agreed rental. The lessor keeps the ownership of the asset concerned and will repossess the asset on the expiry of the contract, or earlier should the client require a replacement. A leasing agreement can be useful to a client company in so far as it enables it to employ assets without having to tie up large amounts of capital for long periods of time.

In Ethiopia, according to the Capital Goods Leasing Proclamation No. 807/2013, leasing means a financing in kind for production and service purpose by which a lessor provides lessee with the use of specified capital goods on financial or operating lease or hire-purchase agreement basis, without requirement of collateral, for a specified period of time and collects in turn a certain amount of instalment in periodical payments over the specified period.

### ***2.3 Leasing: Concept and Evolution***

While leasing can be traced back thousands of years, the leasing industry has evolved significantly over the past 50 years (Schroth, 2010; IFC, 2009). Modern leasing began in the 1950s as a dedicated financial service industry in the United States and expanded to Europe and Japan in the 1960s, and has been spreading through developing countries since the mid-1970s (Nair et al, 2004). The number of leasing businesses in unindustrialized countries has been especially increasing during the last ten years.

However, such rapid emergence and growing significance of leasing in developing countries has until recently remained largely unappreciated by policymakers in many countries. Policy makers' attentions have been focused on the larger and more visible institutions in financial sectors, such as banks.

Up till now, enterprises through the world use leasing to finance vehicles, machinery and equipment. Conferring to ILO (2003), in developed (OECD) countries up to one third of private investment is financed this way, through leasing. Leasing in emerging countries took off slowly at first, but during the 1990s the leasing industry in these countries saw spectacular growth, mostly through leases to large and medium enterprises. This growth can to a large extent be attributed to improvements in the legal and regulatory environment for leasing (ILO, 2003). Aloysius and Lubinda (2013) also argued that the remarkable growth of leasing industries in some African countries has been because of a varied number of interventions among which leasing legislative reform is one that contributed to the expansion process of the leasing industry.

Presently, the global leasing performance as indicated in World Leasing Year Book (WLTYP) (2014) reported that annual leasing volume in 2012 was USD 868 Billion. Agreeing to the report, four countries (US, China, Germany and Japan) represented 60% of world leasing volume.

The White Clarke Global Leasing Report (2012) indicated that US is the dominant player in the leasing industry with more than 30% of the world market. The total equipment-leasing industry in the United States is reported by ELFA as \$650 Billion, which is about 5.9% of 2008 real GDP (Schroth, 2010). In addition, the African leasing industry is still in its infancy as the region represents around 1% of world leasing volume in 2012 (The White Clarke Global leasing report 10, 2013).

#### ***2.4. Rationale and Principles of Leasing***

The crux of leasing is the separation of property from possession (Bruce, 1988). This is further clarified by other authors that the concept of leasing is based on the proposition that income is earned through the use of assets, rather than from their ownership (Fletcher et. al., 2005; IFC, 2009; World Bank, 2000).

Leasing focuses on the lessee's ability to generate cash flow from business operations to service the lease payment, rather than on the balance sheet or on past credit history (IFC, 2009). This elucidates why leasing is particularly beneficial for new companies, as well as small and medium businesses that do not have a lengthy credit history or a significant asset base for collateral. Furthermore, lack of collateral requirement with leasing offers an important advantage in countries with weak business environments. Because the lessor owns the equipment it can be repossessed easily when the lessee fails to meet lease rental requirements.

Leasing is a rental agreement that extends for a year or beyond, and involves a series of fixed payments. In other words, leasing is defined as a contract between two parties wherein one party (the lessor) provides an asset for use to another party (the lessee) for a specified period of time in return for specified rental payments (IFC 2009). Leasing is, therefore, an alternative to borrowing. In this case, legal ownership and use of an asset are separated. Leasing emerged as an important market for those entrepreneurs who do not have the required funds and lack access to bank finance. Entrepreneurs may also prefer to acquire assets through leasing when this is cheaper than other means of acquiring assets. Leasing is reported to be of high value to those companies that have been newly established and lack start-up capital (GTZ 2002).

Lease financing provides manufacturers and producers the use of equipment and machineries without having to pay upfront the full costs of these investment goods. The major thrust of the principles of lease finance is that ownership is not necessary to generate profit. The use of productive assets through ways other than ownership can be equally viable for income generations.

Leasing organisations can be banks, companies, insurance companies, equipment producers or suppliers (i.e. captive leasing companies), or nonbank financial institutions. These institutions purchase the equipment that has usually been selected by the lessee, and then allow the lessee the use of these equipment and machineries for a specified period of time. Leasing is often reported to provide a number of benefits to an economy including the followings (IFC, 2009).

Those benefits includes but not limited to; a means to deliver increased domestic investment within economies, way to deepen the activities of the financial sector by introducing new products and/or industry players and financial instruments, used as a means of asset financing by all business types from microenterprise to large global company for assets worth ranging

from tens of dollars to tens of millions of dollars, provides opportunities for those without a significant asset base: leasing enables small enterprises to leverage an initial cash deposit, with the inherent value of the asset being purchased acting as collateral, Allows smaller scale entrepreneurs to become more economically active by enabling access to finance—and subsequently, access to income-producing assets, offers an important advantage in countries with weak business environments, particularly those with weak creditor’s rights and collateral laws and registries—for instance, in countries where secured lenders do not have priority in the case of default over collateral and plays a critical role in bringing in small businesses into the formal financial system: as informal businesses have access to lease financing, they start building a track-record of financial transactions (IFC, 2009).

Creates access to finance that in turn can create employment opportunities

## ***2.5 Small and medium enterprise Lease financing in Ethiopia.***

### **2.5.1 Background**

The size and complexity of the Ethiopian financial industry, even if still very modest by any standard, has nonetheless gradually expanded and considerably increased the types of services availed to customers over the past two decades. Despite its relatively small size (i.e., capital and outreach wise) and the low level of the industry’s sophistication, there is a clearly observable and all-out effort by banks, insurance companies and microfinance institutions to attend to the ever changing and growing needs of the population. Notwithstanding this, however, it remains to be true that a lot needs to be done by the industry by way of diversifying service types and improving service quality, which are still very basic and rudimentary.

The major problem for the industry now is those sectors like microenterprises and small and medium sized enterprises in particular and other larger new and established projects in general are becoming increasingly uncovered because of the limited service provided. Although, the government continues to shore-up its support for the sectors and is persisting to address their rapidly increasing needs in various areas, dissatisfaction is still prevalent because of unattended as well as rising demand for extended and diversified financial services.

The expectation is also gaining momentum from time to time as the enterprises are being equally hard pressed by the population to satisfy the fast rising needs for good quality products and services.

Several concurrent actions are being taken by various stakeholders and the federal and Regional governments to deal with natural and growth related problems. Other than the effort being made to address inadequacies in the area of management through continuous training, especially for small and medium sized projects (SMEs), measures are also being put in place to alleviate the acute financial problems of enterprises for capital goods through such measures like access to improved Machinery, Equipment and Accessories (MEA) in order to improve productivity and advance the production of quality of goods. Fredu N., and Edris H.,(2016)

The major and eye-catching steps taken by the government in this respect include the enactment of Proclamation no. 807/2013 on Capital Goods Leasing Business (actually an amendment to proclamation no. 103/1998), Directive no. CGEB 102/2013 for the Licensing of Capital Goods Finance Service by the National Bank of Ethiopia(NBE) and the Capital Goods Finance Service Modality issued by the Federal Micro and Small Enterprises Development Agency. These government measures support those investors who have the desire, knowledge and profession to participate in various investment activities but could not act due to lack of capital and collateral through creating an enabling environment for the establishment of alternative sources of financing. Fredu N., and Edris H.,(2016)

To this end, DBE has developed internal policy and Procedure Manual for Lease Financing aimed to serve small and medium enterprises (SMEs) projects graduating from the microenterprises sector and those newly formed SMEs. The Bank operates based on its official and approved Credit Policy (October, 2015), Proclamation no. 807/2013 on Capital Goods Leasing Business (as amendment to Proclamation no. 103/1998), Directives no. CGEB /02/2013 for the Licensing and Supervision of Capital Goods Finance Companies by the National Bank of Ethiopia (NBE),Ministry of Trade Capital Goods Lease Business Registration and Supervision Directives no. 001/2007and other relevant documents.

In addition, the Lease Financing Policy for SMEs in January, 2016 shall be referred to and applied as appropriate for the bank to undertake the SME lease financing.

## ***2.6 Regulatory framework for Leasing***

The regulatory and legal environment plays an important role for the development and promotion of SMEs and their financing needs.

Financial institutions in Ethiopia operate under a rather conducive regulatory framework whereby prudential regulations and directives are in place to ensure financial system stability

and financial sector soundness. The legal and regulatory environment is conducive for providing finance from banks and MFIs to business activities. Particularly, micro finance business proclamation number 626/2009 gives flexibility for MFIs to transform into banks or any other financial institutions that they would be able to provide financial services to small and medium size enterprises.

The regulatory framework has been relaxed on maximum loan size from time to time. National Bank of Ethiopia (NBE) directive number MFI/18/06 provides extension to any single borrower up to 1 % of the total capital of the MFI which is good enough for MFIs to lend to SMEs. Contrariwise, the directive sets regulatory requirements that constrain MFIs to predominately make credit available on the basis of group guarantees amongst members who have joined a membership arrangement. The directive also has a provision for lending to individuals on a limited scale on the basis of collateral. However, the absence of a well-functioning and efficient legal system to enforce contracts affects the implementation of prudential regulations in the banking and microfinance sector. In Ethiopia's court system, commercial benches are handling the court cases related to businesses. There are absence of dedicated commercial units in the first prompt courts to relieve the commercial cases and to strengthen contract enforcement.

The framework for banking supervision and regulation was strengthened during a financial sector reform in the areas of financial reporting, external audits and related frameworks and deposit insurance. NBE, thanks to the World Bank's Financial Sector Capacity Building Project, has now adopted risk based supervision and conducts quarterly credit and liquidity risk stress testing of the banking system. Commercial banks continue to be subject to the April 2011 NBE directive requiring them to hold 27 % of new loan disbursements in low-yield NBE bills. The proceeds of these bonds are transferred to the state-owned Development Bank of Ethiopia (DBE) which, according to the stated policy is supposed to on-lend them to government targeted private sector activities. The application and the effects of this directive have been controversial.

The Ethiopian Bankers' Association (EBA) has appealed to NBE to revise this directive arguing that it forced banks to unnecessary portfolio adjustments. In fact, to avoid the effects of this 27 % bond requirement, private banks have been moving up market and towards longer term financing.

Aiming at counteracting this tendency and to push for T-bill purchases, NBE has issued a new directive in February 2013 setting the minimum requirement for short term loans at 40 % of bank's total loan provision.

This directive works to all banks (except DBE and CBE) and forces them to provide short term loans with maturities of less than a year. The directive also cuts commercial banks' total deposit reserve requirements down to 5 %, from the previous 10 %. The aim of this directive is to counter the tendency of private banks to move up market. These aspects will be addressed further in the section on obstacles to SME finance. The directive is effective since beginning of July 2013. NBE has also given banks until January 2015 to restructure their loan portfolios to the required ratio. On the other side, the National Bank of Ethiopia directive number FIS/01/2012 on regulation of mobile and agent banking services is a very positive step to stimulating the use of technology and innovative financial service delivery channels such as mobile devices and agents that will have significant contribution in deepening financial service accessibility to the a wider section of population at an affordable price.

## ***2.7 Empirical Evidence***

Stephanou, C., & Rodriguez, C. (2013). Conducted a research entitled "Bank Financing to Small and Medium-Sized Enterprises (SMEs) in Colombia". The main objective of the paper was to shed light on current trends and policy challenges in the financing of small- and medium-sized enterprises (SMEs) by banks in Colombia. The paper was motivated by the well-documented financing gap for SMEs in many countries and importance of SMEs in overall employment and economic growth, as well as their financial constraints and perceived lack of access to finance.

The paper was primarily based on data collection and interviews with a representative sample of Colombian credit institutions and other relevant entities by focusing on bank financing to SMEs by analysing why, how, and to what extent banks lend to this segment, the business and risk management models they use, and the factors constraining their ability to provide more financing.

Accordingly the study tried to found four issues. Bank financing to SMEs has grown significantly in recent years and it is becoming a strategic segment for Colombian credit institutions, government programs to support SME financing have also been cited as

contributing to market growth, Important institutional and policy constraints to SME lending remain but are not yet binding and The business model for SME lending is still relatively underdeveloped, but greater sophistication is expected as the market matures constraining their ability to provide more financing.

Augusto et al., (2008) in their study of “Bank Involvement with SMEs: Beyond Relationship Lending” in the Latin America and Caribbean region have found three main issues based data from 12 developed countries. They have identified that banks interested to engage with SME rather than through relationship lending and that large banks allocate a much lower proportion of their assets to small business loans than small banks during their literature review. After the survey of countries’ SMEs and banks conducted by World Bank, FRS and IFC using the designed questionnaire and detail interview with top management as tool for collecting both qualitative and quantitative, they have summarised by table and conclude the following three issues.

The evidence presented in the paper significantly questions the common wisdom that SMEs are underserved because their chronic opacity makes them substantially (if not entirely) dependent on relationship lending. The new evidence in this paper from 12 developed and developing countries suggests that all kinds of private banks (large, small, domestic, and foreign) view SMEs as a strategic sector and are expanding or planning to expand their operations aggressively in this segment. Thirdly as a consequence, the market for SMEs is becoming increasingly competitive, although far from saturated. Banks are developing new business models, technologies, and risk management systems to serve SMEs.

Abdulaziz and Adrew (2016) conducted research entitled determinants of SME access to finance. The main objective of the study was to identify the determinants of successful bank loan grant to SME in Libya. Secondary data was collected from different firms in the country and regression model was used to analyse the secondary data, Variables of the study was size of the SMEs in terms of employment, sector of operation, age of the business, and level of education of the owners/managers.

Based on the finding from the regression of data studys have concluded that all other things being equal, more educated managers and firm with strong banking relationship are more likely to be granted loans, while the firm with older owner managers, larger firm, and firm in service sector are less likely to be granted loans.

More over the study have found that the presence of business plans and attendance of training workshop appears to have little influence on whether loans are granted. These findings suggest that banks loans in Libya are largely made on the strength of the relationship between the bank and the SME rather than the financial statement approaches to bank lending found in more developed economies with stronger banking sectors.

Alyosius and Lubinda (2013) in their study of the development of Leasing Industry in Zambia tried to assess the development and challenges of the same. The paper has three objectives.

The first objective was to determine the trends of the leasing industry in Zambia. The second objective of the study was to assess the contribution of the legal and regulatory framework to the development of the leasing sector in Zambia. Finally, the study sought to highlight the major challenges faced by the leasing market in Zambia. The study employed a qualitative research approach and used primary data from nine non-bank leasing companies, Bank of Zambia officials and Ministry of Finance officials. Secondary data was collected from several financial sector and leasing publications, reports and dissertations. The result of the study revealed that the prudential performance of the sector has been unsatisfactory. The study discovered that the industry performed average in capital adequacy, but performed poorly in asset quality, earnings and liquidity performance. It has also found out that the regulatory system in Zambia was still fragmented and operating in an environment with insufficient legislation. The study further revealed that the regulatory body had not yet put enough effort in promoting leasing markets in Zambia.

The study noted that there is no leasing industry specific legislation in the country. The main supervisor, Bank of Zambia, lacked technical and supervisory capacity to adequately supervise the industry. According to the study, the major challenges experienced by the lease providers in Zambia included the lack of leasing policy and leasing laws, lack of skilled staff, absence of resident leasing trainers and poor supply chain systems that exist in the country. On the other hand, the study didn't included key leasing stakeholders such as tax authority, investment agencies, and equipment suppliers to strengthen and validate the findings.

Ahmed et al. (2003) conducted a research entitled Leasing Industry in Pakistan: Problems and Prospects. The main objective of this paper was to identify the major issues adversely affecting the performance of leasing sector in particular and financial sector in general.

Accordingly, the study tried to identify two general issues pertaining to macroeconomic scenario and four specific challenges of the leasing companies in Pakistan. Regarding the first two general issues the paper discusses in detail about the adverse effect of economic slowdown and volatility of interest rate on the activities of financial institutions including leasing companies. On the other, the four specific challenges explained in the paper include: resource constraints (funding problem), non-availability of level playing field, lack of innovative products and tax related challenges. It was also argued that in order to improve the near future demand prospects of the leasing sector in particular, the leasing companies need to develop innovative products along with encouraging leasing of plant and equipment relating to priority sectors of the economy including energy, IT (computers and other hardware), textiles, etc subject to their intrinsic value.

Brahmaiah (1992) carried out a research on the problems and prospects of leasing industry in India. The paper aims to examine the problems faced by leasing companies in India and to assess the prospects of the Indian leasing industry. The study is conducted based on 28 lessors' questionnaire-response and the outcome of the in-depth interviews of the executives of leading leasing companies. According to the study, there were over 400 private and public limited leasing companies in India involved in diverse leasing activities. Moreover, the study tried to explain the different formation and structure of leasing companies in the country. The paper divides the sector into two broad categories: the private sector leasing and the public sector leasing. The important constituents of the private sector leasing industry include: Pure Leasing companies, Hire-purchase and Finance companies, and Subsidiaries of Manufacturing Group companies. On the other hand, the public sector leasing organizations are divided into (a) leasing divisions of financial institutions; (b) subsidiaries of nationalized commercial banks; and (c) other public sector leasing organizations.

After thorough analysis of the leasing industry, the study has identified the main problems that require utmost attention. These are: resource crunch; inadequate tax benefits and sales tax burden; rigid procedure for import/cross border leasing; lack of proper and integrated accounting standards; lack of legislation; existence of cut-throat competition; and lack of expertise in the management.

With regards to the prospects of leasing industry in India, the paper noted that despite the abovementioned problems, the leasing business in India has its own growth potential and prospects.

It has also described the potential of leasing in India by comparing the level of total industrial investment through leasing (less than 1 percent) with that of developed countries such as the US, the UK (30 – 40 percent capital investment through leasing) and 10 to 20 percent in Australia, Canada, Japan, etc,

Chowdhury et al., (2013) carried out research on Problems and Prospects of SME Financing in Bangladesh aimed at analysing the potential of SMEs in the economy of Bangladesh. After result from survey of 100 SME business were summarised by table three issues have concluded. In the survey, it was found that 20% mentioned that collateral requirement is a major obstacle to secure loans for them.

On the top of this, 30 percent has stated about the long and monotonous paperwork required for processing of loans as a major obstacle. More than 20 percent of the small and medium enterprises were found to have no training in terms of preparing a sound business plan for taking credits. In the survey, though on average most of the loan is taken from financial institutions like BASIC, RAKUB and other support services from private institutions, most of the investors articulated the view of getting more financial support from institutions that would completely deal with SMEs.

Asfaw ,(2016) conducted the research entitled “Lease financing in Ethiopia” originate five major findings. He has used mixed research approach by encompassing both qualitative and quantitative research approaches. Data was gathered from census lease financing companies through Questionnaire, informant interview, and document review and analysed by using SPSS for questionnaire, qualitative for open ended question and quantitative for document review analysis.

Findings of the research were that there are a number of laws affecting the leasing business, there are limitations in the governance structure that requires revision for effective management of the companies, there is high concentration of capital goods financing in a single product/equipment or sector, the current leasing awareness in Ethiopia is at its low level and need to be enhanced with the concerted efforts of key leasing stakeholders, and finally the study identified that the major challenges of the lease finance sector in Ethiopia include: lack of obtainability of low cost and sustainable funding, lack of clarity on interpretation of tax incentives provided by law, lack of leasing expertise in the market, existence of inadequate

supply chain linkages as well as procurement hurdles; existence of limited domestic suppliers; and absence of specialized leasing training centre.

Yared, (2012) have studied research entitled Small and Medium Enterprise in Ethiopia: Challenges and prospects. The aim of the paper was to Identify and analyse the national policy challenges that are inadvertently undermining the implicit development of SMEs, to assess the credit situation in the country corresponds to the financing needs of SMEs across the world in their bid to expand and to provide policy suggestions and recommendations those target the challenges and constraints of SMEs.

The study have gathered both primary and secondary using interview and document review as data collection tool and descriptive and explanatory way of analysis technique is used for discussion and analysis. Data were summarised in tabular. Accordingly the findings of the study was that majority of the constraints and problems in relation to the sector appears from government policies and development strategies.

Ekpu, (2015). Has conducted the research entitled determinants of bank involvement with SMEs springer briefs in Finance. The demand and supply side survey was used by the study as methodology of data collection. The study incorporates major theoretical works on loan pricing, collateral determination and the value of relationships in loan contracting. Findings from the research reveal that the determinants of risk premium on SME loans are largely connected with factors that underline the opacity and riskiness of SMEs and are also associated with lender factors such as cost of funds and managerial expenses associated with loan appraisal and disbursement.

In addition to these the study have found that banks generally charge higher differential interest rates to younger SMEs than to older, larger and more established customers, due to the former's relative opacity, perceived risks and uncertainties and high failure rate. Clients with longer relationships with their bank tend to benefit from lower interest rates than first-time customers, supporting the notion that relationship lending generates valuable information about borrower quality.

Anything determines the likelihood of requesting collateral from SMEs is significantly related to the borrower's risk characteristics, such as firm size, firm's age or capacity.

Loan size, firm size and borrower's credit rating tend to also determine the likelihood that a bank will request full or partial collateralization. Finally, the study underlines that determinants of loan contract terms are also influenced by external and business environment factors such as the business cycle, monetary policy and the level of bank competition.

Okoth, (2015) have conducted the research entitled "Challenges of financing Small and Medium Enterprises [SMEs] In Equity bank Branches in Kenya. The study was aimed seeking to determine the challenges faced by Equity Bank branches in financing SMEs in Kenya and examine how it's trying to address these challenges. The research design for this study is a cross sectional survey design and data collection involved the use of questionnaire. The data was presented through summary statistics (percentages, mean standard deviation) to measure the interrelationship between variables.

Major challenges faced by the banks as revealed by the study in the process of lending to small businesses were mainly; lack of banking /credit history to allow them access the funds easily from commercial banks, they have no valuable collateral to act as security for their financing, non-registration of businesses; lack of financial statements required for financing and lack of keeping proper books of accounts and products offered by its branches might not be preferred by the SMEs as most of them might not focus on their co- business operations.

Cotie, (2017) has conducted the research entitled "the Challenges of Financing SMEs in the Ashanti region case study on Stanbic Bank (GH) Ltd. The main objective of the study was to evaluate the challenges and extents of Financing of SMEs within the Ashanti region of Ghana taking cognizance of the role and contributions of stanbic bank Ghana limited. The study gathered data from staff of the business banking/SME banking unit of stanbic bank and from owners and managers of SMEs who does business with bank. Primary data were gathered using questionnaire and personal interview while secondary data were from journals, textbooks, handbooks, manuals, editorials, and from informal discussions with experts and colleagues. Variables of the study were management of SMEs, default rate, monitoring of regulatory, relationship of bank with SMEs, conditions of extending credit facilities, sector of SMEs business, and period of existence of SMEs doing business with the bank.

Based the data gathered the study have found that the relationship between the bankers and their respective SMEs is generally very good. Years of existence, past and projected cash flow,

credit history, lines of business, collateral and business location are identified as by the study as major conditions or criteria considered when the bank is extending credit to SME customers. Three major challenges (management, high default rate and monitoring) that militate against the SME Banking Unit of Stanbic Bank were identified. On the other hand the study have identified the six main industry from which SME financed by Stanbic are operating. These are Food processing, bakery, wood products, furniture works, metal works and machinery works; with the Food processing sector being the most patronized sector. Finally the research showed that 50 percent of SMEs registered their firms with the Registrar General and majority did so as sole proprietor, while Private Ltd and Private partnership are in the minority.

To summarise, the study have reviewed both theoretical and empirical evidences from different sources. In theoretical section we have started by definitions given for SME by different scholars, institutions, and government units and came through different leasing concepts, rationale and principles of leasing, SME lease financing aspects in Ethiopia along with regulatory framework.

Finally the researcher has reviewed the empirical evidences which are highly related to the research topic. During the reviewing time the study have given attention to the objectives of the study, statement of the problem, objectives of the study, Variables of the study and methodology employed to conduct those empirical papers in order to identify the gap and try to fill that gap.

Although various empirical studies have been conducted to assess the problems and prospects of leasing industry in different countries of the world, there is a dearth of empirical study that examines the data on Challenges of Small and medium enterprises lease financing aspects particularly in Ethiopia. I would say this research gap implies a lack of empirical studies from the perspective of challenges that development bank of Ethiopian will face in involving with Small and Medium enterprise lease financing. Therefore, this study attempted to bridge this gap and elaborate the challenges of the SME lease financing industry in Ethiopia specifically in Development bank of Ethiopia.

## ***2.8 Conceptual Framework***

As emphasized in chapter one, the main objective of the study is to assess and identify challenges that Development Bank of Ethiopia face during Small and Medium Enterprise lease financing including assessing extent of adequacy of legal and regulatory framework towards

creating a conducive environment for leasing business. In the literature review section, various concepts and aspects of leasing development have been addressed. Creswell (2009) suggests that after summarizing and assembling the literature review, structuring it thematically or organizing it by important concepts to end the literature review is commendable. Accordingly, in view of the various literatures reviewed in the foregoing section, the following conceptual framework is developed to provide a rationale for the study.

In line with the objective of the study appropriate literatures have been reviewed and factors that contribute to development of Small and Medium enterprise lease financing industry in different countries of the world have been identified. Developments of the industry and potential benefits that can be derived have been conceptualized in alignment with factors to show importance of the study. Briefly explaining the flow figure, if these factors have properly identified and managed it leads to development of the industry from which we can drive the conceptualized benefits.

Fig-2:1 Conceptual Framework

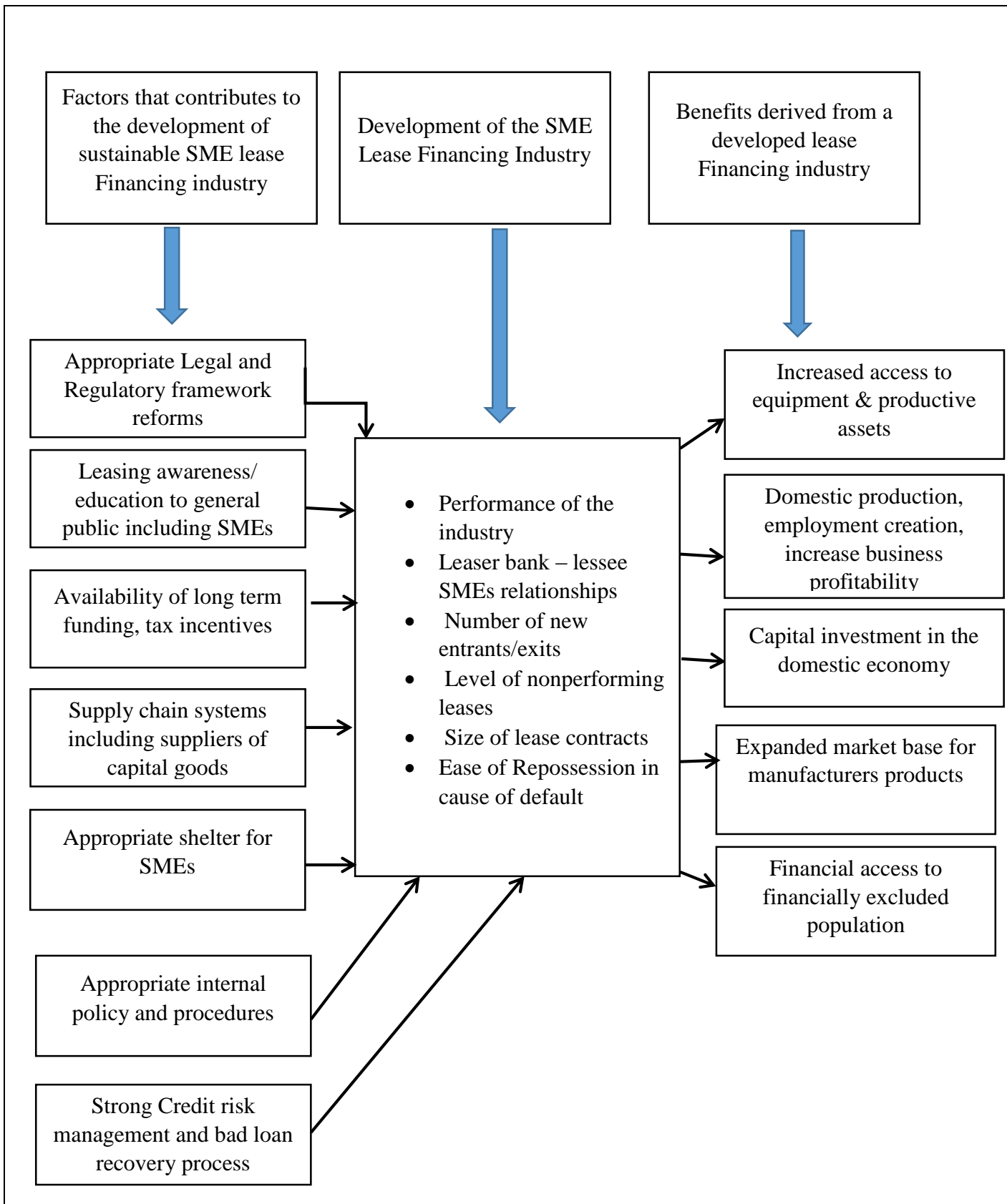


Fig-2:1 Modified and adopted from Aloysius and Lubinda (2013)

## CHAPTER THREE

### RESEARCH METHODOLOGY

This chapter presents the methodologies that have been used for the study. It explains the research design. Details about the population, sample and sampling techniques and the research instruments used in collecting data for the study as well as the data collection methods and data analysis plan was given.

#### ***3.1 Research Design***

The research design of this paper was both qualitative and quantitative research on the perceived Challenges of Small and Medium Enterprises lease financing that Development Bank of Ethiopia may face.

Thus, the study attempted to explore the challenges that Development Bank of Ethiopia faces regarding Small and medium enterprise lease financing. Exploratory research design was also used to gain new insights about the SME lease financing phenomenon in the country. Thus, the study attempted to explore the experiences of DBE.

#### ***3.2 Population and Sample Design***

##### ***3.2.1 Population***

The population of the study were Development bank of Ethiopia. This was because of the fact that Development Bank of Ethiopia is the only bank in the country who implements the Small and Medium Enterprise Lease Financing program.

##### ***3.2.2 Sample design***

In designing the research study, the study took into consideration the need to make inferences from the sample of the population in order to answer the research questions and also meet the research objectives. The subject of the study was conducted from the supply side. ie from the fund provider side. Thus, the SME lease financing Directorate staffs and managers located at head office of the DBE were included in the sample of this study not only due to small size but also they can fully represent the bank's small and medium enterprise lease financing operating all over the regions of the country.

##### ***3.2.2.1 Sampling Technique***

In order to get very accurate result for this study, people who are directly involved in the activities of the SMEs as far as SME Lease financing and management of the program are concerned were thus selected. The purposive sampling method has been used to select the sample from the population.

This method was a non-random sampling where the study establishes a criterion devoid of randomness for selecting the sample. In the purposive sampling, the sample was chosen to suit the purposes of the study. This method was chosen because the samples were able to answer the questions as objectively as possible.

### ***3.3 Sources of Data***

The researcher has gathered extensive data from the Staffs and Managers of the SME Lease Financing Unit of Development Bank of Ethiopia located at head office of the bank through the use of questionnaires, key informant interview and document review. Supportive data that help the researcher to get general knowledge about the topic were collected using manuals, informal discussions with experts, colleagues, seminars and conferences as well as published guides.

### ***3.4. Data Collection Instruments***

#### ***3.4.1 Questionnaire***

This study used primary data, collected by the way of structured questionnaires with closed ended questions collected from Development bank of Ethiopia: Staffs and managers from SME lease financing relationship management Directorate. The questionnaire was adapted from World Bank questionnaire on the study entitled bank challenges to finance SMEs which have been published on December 8, 2006. The predetermined standard scores are those that had been tested by prior studies and had been held to be valid.

Direct face to face interview was used in limited occasions for various clarifications on related information that the questionnaires cannot address directly. The study gave a serious thought to the wording of individual questions. This was done to ensure that respondents answer objectively to the questions in the questionnaire.

The questions were closed or forced choice-format which was easy and quick to fill in so that discrimination will be minimized. The questionnaires were self-administered by which respondents fill the questionnaire on hard copy and the researcher has collected them.

#### ***3.4.2. Key Informant Interview***

Key informant interview was conducted with two directors of SME lease financing and Capital goods Financing directorate of Development Bank of Ethiopia and two team managers of the same work unit of the bank who have had practical leasing experience and have direct relationship with the topic under research that help them to have better understanding about SME Lease Financing.

The interview allows the researcher some degree of flexibility at the time of interviewing for the pursuit of unexpected line of inquiry which arises at the study progresses.

Questions in the interview checklist were constructed based on the review of literature relevant to the issue and the specific objectives and judged for validity using leasing experts to use the instrument as a tool for data collection.

#### 3.4.3. Document Review

The most recent leasing publications (including World Leasing Year Book), The Bank' s policies and manuals, Annual reports, SME lease financing laws, regulations and directives related to SME leasing business were consulted.

### ***3.5. Method of data analysis***

The data analysis involves reducing the raw data into a manageable size, developing summaries and applying statistical inferences.

Consequently, the following steps were taken to analyze the data for the study. The data was edited to detect and correct, potential errors and omissions that were likely to occur, to ensure uniformity across respondents.

The data collected by use of questionnaire was coded to enable the respondents to be grouped into limited number of categories. Responses from interview was analysed using quantitatively. 23<sup>th</sup> edition of SPSS Software was used as analysing tool for data collected via questionnaire. Data was presented in tabular form, graphical and narrative forms. In analyzing the data, percentage was used. For this study, descriptive statistics was chosen because of its simplicity and clarity to draw inferences.

## CHAPTER FOUR

### DATA ANALYSIS AND PRESENTATION

This chapter explains and discusses the results of findings based on the analysis done on the data collected. The results of the study are discussed by triangulating the different sources results such as questionnaires results, key informant interview as well as document review results. The discussion attempts to accomplish the objectives of the study and answer the research questions

To this end total of 55 questionnaires which consists 50 closed ended questions were distributed to Staffs and managers as well as directors of Development Bank of Ethiopia SME lease financing Directorate. 50 of the respondents with response rate of 91% have filled and returned the questionnaire from which 47 of them were usable in this analysis. This is due to efforts made and subsequent follow up to collect the distributed questionnaires. Hence, only three questionnaires were not collected. The survey respondents were located in Addis Ababa Head office of Development Bank of Ethiopia

#### ***4.1. Background Information of Respondents***

Analysis of respondents profile shows that gender wise 74.5% of respondents were male and the remaining are female. On the other hand, as displayed in the table below, significant part (53.2%) of the respondents exist within the age of 26 – 35 years, while 42.6% are between 36 – 45 years and the remaining 4.3% are below 25. (See table-4.1below).

Table-4.1. Gender and Age of Respondents

|        |              | Frequency | Percent | Valid percent | Cumulative percent |
|--------|--------------|-----------|---------|---------------|--------------------|
| Gender | Male         | 35        | 74.5    | 74.5          | 74.5               |
|        | Female       | 12        | 25.5    | 25.5          | 100                |
|        | Total        | 47        | 100     | 100           |                    |
| Age    | Less than 25 | 2         | 4.3     | 4.3           | 4.3                |
|        | 26-35        | 25        | 53.2    | 53.2          | 57.5               |
|        | 36-45        | 20        | 42.6    | 42.6          | 100                |
|        | Total        | 47        | 100     | 100           |                    |

Source: Survey result, 2018

Regarding educational background of the respondents, 78.7% of the 47 respondents were first degree holders while the remaining 23.3% of them are having educational qualification of master's degree and above. This figure explains the study has got a proper input from well-educated staffs and managers as well as directors of Development Bank of Ethiopia. When we look at work experience of the respondent from the data, greater portion of the respondents with 40.4% have served in the banking industries with work experience of 6-10years while 21.3% have work experience less than 5 years and the rest 19.1%, 12.8%, and 6.4% have served between 11 – 15 years, between 16 –20 years and Over 20 years, respectively (see table 4.2) This indicates that the study has relied on well experienced employees of Development bank of Ethiopia, Small and medium enterprise lease financing directorate. However none of them have SME lease financing experience before the starting of the program by the bank in 2015/16 as confirmed during the collection of the distributed questionnaire.

The respondents have equal portion of two current positions Sr. loan officer and Loan officer having 31.9% while the remaining are 19.1% of Junior Loan officer, 12.8% of team manager and 4.3% of director. The above figures explain that the study obtained responses from diverse positions within the organization working closely with the SME lease financing program.

Table 4.2 Education, Experience and current position of respondents.

|                  |                  | Frequency | Percent | Valid Percent | Cumulative percent |
|------------------|------------------|-----------|---------|---------------|--------------------|
| Education        | Master and above | 10        | 21.3    | 21.3          | 21.3               |
|                  | First degree     | 37        | 78.7    | 78.7          | 100                |
|                  | Total            | 47        | 100     | 100           |                    |
| Experience       | Less than 5 yrs  | 10        | 21.3    | 21.3          | 21.3               |
|                  | 6-10             | 19        | 40.4    | 40.4          | 61.7               |
|                  | 11-15            | 9         | 19.1    | 19.1          | 80.8               |
|                  | 16-20            | 6         | 12.8    | 12.8          | 93.6               |
|                  | Over 20          | 3         | 6.4     | 6.4           | 100                |
|                  | Total            | 47        | 100     | 100           |                    |
| Current position | Director         | 2         | 4.3     | 4.3           | 4.3                |
|                  | Team manager     | 6         | 12.8    | 12.8          | 17.1               |
|                  | Sr. loan officer | 15        | 31.9    | 31.9          | 49                 |
|                  | loan officer     | 15        | 31.9    | 31.9          | 80.9               |
|                  | Jr. loan officer | 9         | 19.1    | 19.1          | 100                |
| Total            |                  | 47        | 100     | 100           |                    |

Source: Survey result, 2018

#### ***4.2. The bank's involvement in SME Lease financing.***

From document review, the study have got that DBE has developed Procedure Manual for Lease Financing aimed to serve small and medium enterprises (SMEs) projects graduating from the microenterprises sector and those newly formed SMEs. The Manual was prepared based on official and approved Credit Policy (October, 2015) of the Bank, Proclamation no. 807/2013 on Capital Goods Leasing Business (as amendment to Proclamation no. 103/1998), Directives no. CGEB /02/2013 for the Licensing and Supervision of Capital Goods Finance Companies by the National Bank of Ethiopia (NBE), Ministry of Trade Capital Goods Lease Business Registration and Supervision Directives no. 001/2007 and other relevant documents.

In this section the study was aimed to identify the bank's involvement with SME regarding SME Lease financing. Thirteen proper question was asked in order to get the extent of the agreement from respondent. These questions mainly aimed at identifying the challenges that the bank may face during its financing activity regarding the SME lease financing program. As it can be observed from the following table the question have addressed the issues related to selection criteria, availability of loanable fund, management of the bank regarding the SME lease financing program, availability of shelter for users of the program through government bodies, availability of proper capital goods supplier and obstacles to the bank's involvement with SME regarding SME Lease financing.

Table 4.3 Descriptive statistics about the bank's involvement in SME Lease financing.

|  | N  | Min  | Max  | Mean   | St. Deviation |
|--|----|------|------|--------|---------------|
| The bank's selection criterion for SME is the client's total asset over capital.                               | 47 | 4.00 | 5.00 | 4.4255 | .49977        |
| The bank has sufficient long term fund to support its SME Lease financing program.                             | 47 | 4.00 | 5.00 | 4.4468 | .50254        |
| The bank has a separate unit managing the banking relation with SMEs.  | 47 | 4.00 | 5.00 | 4.4468 | .50254        |
| There is Tax incentive by tax authority for SMEs who are users of the SME lease financing program.             | 47 | 1.00 | 5.00 | 4.4043 | .74190        |
| There is adequate shelter prepared by government for SMEs who are user of SME Lease financing.                 | 47 | 1.00 | 5.00 | 1.9362 | 1.00875       |
| There are sufficient and proper suppliers of capital goods to buy for approved SME lease financing applicants. | 47 | 1.00 | 5.00 | 2.1064 | 1.22002       |
| The bank have a sector-specific focus in dealing with SMEs   | 47 | 1.00 | 5.00 | 3.8723 | 1.11545       |
| The bank have a specific geographic focus in dealing with SMEs   | 47 | 1.00 | 5.00 | 1.9787 | 1.03187       |
| The following factors are obstacles to the bank's involvement with SME regarding SME Lease financing:          | 47 | 1.00 | 5.00 | 4.0000 | 1.06322       |
| Macro-economic instability.(like inflation, currency fluctuation )   |    |      |      |        |               |
| Domestic regulations   | 47 | 2.00 | 5.00 | 4.1489 | .80700        |
| Poor quality of Financial statement of SMEs  | 47 | 1.00 | 5.00 | 3.8085 | 1.20935       |
| Lack of sufficient demand (absence of SMEs) or Available customers are not credit worthy.                      | 47 | 1.00 | 5.00 | 3.8936 | 1.06799       |
| Lack of knowledge about SME lease financing.   | 47 | 1.00 | 5.00 | 4.3617 | .84508        |

Source: Survey result, 2018

According to the survey for the question regarding to selection criteria almost all respondents have agreed with 57.4% Agree and 42.6 strongly agree that the selection criteria for SME is based on client's total asset over capital.

This indicates that the bank select SME based on the total asset than capital of the applicant SMEs which drives a wedge between the SME universe based on the legal definition and the one that is attended by the banking system all over the world.

For the statement that says the bank has sufficient long term fund to support its SME lease financing program, respondents have 55.3% agreed and 44.7% strongly agreed. This implies that the bank have sufficient loanable fund to support its SME lease financing program. Respondents were asked for their level of agreement regarding tax incentives provided by the tax authority for the SMEs and agreed by indicating their answer as 45.3% strongly agree and 54.7% agree with mean value of 4.4 and standard deviation of less than one. This implies that there is tax incentive for SMEs and the bank can get benefit from getting customers SMEs who are in seeking tax advantage provided.

The respondents were asked whether the government prepare shelter for SMEs who want to use the SME lease financing and they have responded as 48.9% strongly agree and 46.8% agree while the remaining 4.2% are responded as 2.1% strongly disagree and 2.1% Neutral. Even though the standard deviation of 1.00875 indicates that the respondents are not closer to one another the cumulative level of agreement shows that there is shelter provided by government to SMEs. In analysing whether the bank have geographic focus in providing loan for SMEs almost all respondents have shown their disagreement. This shows that the bank does not restrict SMEs because of location. For the assessment of the sector wise focus significant portion of respondents have been agreed while some of them are indifferent. 36.2% agree and 34% strongly agree while the remaining 8.5% and 4.3% are disagree and strongly disagree respectively. Additionally researcher have reviewed the document of the bank stating that government priority areas are identified as manufacturing sector specially those who export 80% their product can get incentives like reduction of interest rate. This indicates that the bank have sector wise focus and priority of the government development program should be followed in balancing sectors to be financed through SME lease financing program.

This restricts the bank from diversifying its SME loan portfolio in deferent sectors. Respondents have asked whether there are proper and approved suppliers of capital goods and give their responses. Almost all of them have disagreed and strongly disagreed having 48.8% agreed and 36.2% strongly agreed.

This implies that there is absence of proper suppliers of capital goods and challenges the bank to buy capital goods to the SMEs who have successfully processed and became worthy for the Lease financing program.

This would create problems like delay in supply, poor quality, and high cost of capital goods emanating from bargaining power of monopoly suppliers. Further this can be obstacles to both lessor and lessee because of the third party poor performance and awkwardness.

Respondents have also asked their level of agreement about challenges that the bank faces in financing SMEs through SME lease financing program and give their answers by agreeing almost all the challenges that are listed in the questionnaire. For macro-economic instability 48.9% agree and 34% strongly agree while for 53.2 agree and 34% strongly agree for domestic regulation. For poor quality of financial statement of SMEs and Lack of sufficient demand (absence of SMEs) or Available customers are not credit worthy, respondents have responded the same level of agree and strongly agree which is 46.8 and 29.8 respectively. 40.4% agree and 51.1 strongly agree was responded for lack of knowledge about SME lease financing. This result is an indication of the fact that those above listed (macro-economic instability, poor quality of financial statement of SMEs, Lack of sufficient demand (absence of SMEs, available customers are not credit worthy and lack of knowledge about SME lease financing ) are challenges that the bank faces in involving with SME lease financing.

Results from interview also disclose almost similar findings to the above research question. The selection criteria for SME are not that much strictly followed and the one who comes as SME can get access if other formalities have fulfilled. Interviewed directors and managers have also list the government supports provided for SME lease financing program as Shelter and tax incentives for SMEs who have successfully process and became entitled for the SME loan. They have mentioned absence of adequate supplier as big challenges to the bank.

Additionally Interviewees stated the detail problem with SMEs capital Goods specification problem like ordering old models, unavailable or cannot be accessed easily, Low cost with poor quality that would be non-durable enough. This extends the period of loan processing back and forth rotation may be followed by default.

Macro-economic instability like inflation and interest rate fluctuation adversely affects the SME lending of the bank by creating inconvenient environment between the three parties the bank, the capital goods supplier and SMEs. Poor quality of financial statement of SMEs leads the bank to choose improper or to reject the one who was supposed to be qualified for the SME loan provided by the bank.

The bank cannot accomplish its SME Lease financing program without having sufficient targeted counterparties. Lack of sufficient demand hinders the bank to achieve its goal of disbursement and collection. The fund reserved for the SME lease financing remain non-performing incur opportunity cost. Lack of knowledge about SME lease financing by the government bodies as well as public at large was also big challenge to get necessary support from the government and loose public acceptance. This further leads to failure of the program afterwards the program cannot succeed without demand of the program and public acceptance.

The interviewees have asked for action taken by the bank to mitigate problem it faces in dealing with SME lease financing they have mentioned that the bank was trying to solve them. For instance there was awareness creation program but not effective and currently the bank decided to close and merge some branches that it opened to reach different regions of the country through the SME Lease financing.

### ***4.3. Adequacy of leasing laws, regulations and directives affecting the SME leasing business in Development Bank of Ethiopia.***

Ethiopia has a leasing industry specific legislation. Issued in 1998, the first leasing proclamation, i.e. Capital Goods leasing business proclamation No. 103/1998, provides a comprehensive legal framework of the leasing business. However, it can be argued that this proclamation has not achieved its objective for over the last 16 years or so. Because, except for operating leasing, financial leasing and hire-purchase were not practically in existence.

Although microfinance institutions are allowed to provide financial leasing services by the Micro-financing business proclamation No. 626/2009, this product has not been delivered in a considerable and professional manner, due to lack of leasing skills.

Thus, in order to address this gap as well as create alternative sources of financing for SMEs through establishment of specialized leasing companies in a manner that support the manufacturing sector, the government of Ethiopia has issued amendment proclamation No. 807/2013, which is applicable to the leasing business together with the former proclamation.

In this sub topic the study was aimed to examine the extent of adequacy of leasing laws, regulations and directives affecting the SME leasing business in Development Bank of Ethiopia. In doing so seven question have prepared and distributed to respondents regarding this topic. The questions tried to address issues like adequacy of regulatory frameworks, clarity of leasing laws in defining responsibility of the two parties lessor bank and lessee SMEs, effects of prudential regulatory, effects of government transformation plan, adequacy of directives from NBE regarding to SME lease financing and effects of change in leasing laws on applicants. The study also attempts to address the question whether the overall legal and regulatory environment is favourable and supportive to the bank in dealing with the SME lease financing program.

Table 4.4 Descriptive statistics about Adequacy of leasing laws, regulations and directives affecting the SME leasing business in Development Bank of Ethiopia.

|   | N  | Min  | Max  | Mean   | St. Deviation |
|---|----|------|------|--------|---------------|
| The current (80720/13) legal and regulatory framework is adequate to regulate the SME lease financing.  | 47 | 2.00 | 5.00 | 3.9149 | .99629        |
| The leasing laws and regulations have clarity in defining the lease contract, leased assets, responsibilities and rights of parties to a lease contract | 47 | 1.00 | 5.00 | 3.8511 | 1.23321       |
| The prudential regulation negatively affects the bank's involvement with SMEs regarding lease financing.  | 47 | 1.00 | 5.00 | 2.4255 | 1.31455       |
| The government growth and transformation plan positively affects the bank's SME lease financing.  | 47 | 1.00 | 5.00 | 3.8511 | 1.17914       |
| Directives from National Bank of Ethiopia regarding SME lease financing is adequate.  | 47 | 1.00 | 5.00 | 3.5957 | 1.32959       |
| Due to change in lease financing policy applicants in process are pending.  | 47 | 1.00 | 5.00 | 2.1702 | 1.20360       |
| Overall, the legal and regulatory environment is favourable and supportive.   | 47 | 2.00 | 5.00 | 4.1702 | .86776        |

Source: Survey result, 2018, 2018

Respondents were asked for their level of agreement for the statement that states the current legal and regulatory framework is adequate to regulate the SME lease financing. Their responses were 46.8% agree, 29.8% strongly agree, 14.9% disagree and 8.5% neutral. This indicates that the current legal and regulatory framework is adequate to regulate the SME lease financing.

For leasing laws and regulations clarity in defining the lease contract, leased assets, responsibilities and rights of parties to a lease contract, significant percent of respondents have agreed with the percentage of 42.6 agree and 34 strongly agree while the remaining 8.5% disagree, 8.5% strongly disagree and 6.4% neutral. The standard deviation is 1.23321 with mean value of greater than three (3.85). Even though the respondents have not close understanding having the standard deviation of greater than one, majority of them have agreed with the statement and this implies that there is no doubt about clarity of the leasing laws and regulations regarding SME lease financing program of the bank. For the statement that says the prudential regulation negatively affects the bank's involvement with SMEs regarding lease financing significant respondents have disagree with mean value of 2.45 which indicates more

than half of respondents have disagree. 29.8% disagree and 29.8% strongly disagree while 19.1%, 10.6 and 10.6 are neutral, agree and strongly agree respectively. Accordingly the implication of the responses of respondents is that the prudential regulation does not negatively affect the bank's involvement with SMEs regarding lease financing.

Significant percentage of respondents have agreed the statement that states the government growth and transformation plan positively affects the bank's SME lease financing. 44.7% and 31.9% of agree and strongly agree while the remaining 10.6%, 6.4% and 6.4% are disagree, strongly disagree and neutral respectively. The response of the respondents indicates the government transformation plan positively affects the bank's SME lease financing program. Respondents have also asked for their level of agreement regarding the directives from National Bank of Ethiopia. Accordingly 40.4% of the answers as agree and 27.7% have strongly agree. The cumulative of the two becomes 68.1% which makes sense to say that the directives from National Bank of Ethiopia regarding SME lease financing is adequate. For the statement states that due to change in lease financing policy applicants in process are pending respondents have disagree with 38.3% disagree and 34% strongly disagree.

The remaining 10.6% neutral respondent while 10.6% and 6.4% of the have responded as agree and strongly agree respectively. This entails that the applicant in route are not pendant because of the change in leasing policy.

Substantial percentage of respondents has agreed for over all favourability and supportiveness of the legal and regulatory environment. 48.9% of them have agreed and 38.3% are strongly agree while the remaining 8.5% and 4.3% of them are disagree and neutral respondents respectively. This further indicates that Overall, the legal and regulatory environment is favourable and supportive. Additional from the responses of the participants of the study, the bank did not face difficulties regarding SME Lease Financing legal and regulatory situation. Directors and managers interviewed have also stated that there is no problem with legal and regulatory environment.

#### ***4.4. The bank's policies and procedures to finance Small and Medium Enterprises that reduce the associated cost.***

This section aimed to identify whether the banks policy and procedure to finance SMEs reduces the associated cost. To get the respondents level of agreement six question have been prepared

regarding to this topic and responses of the participant have collected. The study tries to address issues like evaluation of the cost of the SMEs lease financing with other loans, adequacy of the banks policies and procedures to reduce these costs, reasonability of cost incurred regarding the SME lease financing specially administration and follow up costs. The study also tries to underline that whether there is budget for the costs and expenses are in accordance with budget and questions have addressed whether the overall the bank has proper policies and procedures to reduce cost associated with SME loans.

Table 4.5 Descriptive statistics about the bank’s policies and procedures to finance small and medium enterprises reduces the associated cost.

|   | N  | Min | Max | Mean   | St.     |
|---|----|-----|-----|--------|---------|
| Administration costs of SME Loans are higher than other loans.  | 47 | 1   | 5   | 3.8723 | 1.20897 |
| The bank’ s policies and procedures are well designed to reduce cost associated with SME Loans.                           | 47 | 1   | 5   | 2.0426 | 1.19705 |
| Costs incurred for administration, follow up, and feasibility study of SME loans are reasonably determined by management. | 47 | 1   | 5   | 1.8298 | .98509  |
| There is budget for costs of SME loans and costs are incurred as per the budget.  | 47 | 1   | 5   | 2.2979 | 1.24961 |
| The bank uses its maximum effort in reducing costs associated with SME loans.   | 47 | 1   | 5   | 2.0000 | 1.14208 |
| Over all the bank has proper policies and procedures to reduce cost associated with SME loans.                            | 47 | 1   | 5   | 2.2128 | 1.17836 |

Source: Survey result, 2018

For the statement that says administration costs of SME Loans are higher than other loans, percentage of respondents who agreed has significant portion with 42.6% agree and 34% strongly agree. The remaining respondents have responded as 8.5% strongly disagree, 8.5%neutral and disagree. This indicates that the administration costs of the SME loans are higher than other loans. This in turn implies that there was need for strong management of administration cost of SME loans by the bank so that it could be successful by the SME lease financing program. According to interview result there is no different action taken by the bank to reduce the administration cost.

The respondents have asked the level of their agreement for the question stating that the bank’ s policies and procedures are well designed to reduce cost associated with SME Loans. 42.6% of the have responded as strongly disagree and 29.8% of them have disagreed. The remaining respondents, 14.9% neutral, 6.4 agree and 6.4 disagree. From this result we can say the banks

policies and procedure with regard to reducing costs associated with SME loans is not well designed. Even if there was demand for good and well-designed internal policies and procedures that reduces costs of SME loans, the bank fail to do so. This charge the bank to incur costs that it was not supposed to pay for and decrease its profitability as well as success in the program.

Equitable portion of Respondents have disagreed that the Costs incurred for administration, follow up, and feasibility study of SME loans are reasonably determined by management. Even though they list some policies and procedures to reduce costs associated with SME lease financing, interviewees were not agree on its adequacy and appropriateness. They have revealed that even if there was procedure it was not clearly defined and subject to misuse meaning not helping to reduce costs.

Reasonably determining costs for a given task is helping in achieving target goal in any business. It was highly expected from DBE to limit and regulate expenses for a given SME loan for effective use resource. Internal challenges like poor management of cost of the SME loans pave ways to be unsuccessful in the SME Lease Financing program which would be bankruptcy for the bank as well as for the country whose resources are being mobilized by the bank.

**4.5. The bank’s credit risk management regarding SME lease financing.**

In this sub section the study was aimed to assess the bank’s credit risk management while financing the small and medium enterprise. To get the appropriate data from the respondents fourteen proper questions have prepared and distributed. Accordingly the respondents have shown their level of agreement stating as agree, disagree, strongly agree, strongly disagree and some of them are indifferent to some questions. The study prepares the questions by focusing of the credit risk management like comparison of SME loans with other loans that the bank provides regarding its risk and diversify ability, existence of separate unit to manage associated risk, management of credit limit, important information in selecting SMEs that minimizes credit risk of SME lease financing and management of credit exposure as well as indebtedness criteria.

Table 4.6 Descriptive statistics about the bank’s credit risk management regarding SME lease financing

|  | N  | Min  | Max  | Mean   | St. Deviate |
|--|----|------|------|--------|-------------|
| SME Loans are riskier than are loans that the bank provides.                         | 47 | 2.00 | 5.00 | 4.0213 | .85757      |
| SME loans risks are less diversifiable compared to other loans provided by the bank. | 47 | 1.00 | 5.00 | 3.8085 | 1.26213     |

|   |    |      |      |        |         |
|---|----|------|------|--------|---------|
| The bank has separate unit to manage credit risks.  | 47 | 1.00 | 5.00 | 2.0851 | 1.08005 |
| The credit risk management of the bank is mostly done at the head office level.                                     | 47 | 1.00 | 5.00 | 4.2766 | .92553  |
| The credit risk management is done by credit analyst  | 47 | 1.00 | 5.00 | 2.1277 | 1.17246 |
| The bank have annual approval cycle for credit limits for overall SME portfolios.                                   | 47 | 1.00 | 5.00 | 2.2340 | 1.27199 |
| Credit analyst can override credit limits if considered necessary.  | 47 | 1.00 | 5.00 | 1.6809 | 1.12494 |
| Credit analyst must always adhere to credit limits and limits can only be changed by management.                    | 47 | 1.00 | 5.00 | 3.8511 | 1.25072 |
| In selecting SME, information on the owner is as important as information on the SME.                               | 47 | 1.00 | 4.00 | 1.9574 | .90787  |
| The credit analyst rely on qualitative assessment, (quality of SME management SWOT analysis the SME)                | 47 | 1.00 | 5.00 | 4.0000 | 1.06322 |
| The credit analyst rely on quantitative assessment. (Financial analysis of the SME)                                 | 47 | 1.00 | 5.00 | 3.9574 | 1.14127 |
| The bank manages credit exposure to SME using portfolio approach. (sector and geographic allocations)               | 47 | 1.00 | 5.00 | 2.1915 | 1.24479 |
| There are preventive indicators that are monitored to detect possible deterioration of credit outlook on SME loans, | 47 | 1.00 | 5.00 | 2.0851 | 1.11958 |
| The bank uses total debt outstanding to detect possible over indebtedness.  | 47 | 1.00 | 5.00 | 4.0000 | 1.08347 |

Source: Survey result, 2018

The result of the survey shows that 48.9% of the respondents have strongly agreed that the SME loans are riskier than other loans that the bank provides to its customers. 38.2% of them have agreed to the statement and this indicates that the risk emanating from the SME lease financing loan is riskier than other loans.

Significant portion of the respondents have also agreed to less diversify ability of the SME loans. 40.4% and 34% of the respondents have responded as agree and strongly agree respectively while the remaining 10.6%, 8.5% and 6.4% have responded as disagree, strongly disagree and neutral respectively. From this we can say that the SME loans risks are less diversifiable compared to other loans provided by the bank. Therefore riskier and less diversifiable loans needs special attention and follow up. Deep feasibility study and customer assessment required from the lender bank.

Respondents have also disagreed with existence of separate unit that manages the credit risk of the bank. They have also shown their level of agreement which indicates that the credit risk management of the bank is done at head office level by credit analyst with mean value of 4.28 and standard deviation of 0.93 which is less than one showing the respondents have close opinion. The respondents were asked for their level of agreement to assess existence of

approval cycle (increase and decrease limits) for all SME portfolios and whether the credit analyst can override the limit if he/she considered necessary.

Their responses indicates that there is no approval cycle for the credit limits and once the limit is set by managements and credit analyst cannot override the limit.

Responses of the respondent further indicate that Credit analyst must always adhere to credit limits and limits can only be changed by management. 51.1 % of the respondents have disagree and 31.95 of them have strongly disagree for the statement about importance of SMEs and their owners in granting the SME lease financing loan to them. The remaining 10.6% and 6.4% have responded as agree and neutral. Mean value and standard deviation of this response is 1.96 and 0.90 respectively. This further indicates that in selecting SME, information on the owner is as important as information on the SME. The survey result also indicates that the credit analyst of the bank rely on both qualitative analysis like SWOT analysis of SMEs and quantitative analysis of financial statement of SMEs.

Respondents have asked for their level of agreement on the statement that says the bank manages credit exposure to SME lease financing using portfolio approach diversifying by sector and geographic allocation and responded as 38.3% disagree, 34% strongly disagree, 10.6% neutral, 8.5% agree and 8.55 of them strongly agree. This implies that the does not mange credit exposure by the use of portfolio approach. Respondents have also shown that the there is no preventive indicators that are monitored to detect possible deterioration of credit outlook on SME loans and the bank uses total debt outstanding to detect possible over indebtedness. Results from the interview also lead to the similar implication with the questionnaire. Interviewees have identified SME loans as high riskier and less diversifiable but it was treat the same as other loans even if needs special needs attention. Since the collateral of the SME lease financing loan is project of the SMEs itself, project presented by the SMEs should be deeply studied and all necessary observation was supposed to be done prior to granting loan.

#### ***4.6. The bank's bad loan recovery process regarding Small and medium enterprises lease financing***

In this section the study tries to assess the bank's bad loan recovery process with regard to SME lease financing loans. Accordingly five proper questions have prepared and distributed to respondents mainly focusing on the existence effectiveness of bad loan recovery process.

Table 4.7 Descriptive statistics about the bank's bad loan recovery process

|   | N  | Min | Max | Mean   | St. Deviation |
|---|----|-----|-----|--------|---------------|
| The bank has dedicated loan recovery unit   | 47 | 1   | 5   | 4.1277 | .96947        |
| There is specified date on which non serviced SME loans are considered overdue.                                   | 47 | 1   | 5   | 3.9362 | 1.14975       |
| The bank keeps tracks of costs incurred, time it takes and amount recovered in dealing with non-performing loans. | 47 | 1   | 5   | 4.0426 | 1.10252       |
| The bank's bad loan recovery process is effective to recover bad loan and making it performing loan.              | 47 | 1   | 5   | 3.6383 | 1.29255       |
| Over all the bank have good bad loan recovery process.  | 47 | 1   | 5   | 3.8936 | 1.12741       |

Source: Survey result, 2018

For all questions regarding bad loan recovery process of the bank positive answers with high level of agreement was responded. 42.6% and 40.4% of respondents have agreed and strongly agreed respectively with high mean value of 4.1277 for the question about the existence of dedicated loan recovery unit. The result of the survey also shows that there is specified date on which non-performing loans from SME lease financing are considered overdue.

Furthermore the result of the survey realizes that the bank keeps track of costs incurred, time it takes and amount recovered from non-performing loans. Similarly respondents have agreed to the statement says that the bank's loan recovery process is effective and good enough to recover the loan and make it performing loan. Over all implication of the respondents' level of agreement shows that the bank has proper bad loan recover process. Interviewees have stated that the bad loan recovery unit of the bank makes its maximum effort to make it performing loan and it can be said as adequate.

Moreover, it can be understood from the explanation they give about the process to rehabilitate suspended loan that the bank has dedicated loan recovery unit. They provides different supports like additional fund, technical supports and tax holiday based on its potential of recovery. According to both questionnaire and interview over all there is no significant problem regarding loan recovery process of the bank.

#### ***4.7 Summary of Major findings and Literature control.***

In this section the major findings of the study have been discussed in view of the imperial literatures that have been reviewed in Chapter two. Categorising in to five specific objectives the study have identified challenges that the bank face in financing SMEs through SME Lease Financing Program as follows.

The study have identified the banks SME selection criteria, lack of proper suppliers of capital goods, sector wise focus of the bank in financing SMEs, macro-economic instability, poor quality of financial statements of SMEs, lack of sufficient demand and lack of knowledge about SME lease financing as challenges. Except lack of sufficient demand and macro-economic instability, all of the above challenges were supported by literatures. Findings from empirical evidences supports the selection criteria as challenge for banks. For instance Abdulaziz and Andrew, 2016 found that the selection criteria that basis relationship with bank rather than worth of the SMEs as well as sector focus financing as challenge. Findings from works of scholars like Alyosius and Lubinda as well as Asfaw Abera reveal lack of proper supply chain like lack of proper suppliers of capital goods as challenges. Chowdhury et al., 2013 have identified lack of knowledge about SME lease financing as one of challenges in their study.

The study conducted by Okoth, M. O. 2015 also reveal poor or absence of financial statements of SMEs as challenge for banks and other financial institutions to finance them. In addition to the above challenges the study have also highlighted obstacles of the SME Lease financing program as lack of controlling costs associated with SME lease financing program and poor credit risk management of the bank. Regarding the adequacy of SME lease financing laws, regulations and directives affecting the bank the result of the study indicates opposite to the literatures. To the contrary respondents have responded in propriety of the laws and regulations as well as directives that it is adequate and supportive in prevailing Small and Medium Enterprise lease financing of DBE

## CHAPTER – FIVE

### 5. CONCLUSIONS AND RECOMMENDATIONS

This final chapter presents the conclusions and recommendations based on findings and analysis of the study. The study attempted to look into the banks involvement in SME Lease

financing, extent of adequacy of legal and regulatory framework of SME lease financing, the bank's policy and procedure in reducing costs associated with SME Lease financing, the bank's bad loan recovery and credit risk management process, and the existing supply chain systems. Moreover, the study has also tried to collect views and opinions of the SME lease financing staffs, team managers and directors who deal with SMEs on the level of lease financing awareness and challenges of the sector which have been analyzed subsequently. Thus, on the basis of analysis of the data, the following conclusions and recommendations are forwarded.

### **5.1. CONCLUSIONS**

In Ethiopia, SME lease financing is at its infant stage of development. It is implemented only by one government development bank i.e. Development bank of Ethiopia. Although the SME lease financing sector has potential prospects for growth, it has encountering challenges at its inception stage. The following conclusions have been drawn on the basis of the analysis of the study.

Result of respondents for the section about bank involvement with SME with regard SME lease financing pave ways to conclude that the bank have SMEs among its client and the bank selects those SMEs based their total asset then capital. The bank has separate unit that manages the banking relation with SMEs. From the side of Government, the Ethiopian government prepares adequate shelter and tax incentives for these SMEs who have approved by the bank to be user of the SME lease financing program as one of growth and transformation plan II (GTP II) Furthermore, according to the result of the study challenges that the bank faces have been identified but not limited to the following:

**Absence of proper and sufficient suppliers of capital goods** which leads to poor supply chain system. The bank does not engage in direct purchase of capital goods to be provided for SMEs by lease. So it is through suppliers of capital goods and if there is no proper and sufficient suppliers, this may be wicketed for the bank as well as for the users SMEs.

**Macro-economic instability like inflation and currency fluctuation.** This can be the challenge to the bank by inflating the cost of the capital goods that their client SMEs cannot afford according to their previous specification and creates dissatisfaction among them. Similarly it makes several SMEs to be less credit worthy

**Poor quality of Financial statement of SMEs.** Since the bank relies on both qualitative and quantitative analysis of the SMEs, poor financial statement which have no characteristics accounting information system like relevancy and reliability creates difficulty in making sound decision whether to select or not as its client to use the SME lease financing program.

**Lack of Sufficient demand (absence of SMEs) or available SMEs are not credit worthy.** As it can be observed from the secondary data published by the bank, the bank have launch the program by expecting sufficient demand from the country and open different branches all over the parts of the country by incurring high cost but not getting SMEs as expected. According to the interviewees currently the bank is merging and closing its distributed branch by the aim of reaching the SMEs all over the country.

**Lack of knowledge about SME lease financing.** The bank is facing challenges from absence knowledge about SME lease financing that hinders it from performing well as it plans.

**Poor management of credit risk by the bank.** According to the result of the survey the bank is facing difficulty because of poor management of credit risk simply by using total debt outstanding to detect possible over indebtedness. Information on the owners is not valued as that of the respective SMEs which dangerous for the loan provided to the SME. There is no separate unit to manage those risks that emanates from SME loans that was supposed to be reduced to the minimum possible level.

**Lack of the Bank's proper policy and procedure to reduce costs associated with SME lease financing.** The study has also found that the bank has no proper policy and procedure that minimizes the cost associated with SME lease financing loans to the minimum possible. In principles both costs that are added to the loan and that are expensed by the bank should be kept minimum so that it is convenient to both parties. But the bank has loosely organized policies and procedures to finance SMEs that does not reduce the associated cost. The respondents have also shown their level agreement that indicates that the does not exert its maximum effort in reducing costs associated to the SMEs loans. Those above challenges are similar to that of analogous studies conducted in different countries.

Even though previous research works have supported that leasing laws, regulations and directives as a challenges for both leasing companies and lessees, result of the survey from respondents did not support this fact as a challenges to DBE in dealing with SME lease financing.

To the contrary the result from the study implies that the current legal and regulatory framework is adequate, favourable and supportive to regulate the SME lease financing. The bank's bad loan recovery process is also not a challenge for DBE. The bank has dedicated loan recovery unit that identify non serviced SME loans, keep track of costs incurred and effectively recover bad loan and make it performing loan as much as possible.

## ***5.2. Recommendations***

Though similar empirical studies are expected to be carried out in near future due to the newness of SME lease financing in Ethiopia, this study forwarded the following recommendations based on the findings and analysis done. The challenges that have been identified by the study are emanating from the bank itself and external to the bank. In addition the study beliefs users of this finding are not only Development Bank of Ethiopia but also existing and potential SMEs as well as public at large. Therefore, the recommendations are classified into three for the bank, for existing as well as potential SMEs and for public at large.

### **❖ For Development Bank of Ethiopia:-**

The bank should not rely only on the asset of the SMEs as selection criteria. Rather it should use both asset and capital as well as purpose of formation as selection criteria to grant SME loan.

The bank should have strong internal policies and procedures that can keep the costs associated with SME lease financing loan to minimum possible.

This can help the bank to get survival profit to serve its goal. Similarly the bank should also have good credit management unit that have flexible preventive indicators to detect possible deterioration of SME loans.

The bank should also have experienced and dynamic credit analyst that have flexibility in reducing risk of SME loans. At the time the bank should have annual credit approval limit and approval cycle for approval limit. This can solve the redundancy made due to lack of flexibility and circulation among approvers can help for integrity.

Regarding lack of sufficient demand, the bank should highly work on the promotion about their new product which is SME lease financing and explain their clear and precise requirements

from SMEs to give the SME lease financing loan. This can help as awareness creation and filling information gap and help the bank to get sufficient demand SMEs so that it can disburse as per its plan. In addition to this financing all sector is recommended to get sufficient demand and diversify its SME loans.

#### ❖ **For potential and Existing SMEs**

Since the nature of SME lease financing loan is different from other loans and riskier than other loans SMEs should highly fulfil all necessary requirements and comply with laws, regulations and directives of SME lease financing issued by different governing bodies of the country. Once they have satisfied these necessities it is easy for the bank to provide the requested service which in turn helps both parties achieving their goal.

They should have also prepare reliable and relevant financial statement that can fully show their required financial requirement.

As much as possible they should present their specification of capital good which can be easily available by conducting market exploration for the availability and quality of the capital good they need to be purchased for them by the bank through SME lease financing loan. This can help by reducing time that might be wasted in searching for unavailable, out of date technology and poor quality and so on.

#### ❖ **For All concerned Government Organisations**

According to the document reviewed about necessity and formation of SME lease financing program as well as the overall goal of the bank, it is concluded that it is government development program launched through Development bank of Ethiopia. Therefore it is highly recommended that the government of Ethiopia should play its vital role in spite of giving direction to the bank because it is difficult for the bank to take action end to end its alone rather it needs cooperation to make the SME lease financing program fruitful. Otherwise it is wasting resource of the country without achieving the aimed goal of both government and the bank. Since government have ultimate power most of the challenges assessed and identified by the study are recommended as they demand efforts government. Accordingly the study has strongly suggests that it is very decisive if the following issues have catch eyes government.

- ***Awareness creation about SME Lease financing.*** As long as SME lease financing is new phenomenon in the country, it needs deep and continuous awareness creation program for respective citizens of the country especially for existing and potential SMEs to bridge knowledge gap and make the SME lease financing fruitful. The beliefs as solution for problems emanating from lack of knowledge and lack of demand occurs due to drought of alertness about SME lease financing.
- ***Facilitating for suppliers of capital goods.*** There should be legally registered and responsive suppliers of capital goods that can smooth the awkward supply chain that discourage the development and progress of SME lease financing.
- ***Work on certification of the SMEs while graduating from micro to small and medium.*** During informal interview with managers and senior staffs of DBE the study has understood that the certification given is not real and based on personal wish it is only for political consumption. Therefore the government should intervene and stop these illegals.
- ***Motivate and closely follow up SMEs to maintain proper book of account.*** SMEs should practice to prepare sound financial statement that can represent their business organization. This can help the bank who provide SME lease financing loan to analysis their financial statement and make decision.

#### ❖ **Recommendations For further Studies.**

The research conducted in this thesis has led to some useful results and conclusions on challenges of Small and medium enterprises lease financing taking an experience of Development Bank of Ethiopia. However it has also uncovered many areas that need additional study. The purpose of this section is therefore to identify and discuss the need for further research in similar topic.

From methodological point of view, due to practicality, time and resource constraints the investigation on this thesis was confined to one bank as a case study on supply side. Therefore it is interesting to replicate the study using nation-wide samples of demand side Small and medium enterprises and compare results to provide better understanding of this topic in the wider Ethiopian context. The chosen methodology was exploratory due to novelty of the topic under the study in Ethiopia. So findings are restricted by

limitations of the chosen methodology. Future research of explanatory and conformity nature is needed to develop further findings.

In Addition the study have used qualitative research design due to absence of secondary financial data. This is because the bank starts the SME lease financing since the years not more than three. Therefore replicating the study using quantitative financial data can result in useful findings for users of the study.

Finally, the study was not limited to these variables and it is recommended for future research to include many other factors that affect banks in financing SMEs through leasing program.

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## Appendix I



**Addis Ababa University**

**Department of Accounting & Finance**

**Master’s Program: MSc in Accounting & Finance**

**Research Questionnaire**

**Name of Researcher: Dagnachew Nuguse (MSc Student)**

**E-Mail: [dagnachew757@gmail.com](mailto:dagnachew757@gmail.com)**

**Dear Sir/Madam,**

This questionnaire is designed to conduct academic research on “Challenges of Small and Medium Enterprise lease financing in Ethiopia: case study on development bank of Ethiopia”

as part of the fulfilment of Master's Degree in Accounting and Finance at Addis Ababa University. The main objective of the study is to conduct diagnostic assessment of the potential challenges facing the Development Bank Ethiopia including assessment of government's development and growth programs affecting the bank during lease financing of Small and medium Enterprises. It also aims to identify whether the bank's policies and procedures to finance small and medium enterprises reduces the associated cost.

The data you provide in response to the questionnaires will be only used for academic purpose in accomplishment of 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 completion of this study. To indicate your choices, please put "X" mark on your selected choice.

If you have any enquiries or clarifications, kindly please contact me in person through my E-mail: [dagnachew757@gmail.com](mailto:dagnachew757@gmail.com) or give me a call at 09-38-047 458

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

Yours Sincerely,  
Dagnachew Nuguse

### Section I: Respondent Profile

Please kindly put "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 study is seeking your specific perceptions towards each questions 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 Bank involvement with SME regarding SME Lease financing**

| No. | Please indicate the extent of your agreement on the following statements in relation to the bank's involvement With SME regarding SME Lease financing: | SD<br>(1) | D<br>(2) | N<br>(3) | A<br>(4) | SA<br>(5) |
|-----|--|-----------|----------|----------|----------|-----------|
| 6   | The bank's selection criterion for SME is the client's total asset over capital.   |           |          |          |          |           |
| 7   | The bank has sufficient long term fund to support its SME Lease financing program.   |           |          |          |          |           |
| 8   | The bank has a separate unit managing the banking relation with SMEs.  |           |          |          |          |           |

|    |   |  |  |  |  |  |
|----|---|--|--|--|--|--|
| 9  | There is Tax incentive by tax authority for SMEs who are users of the SME lease financing program.  |  |  |  |  |  |
| 10 | There is adequate shelter prepared by government for SMEs who are user of SME Lease financing.  |  |  |  |  |  |
| 11 | There are sufficient and proper suppliers of capital goods to buy for approved SME lease financing applicants.                                |  |  |  |  |  |
| 12 | The bank have a sector-specific focus in dealing with SMEs  |  |  |  |  |  |
| 13 | The bank have a specific geographic focus in dealing with SMEs  |  |  |  |  |  |
| 14 | The following factors are obstacles to the bank's involvement with SME regarding SME Lease financing:   |  |  |  |  |  |
| 15 | <ul style="list-style-type: none"> <li>• Macro-economic instability.(like inflation, currency fluctuation )</li> </ul>                        |  |  |  |  |  |
|    | <ul style="list-style-type: none"> <li>• Domestic regulations</li> </ul>  |  |  |  |  |  |
| 16 | <ul style="list-style-type: none"> <li>• Poor quality of Financial statement of SMEs</li> </ul>   |  |  |  |  |  |
| 17 | <ul style="list-style-type: none"> <li>• Lack of sufficient demand (absence of SMEs) or Available customers are not credit worthy.</li> </ul> |  |  |  |  |  |
| 18 | <ul style="list-style-type: none"> <li>• Lack of knowledge about SME lease financing.</li> </ul>  |  |  |  |  |  |

**Section III: Extent of adequacy of leasing laws, regulations and directives affecting the SME leasing business in Development Bank of Ethiopia.**

| <b>No.</b> | <b>Please indicate the extent of your agreement on the following statements in relation to adequacy of leasing laws, regulations and</b> | <b>SD</b><br><b>(1)</b> | <b>D</b><br><b>(2)</b> | <b>N</b><br><b>(3)</b> | <b>A</b><br><b>(4)</b> | <b>SA</b><br><b>(5)</b> |
|------------|--|-------------------------|------------------------|------------------------|------------------------|-------------------------|
|------------|--|-------------------------|------------------------|------------------------|------------------------|-------------------------|

|    |   |  |  |  |  |  |
|----|---|--|--|--|--|--|
|    | <b>directives affecting the SME leasing business in Development Bank of Ethiopia.</b>   |  |  |  |  |  |
| 19 | The current(807/2013) legal and regulatory framework is adequate to regulate the SME lease financing.   |  |  |  |  |  |
| 20 | The leasing laws and regulations have clarity in defining the lease contract, leased assets, responsibilities and rights of parties to a lease contract |  |  |  |  |  |
| 21 | The prudential regulation negatively affects the bank's involvement with SMEs regarding lease financing.  |  |  |  |  |  |
| 22 | The government growth and transformation plan positively affects the bank's SME lease financing.  |  |  |  |  |  |
| 23 | Directives from National Bank of Ethiopia regarding SME lease financing is adequate.  |  |  |  |  |  |
| 24 | Due to change in lease financing policy applicants in process are pending.  |  |  |  |  |  |
| 25 | Overall, the legal and regulatory environment is favourable and supportive.   |  |  |  |  |  |

**Section IV: identifying whether the bank's policies and procedures to finance small and medium enterprises reduces the associated cost.**

| <b>No.</b> | <b>Please indicate the extent of your agreement on the following statements in relation to identifying whether the bank's policies and procedures to finance small and medium enterprises reduces the associated cost.</b> | <b>SD</b>  | <b>D</b>   | <b>N</b>   | <b>A</b>   | <b>SA</b>  |
|------------|--|------------|------------|------------|------------|------------|
|            |  | <b>(1)</b> | <b>(2)</b> | <b>(3)</b> | <b>(4)</b> | <b>(5)</b> |

|    |   |  |  |  |  |  |
|----|---|--|--|--|--|--|
| 26 | Administration costs of SME Loans are higher than other loans.  |  |  |  |  |  |
| 27 | The bank' s policies and procedures are well designed to reduce cost associated with SME Loans.                           |  |  |  |  |  |
| 28 | Costs incurred for administration, follow up, and feasibility study of SME loans are reasonably determined by management. |  |  |  |  |  |
| 29 | There is budget for costs of SME loans and costs are incurred as per the budget.  |  |  |  |  |  |
| 30 | The bank uses its maximum effort in reducing costs associated with SME loans.   |  |  |  |  |  |
| 31 | Over all the bank has proper policies and procedures to reduce cost associated with SME loans.                            |  |  |  |  |  |

**Section V: Assessing The bank' s credit risk management regarding SME lease Financing**

| <b>No.</b> | <b>Please indicate the extent of your agreement on the following statements in relation to assessing the bank's credit risk management regarding SME lease financing.</b> | <b>SD<br/>(1)</b> | <b>D<br/>(2)</b> | <b>N<br/>(3)</b> | <b>A<br/>(4)</b> | <b>SA<br/>(5)</b> |
|------------|---|-------------------|------------------|------------------|------------------|-------------------|
| 32         | SME Loans are riskier than are loans that the bank provides.  |                   |                  |                  |                  |                   |
| 33         | SME loans risks are less diversifiable compared to other loans provided by the bank.  |                   |                  |                  |                  |                   |

|    |   |  |  |  |  |  |
|----|---|--|--|--|--|--|
| 34 | The bank has separate unit to manage credit risks.  |  |  |  |  |  |
| 35 | The credit risk management of the bank is mostly done at the head office level.                                     |  |  |  |  |  |
| 36 | The credit risk management is done by credit analyst  |  |  |  |  |  |
| 37 | The bank have annual approval cycle for credit limits for overall SME portfolios.                                   |  |  |  |  |  |
| 38 | Credit analyst can override credit limits if considered necessary.  |  |  |  |  |  |
| 39 | Credit analyst must always adhere to credit limits and limits can only be changed by management.                    |  |  |  |  |  |
| 40 | In selecting SME, information on the owner is as important as information on the SME.                               |  |  |  |  |  |
| 41 | The credit analyst rely on qualitative assessment, (quality of SME management SWOT analysis the SME)                |  |  |  |  |  |
| 42 | The credit analyst rely on quantitative assessment. (Financial analysis of the SME)                                 |  |  |  |  |  |
| 43 | The bank manages credit exposure to SME using portfolio approach. (sector and geographic allocations)               |  |  |  |  |  |
| 44 | There are preventive indicators that are monitored to detect possible deterioration of credit outlook on SME loans, |  |  |  |  |  |
| 45 | The bank uses total debt outstanding to detect possible over indebtedness.  |  |  |  |  |  |

**Section VI: Analysing the bank's bad loan recovery process regarding Small and medium enterprise.**

| No. | Please indicate the extent of your agreement on the following statements in relation analyzing the bank's bad loan recovery process regarding Small and medium enterprises. | SD<br>(1) | D<br>(2) | N<br>(3) | A<br>(4) | SA<br>(5) |
|-----|---|-----------|----------|----------|----------|-----------|
| 46  | The bank has dedicated loan recovery unit   |           |          |          |          |           |
| 47  | There is specified date on which non serviced SME loans are considered overdue.   |           |          |          |          |           |
| 48  | The bank keeps tracks of costs incurred, time it takes and amount recovered in dealing with non-performing loans.   |           |          |          |          |           |
| 49  | The bank's bad loan recovery process is effective to recover bad loan and making it performing loan.  |           |          |          |          |           |
| 50  | Over all the bank have good bad loan recovery process.  |           |          |          |          |           |

Thank you once again for your cooperation.

## Appendix II



**Addis Ababa University**  
**Department of Accounting & Finance**  
**Master's Program: MSc in Accounting & Finance**  
 An Interview Guide

Name of Researcher: Dagnachew Nuguse (MSc Student) Addis Ababa University

Department of Accounting and Finance

E-Mail: dagnachew757@gmail.com

Dear Sir/Madam,

The main objective of this interview is to explore information regarding Challenges of SME lease financing: The experience of Development Bank of Ethiopia and to have an in-depth response to the research problem in addition to the questionnaires distributed to staffs of Development Bank of Ethiopia Small and Medium Enterprise Lease Financing Directorate. The interview will be made with selected directors and team managers of the same directorate who are familiar with the issue. The information you provide in response to the questions in the interview will be used as part of the data needed for a study on “Challenges of Small and Medium Enterprise Lease Financing: Experience of Development Bank of Ethiopia”.

I would like to assure you that the information you provide will be accessible only to the academic purpose. Your involvement is regarded as a great input to the quality of the research results. Thus, I believe that you will enlarge your contribution by participating in the study.

Thank you very much for your valuable time and thoughtful response.

Kind regards,

Dagnachew Nuguse

Interview Question for Directors and Team Managers of Development bank of Ethiopia  
Small and Medium Enterprise Lease Financing Directorate:

- a) What is/are selection criteria(s) to Finance SMEs through SME lease financing in your bank?
- b) What are government supports to SME Lease Financing program if any?
- c) Are there adequate suppliers of Capital Goods for eligible SMEs?
- d) What are main challenges to your bank in SME lease financing?
- e) What efforts were made by your bank to mitigate the above challenges?
- f) Are the current (807/2013) leasing laws and regulations have clarity and adequacy to regulate the SME lease financing sector?
- g) Do you think the legal and regulatory environment regarding SME lease financing is favourable and supportive?

- h) What are policies and procedures that your bank uses to reduce administration costs associated with SME loans?
- i) Do you think they are adequate enough to help the bank incur reasonable costs?
- j) Among your bank's loan portfolios which one is riskier and less diversifiable compared to others?
- k) How your bank does manage credit risk regarding SME loans?
- l) What are your bank's bad loan recovery process regarding SME lease financing?
- m) Are they adequate enough to recover bad loan and make it performing loan?
- n) What efforts does your bank make to recover bad loan?
- o) Over all what is the current status and future potential of SME Lease Financing in your bank to achieve the bank's as well as the government development plan?

### Appendix III

```
FREQUENCIES VARIABLES=Gender Age Education Experience position BIWSME1 BIWSME2 BIWSME3
BIWSME4 BIWSME5 BIWSME6 BIWSME7 BIWSME8 BIWSME9 BIWSME10 BIWSME11 BIWSME12
BIWSME13 EALRD1 EALRD2 EALRD3 EALRD4 EALRD5 EALRD6 EALRD7 BPPRC1 BPPRC2 BPPRC3
BPPRC4 BPPRC5 BPPRC6 ACRM1 ACRM2 ACRM3 ACRM4 ACRM5 ACRM6 ACRM7 ACRM8 ACRM9
ACRM10 ACRM11 ACRM12 ACRM13 ACRM14 BLRP1 BLRP2 BLRP3 BLRP4 BLRP5
/ORDER=ANALYSIS.
```

#### Frequencies

#### Notes

|                |                      |                           |
|----------------|----------------------|---------------------------|
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| Comments       |                      |                           |
| Input          | Data                 | F:\SPSS back up.sav 2.sav |
|                | Active Dataset       | DataSet1                  |
|                | Filter               | <none>                    |
|                | Weight               | <none>                    |

|                        |                                |  |             |
|------------------------|--------------------------------|--|-------------|
|                        | Split File                     | <none>   |             |
|                        | N of Rows in Working Data File |  | 47          |
| Missing Value Handling | Definition of Missing          | User-defined missing values are treated as missing.  |             |
|                        | Cases Used                     | Statistics are based on all cases with valid data.   |             |
|                        | Syntax                         | <pre> FREQUENCIES VARIABLES=Gender Age Education Exprience position BIWSME1 BIWSME2 BIWSME3 BIWSME4 BIWSME5 BIWSME6 BIWSME7 BIWSME8 BIWSME9 BIWSME10 BIWSME11 BIWSME12 BIWSME13 EALRD1 EALRD2 EALRD3 EALRD4 EALRD5 EALRD6 EALRD7 BPPRC1 BPPRC2 BPPRC3 BPPRC4 BPPRC5 BPPRC6 ACRM1 ACRM2 ACRM3 ACRM4 ACRM5 ACRM6 ACRM7 ACRM8 ACRM9 ACRM10 ACRM11 ACRM12 ACRM13 ACRM14 BLRP1 BLRP2 BLRP3 BLRP4 BLRP5  /ORDER=ANALYSIS. </pre> |             |
| Resources              | Processor Time                 |  | 00:00:00.02 |
|                        | Elapsed Time                   |  | 00:00:00.03 |

[DataSet1] F:\SPSS back up.sav 2.sav

|   | Gender  | Age | Education | Experience | position | BIWSME1 | BIWSME2 | BIWSME3 | BIWSME4 | BIWSME5 |
|---|---------|-----|-----------|------------|----------|---------|---------|---------|---------|---------|
| N | Valid   | 47  | 47        | 47         | 47       | 47      | 47      | 47      | 47      | 47      |
|   | Missing | 0   | 0         | 0          | 0        | 0       | 0       | 0       | 0       | 0       |

**Frequency Table**

**Gender**

|            | Frequency | Percent | Valid Percent | Cumulative Percent |
|------------|-----------|---------|---------------|--------------------|
| Valid Male | 35        | 74.5    | 74.5          | 74.5               |

|        |    |       |       |       |
|--------|----|-------|-------|-------|
| Female | 12 | 25.5  | 25.5  | 100.0 |
| Total  | 47 | 100.0 | 100.0 |       |

### Age

|                    | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------------|-----------|---------|---------------|--------------------|
| Valid less than 25 | 2         | 4.3     | 4.3           | 4.3                |
| Valid 26-35        | 25        | 53.2    | 53.2          | 57.4               |
| Valid 36-45        | 20        | 42.6    | 42.6          | 100.0              |
| Total              | 47        | 100.0   | 100.0         |                    |

### Education

|                                | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------------------------|-----------|---------|---------------|--------------------|
| Valid masters Degree and above | 10        | 21.3    | 21.3          | 21.3               |
| Valid First Degree             | 37        | 78.7    | 78.7          | 100.0              |
| Total                          | 47        | 100.0   | 100.0         |                    |

### Experience

|                         | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------------|-----------|---------|---------------|--------------------|
| Valid Less than 5 years | 10        | 21.3    | 21.3          | 21.3               |
| Valid 6-10 years        | 19        | 40.4    | 40.4          | 61.7               |
| Valid 11-15years        | 9         | 19.1    | 19.1          | 80.9               |
| Valid 16-20 years       | 6         | 12.8    | 12.8          | 93.6               |
| Valid over 20 years     | 3         | 6.4     | 6.4           | 100.0              |
| Total                   | 47        | 100.0   | 100.0         |                    |

### position

|                        | Frequency | Percent | Valid Percent | Cumulative Percent |
|------------------------|-----------|---------|---------------|--------------------|
| Valid Director         | 2         | 4.3     | 4.3           | 4.3                |
| Valid Team manager     | 6         | 12.8    | 12.8          | 17.0               |
| Valid Sr. Loan officer | 15        | 31.9    | 31.9          | 48.9               |
| Valid Loan officer     | 15        | 31.9    | 31.9          | 80.9               |

|  |                     |    |       |       |       |
|--|---------------------|----|-------|-------|-------|
|  | Junior Loan officer | 9  | 19.1  | 19.1  | 100.0 |
|  | Total               | 47 | 100.0 | 100.0 |       |

**BIWSME1**

|       |                | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------|-----------|---------|---------------|--------------------|
|       | AGREE          | 27        | 57.4    | 57.4          | 57.4               |
| Valid | STRONGLY AGREE | 20        | 42.6    | 42.6          | 100.0              |
|       | Total          | 47        | 100.0   | 100.0         |                    |

**BIWSME2**

|       |                | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------|-----------|---------|---------------|--------------------|
|       | AGREE          | 26        | 55.3    | 55.3          | 55.3               |
| Valid | STRONGLY AGREE | 21        | 44.7    | 44.7          | 100.0              |
|       | Total          | 47        | 100.0   | 100.0         |                    |

**BIWSME3**

|       |                | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------|-----------|---------|---------------|--------------------|
|       | AGREE          | 26        | 55.3    | 55.3          | 55.3               |
| Valid | STRONGLY AGREE | 21        | 44.7    | 44.7          | 100.0              |
|       | Total          | 47        | 100.0   | 100.0         |                    |

**BIWSME4**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
|       | STRONGLY DISAGREE | 1         | 2.1     | 2.1           | 2.1                |
|       | NEUTRAL           | 1         | 2.1     | 2.1           | 4.3                |
| Valid | AGREE             | 22        | 46.8    | 46.8          | 51.1               |
|       | STRONGLY AGREE    | 23        | 48.9    | 48.9          | 100.0              |
|       | Total             | 47        | 100.0   | 100.0         |                    |

**BIWSME5**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
|       | STRONGLY DISAGREE | 17        | 36.2    | 36.2          | 36.2               |
|       | DISAGREE          | 22        | 46.8    | 46.8          | 83.0               |
| Valid | NEUTRAL           | 4         | 8.5     | 8.5           | 91.5               |
|       | AGREE             | 2         | 4.3     | 4.3           | 95.7               |
|       | STRONGLY AGREE    | 2         | 4.3     | 4.3           | 100.0              |

|       |    |       |       |
|-------|----|-------|-------|
| Total | 47 | 100.0 | 100.0 |
|-------|----|-------|-------|

**BIWSME6**

|                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------|-----------|---------|---------------|--------------------|
| Valid             |           |         |               |                    |
| STRONGLY DISAGREE | 17        | 36.2    | 36.2          | 36.2               |
| DISAGREE          | 19        | 40.4    | 40.4          | 76.6               |
| NEUTRAL           | 4         | 8.5     | 8.5           | 85.1               |
| AGREE             | 3         | 6.4     | 6.4           | 91.5               |
| STRONGLY AGREE    | 4         | 8.5     | 8.5           | 100.0              |
| Total             | 47        | 100.0   | 100.0         |                    |

| <b>BIWSME7</b>    | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------|-----------|---------|---------------|--------------------|
| Valid             |           |         |               |                    |
| STRONGLY DISAGREE | 2         | 4.3     | 4.3           | 4.3                |
| DISAGREE          | 4         | 8.5     | 8.5           | 12.8               |
| NEUTRAL           | 8         | 17.0    | 17.0          | 29.8               |
| AGREE             | 17        | 36.2    | 36.2          | 66.0               |
| STRONGLY AGREE    | 16        | 34.0    | 34.0          | 100.0              |
| Total             | 47        | 100.0   | 100.0         |                    |

**BIWSME8**

|                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------|-----------|---------|---------------|--------------------|
| Valid             |           |         |               |                    |
| STRONGLY DISAGREE | 17        | 36.2    | 36.2          | 36.2               |
| DISAGREE          | 20        | 42.6    | 42.6          | 78.7               |
| NEUTRAL           | 6         | 12.8    | 12.8          | 91.5               |
| AGREE             | 2         | 4.3     | 4.3           | 95.7               |
| STRONGLY AGREE    | 2         | 4.3     | 4.3           | 100.0              |
| Total             | 47        | 100.0   | 100.0         |                    |

**BIWSME9**

|  | Frequency | Percent | Valid Percent | Cumulative Percent |
|--|-----------|---------|---------------|--------------------|
|--|-----------|---------|---------------|--------------------|

|       |                   |    |       |       |       |
|-------|-------------------|----|-------|-------|-------|
| Valid | STRONGLY DISAGREE | 2  | 4.3   | 4.3   | 4.3   |
|       | DISAGREE          | 4  | 8.5   | 8.5   | 12.8  |
|       | NEUTRAL           | 2  | 4.3   | 4.3   | 17.0  |
|       | AGREE             | 23 | 48.9  | 48.9  | 66.0  |
|       | STRONGLY AGREE    | 16 | 34.0  | 34.0  | 100.0 |
|       | Total             | 47 | 100.0 | 100.0 |       |

**BIWSME10**

|       | Frequency      | Percent | Valid Percent | Cumulative Percent |       |
|-------|----------------|---------|---------------|--------------------|-------|
| Valid | DISAGREE       | 3       | 6.4           | 6.4                | 6.4   |
|       | NEUTRAL        | 3       | 6.4           | 6.4                | 12.8  |
|       | AGREE          | 25      | 53.2          | 53.2               | 66.0  |
|       | STRONGLY AGREE | 16      | 34.0          | 34.0               | 100.0 |
|       | Total          | 47      | 100.0         | 100.0              |       |

| <b>BIWSME11</b> |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------------|-------------------|-----------|---------|---------------|--------------------|
| Valid           | STRONGLY DISAGREE | 4         | 8.5     | 8.5           | 8.5                |
|                 | DISAGREE          | 4         | 8.5     | 8.5           | 17.0               |
|                 | NEUTRAL           | 3         | 6.4     | 6.4           | 23.4               |
|                 | AGREE             | 22        | 46.8    | 46.8          | 70.2               |
|                 | STRONGLY AGREE    | 14        | 29.8    | 29.8          | 100.0              |
|                 | Total             | 47        | 100.0   | 100.0         |                    |

**BIWSME12**

|       | Frequency         | Percent | Valid Percent | Cumulative Percent |       |
|-------|-------------------|---------|---------------|--------------------|-------|
| Valid | STRONGLY DISAGREE | 2       | 4.3           | 4.3                | 4.3   |
|       | DISAGREE          | 4       | 8.5           | 8.5                | 12.8  |
|       | NEUTRAL           | 5       | 10.6          | 10.6               | 23.4  |
|       | AGREE             | 22      | 46.8          | 46.8               | 70.2  |
|       | STRONGLY AGREE    | 14      | 29.8          | 29.8               | 100.0 |
|       | Total             | 47      | 100.0         | 100.0              |       |

**BIWSME13**

|       | Frequency         | Percent | Valid Percent | Cumulative Percent |     |
|-------|-------------------|---------|---------------|--------------------|-----|
| Valid | STRONGLY DISAGREE | 1       | 2.1           | 2.1                | 2.1 |

|                |    |       |       |       |
|----------------|----|-------|-------|-------|
| DISAGREE       | 1  | 2.1   | 2.1   | 4.3   |
| NEUTRAL        | 2  | 4.3   | 4.3   | 8.5   |
| AGREE          | 19 | 40.4  | 40.4  | 48.9  |
| STRONGLY AGREE | 24 | 51.1  | 51.1  | 100.0 |
| Total          | 47 | 100.0 | 100.0 |       |

**EALRD1**

|                | Frequency | Percent | Valid Percent | Cumulative Percent |
|----------------|-----------|---------|---------------|--------------------|
| DISAGREE       | 7         | 14.9    | 14.9          | 14.9               |
| NEUTRAL        | 4         | 8.5     | 8.5           | 23.4               |
| Valid AGREE    | 22        | 46.8    | 46.8          | 70.2               |
| STRONGLY AGREE | 14        | 29.8    | 29.8          | 100.0              |
| Total          | 47        | 100.0   | 100.0         |                    |

| <b>EALRD2</b>     | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------|-----------|---------|---------------|--------------------|
| STRONGLY DISAGREE | 4         | 8.5     | 8.5           | 8.5                |
| DISAGREE          | 4         | 8.5     | 8.5           | 17.0               |
| NEUTRAL           | 3         | 6.4     | 6.4           | 23.4               |
| Valid AGREE       | 20        | 42.6    | 42.6          | 66.0               |
| STRONGLY AGREE    | 16        | 34.0    | 34.0          | 100.0              |
| Total             | 47        | 100.0   | 100.0         |                    |

**EALRD3**

|                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------|-----------|---------|---------------|--------------------|
| STRONGLY DISAGREE | 14        | 29.8    | 29.8          | 29.8               |
| DISAGREE          | 14        | 29.8    | 29.8          | 59.6               |
| NEUTRAL           | 9         | 19.1    | 19.1          | 78.7               |
| Valid AGREE       | 5         | 10.6    | 10.6          | 89.4               |
| STRONGLY AGREE    | 5         | 10.6    | 10.6          | 100.0              |
| Total             | 47        | 100.0   | 100.0         |                    |

**EALRD4**

|  | Frequency | Percent | Valid Percent | Cumulative Percent |
|--|-----------|---------|---------------|--------------------|
|--|-----------|---------|---------------|--------------------|

|       |                   |    |       |       |       |
|-------|-------------------|----|-------|-------|-------|
| Valid | STRONGLY DISAGREE | 3  | 6.4   | 6.4   | 6.4   |
|       | DISAGREE          | 5  | 10.6  | 10.6  | 17.0  |
|       | NEUTRAL           | 3  | 6.4   | 6.4   | 23.4  |
|       | AGREE             | 21 | 44.7  | 44.7  | 68.1  |
|       | STRONGLY AGREE    | 15 | 31.9  | 31.9  | 100.0 |
|       | Total             | 47 | 100.0 | 100.0 |       |

**EALRD5**

|       | Frequency         | Percent | Valid Percent | Cumulative Percent |       |
|-------|-------------------|---------|---------------|--------------------|-------|
| Valid | STRONGLY DISAGREE | 5       | 10.6          | 10.6               | 10.6  |
|       | DISAGREE          | 7       | 14.9          | 14.9               | 25.5  |
|       | NEUTRAL           | 3       | 6.4           | 6.4                | 31.9  |
|       | AGREE             | 19      | 40.4          | 40.4               | 72.3  |
|       | STRONGLY AGREE    | 13      | 27.7          | 27.7               | 100.0 |
|       | Total             | 47      | 100.0         | 100.0              |       |

**EALRD6**

|       | Frequency         | Percent | Valid Percent | Cumulative Percent |       |
|-------|-------------------|---------|---------------|--------------------|-------|
| Valid | STRONGLY DISAGREE | 16      | 34.0          | 34.0               | 34.0  |
|       | DISAGREE          | 18      | 38.3          | 38.3               | 72.3  |
|       | NEUTRAL           | 5       | 10.6          | 10.6               | 83.0  |
|       | AGREE             | 5       | 10.6          | 10.6               | 93.6  |
|       | STRONGLY AGREE    | 3       | 6.4           | 6.4                | 100.0 |
|       | Total             | 47      | 100.0         | 100.0              |       |

**EALRD7**

|       | Frequency      | Percent | Valid Percent | Cumulative Percent |       |
|-------|----------------|---------|---------------|--------------------|-------|
| Valid | DISAGREE       | 4       | 8.5           | 8.5                | 8.5   |
|       | NEUTRAL        | 2       | 4.3           | 4.3                | 12.8  |
|       | AGREE          | 23      | 48.9          | 48.9               | 61.7  |
|       | STRONGLY AGREE | 18      | 38.3          | 38.3               | 100.0 |
|       | Total          | 47      | 100.0         | 100.0              |       |

**BPPRC1**

|       | Frequency         | Percent | Valid Percent | Cumulative Percent |     |
|-------|-------------------|---------|---------------|--------------------|-----|
| Valid | STRONGLY DISAGREE | 4       | 8.5           | 8.5                | 8.5 |

|                |    |       |       |       |
|----------------|----|-------|-------|-------|
| DISAGREE       | 3  | 6.4   | 6.4   | 14.9  |
| NEUTRAL        | 4  | 8.5   | 8.5   | 23.4  |
| AGREE          | 20 | 42.6  | 42.6  | 66.0  |
| STRONGLY AGREE | 16 | 34.0  | 34.0  | 100.0 |
| Total          | 47 | 100.0 | 100.0 |       |

**BPPRC2**

|                         | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------------|-----------|---------|---------------|--------------------|
| Valid STRONGLY DISAGREE | 20        | 42.6    | 42.6          | 42.6               |
| DISAGREE                | 14        | 29.8    | 29.8          | 72.3               |
| NEUTRAL                 | 7         | 14.9    | 14.9          | 87.2               |
| AGREE                   | 3         | 6.4     | 6.4           | 93.6               |
| STRONGLY AGREE          | 3         | 6.4     | 6.4           | 100.0              |
| Total                   | 47        | 100.0   | 100.0         |                    |

| <b>BPPRC3ss</b>         | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------------|-----------|---------|---------------|--------------------|
| Valid STRONGLY DISAGREE | 21        | 44.7    | 44.7          | 44.7               |
| DISAGREE                | 18        | 38.3    | 38.3          | 83.0               |
| NEUTRAL                 | 4         | 8.5     | 8.5           | 91.5               |
| AGREE                   | 3         | 6.4     | 6.4           | 97.9               |
| STRONGLY AGREE          | 1         | 2.1     | 2.1           | 100.0              |
| Total                   | 47        | 100.0   | 100.0         |                    |

**BPPRC4**

|                         | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------------|-----------|---------|---------------|--------------------|
| Valid STRONGLY DISAGREE | 15        | 31.9    | 31.9          | 31.9               |
| DISAGREE                | 16        | 34.0    | 34.0          | 66.0               |
| NEUTRAL                 | 6         | 12.8    | 12.8          | 78.7               |
| AGREE                   | 7         | 14.9    | 14.9          | 93.6               |
| STRONGLY AGREE          | 3         | 6.4     | 6.4           | 100.0              |
| Total                   | 47        | 100.0   | 100.0         |                    |

**BPPRC5**

|  | Frequency | Percent | Valid Percent | Cumulative Percent |
|--|-----------|---------|---------------|--------------------|
|--|-----------|---------|---------------|--------------------|

|       |                   |    |       |       |       |
|-------|-------------------|----|-------|-------|-------|
| Valid | STRONGLY DISAGREE | 20 | 42.6  | 42.6  | 42.6  |
|       | DISAGREE          | 15 | 31.9  | 31.9  | 74.5  |
|       | NEUTRAL           | 6  | 12.8  | 12.8  | 87.2  |
|       | AGREE             | 4  | 8.5   | 8.5   | 95.7  |
|       | STRONGLY AGREE    | 2  | 4.3   | 4.3   | 100.0 |
|       | Total             | 47 | 100.0 | 100.0 |       |

#### BPPRC6

|       | Frequency         | Percent | Valid Percent | Cumulative Percent |       |
|-------|-------------------|---------|---------------|--------------------|-------|
| Valid | STRONGLY DISAGREE | 14      | 29.8          | 29.8               | 29.8  |
|       | DISAGREE          | 20      | 42.6          | 42.6               | 72.3  |
|       | NEUTRAL           | 5       | 10.6          | 10.6               | 83.0  |
|       | AGREE             | 5       | 10.6          | 10.6               | 93.6  |
|       | STRONGLY AGREE    | 3       | 6.4           | 6.4                | 100.0 |
|       | Total             | 47      | 100.0         | 100.0              |       |

#### ACRM1

|       | Frequency      | Percent | Valid Percent | Cumulative Percent |       |
|-------|----------------|---------|---------------|--------------------|-------|
| Valid | DISAGREE       | 3       | 6.4           | 6.4                | 6.4   |
|       | NEUTRAL        | 3       | 6.4           | 6.4                | 12.8  |
|       | AGREE          | 18      | 38.3          | 38.3               | 51.1  |
|       | STRONGLY AGREE | 23      | 48.9          | 48.9               | 100.0 |
|       | Total          | 47      | 100.0         | 100.0              |       |

#### ACRM2

|       | Frequency         | Percent | Valid Percent | Cumulative Percent |       |
|-------|-------------------|---------|---------------|--------------------|-------|
| Valid | STRONGLY DISAGREE | 4       | 8.5           | 8.5                | 8.5   |
|       | DISAGREE          | 5       | 10.6          | 10.6               | 19.1  |
|       | NEUTRAL           | 3       | 6.4           | 6.4                | 25.5  |
|       | AGREE             | 19      | 40.4          | 40.4               | 66.0  |
|       | STRONGLY AGREE    | 16      | 34.0          | 34.0               | 100.0 |
|       | Total             | 47      | 100.0         | 100.0              |       |

#### ACRM3

|       | Frequency         | Percent | Valid Percent | Cumulative Percent |      |
|-------|-------------------|---------|---------------|--------------------|------|
| Valid | STRONGLY DISAGREE | 16      | 34.0          | 34.0               | 34.0 |

|  |                |    |       |       |       |
|--|----------------|----|-------|-------|-------|
|  | DISAGREE       | 19 | 40.4  | 40.4  | 74.5  |
|  | NEUTRAL        | 5  | 10.6  | 10.6  | 85.1  |
|  | AGREE          | 6  | 12.8  | 12.8  | 97.9  |
|  | STRONGLY AGREE | 1  | 2.1   | 2.1   | 100.0 |
|  | Total          | 47 | 100.0 | 100.0 |       |

**ACRM4**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | STRONGLY DISAGREE | 1         | 2.1     | 2.1           | 2.1                |
|       | DISAGREE          | 2         | 4.3     | 4.3           | 6.4                |
|       | NEUTRAL           | 3         | 6.4     | 6.4           | 12.8               |
|       | AGREE             | 18        | 38.3    | 38.3          | 51.1               |
|       | STRONGLY AGREE    | 23        | 48.9    | 48.9          | 100.0              |
|       | Total             | 47        | 100.0   | 100.0         |                    |

| <b>ACRM5</b> |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------|-------------------|-----------|---------|---------------|--------------------|
| Valid        | STRONGLY DISAGREE | 17        | 36.2    | 36.2          | 36.2               |
|              | DISAGREE          | 17        | 36.2    | 36.2          | 72.3               |
|              | NEUTRAL           | 5         | 10.6    | 10.6          | 83.0               |
|              | AGREE             | 6         | 12.8    | 12.8          | 95.7               |
|              | STRONGLY AGREE    | 2         | 4.3     | 4.3           | 100.0              |
|              | Total             | 47        | 100.0   | 100.0         |                    |

**ACRM6**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | STRONGLY DISAGREE | 17        | 36.2    | 36.2          | 36.2               |
|       | DISAGREE          | 15        | 31.9    | 31.9          | 68.1               |
|       | NEUTRAL           | 5         | 10.6    | 10.6          | 78.7               |
|       | AGREE             | 7         | 14.9    | 14.9          | 93.6               |
|       | STRONGLY AGREE    | 3         | 6.4     | 6.4           | 100.0              |
|       | Total             | 47        | 100.0   | 100.0         |                    |

**ACRM7**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | STRONGLY DISAGREE | 30        | 63.8    | 63.8          | 63.8               |

|  |                |    |       |       |       |
|--|----------------|----|-------|-------|-------|
|  | DISAGREE       | 9  | 19.1  | 19.1  | 83.0  |
|  | NEUTRAL        | 3  | 6.4   | 6.4   | 89.4  |
|  | AGREE          | 3  | 6.4   | 6.4   | 95.7  |
|  | STRONGLY AGREE | 2  | 4.3   | 4.3   | 100.0 |
|  | Total          | 47 | 100.0 | 100.0 |       |

**ACRM8**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | STRONGLY DISAGREE | 5         | 10.6    | 10.6          | 10.6               |
|       | DISAGREE          | 2         | 4.3     | 4.3           | 14.9               |
|       | NEUTRAL           | 4         | 8.5     | 8.5           | 23.4               |
|       | AGREE             | 20        | 42.6    | 42.6          | 66.0               |
|       | STRONGLY AGREE    | 16        | 34.0    | 34.0          | 100.0              |
|       | Total             | 47        | 100.0   | 100.0         |                    |

| <b>ACRM9</b> |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------|-------------------|-----------|---------|---------------|--------------------|
| Valid        | STRONGLY DISAGREE | 15        | 31.9    | 31.9          | 31.9               |
|              | DISAGREE          | 24        | 51.1    | 51.1          | 83.0               |
|              | NEUTRAL           | 3         | 6.4     | 6.4           | 89.4               |
|              | AGREE             | 5         | 10.6    | 10.6          | 100.0              |
|              | Total             | 47        | 100.0   | 100.0         |                    |

**ACRM10**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | STRONGLY DISAGREE | 2         | 4.3     | 4.3           | 4.3                |
|       | DISAGREE          | 3         | 6.4     | 6.4           | 10.6               |
|       | NEUTRAL           | 5         | 10.6    | 10.6          | 21.3               |
|       | AGREE             | 20        | 42.6    | 42.6          | 63.8               |
|       | STRONGLY AGREE    | 17        | 36.2    | 36.2          | 100.0              |
|       | Total             | 47        | 100.0   | 100.0         |                    |

**ACRM11**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | STRONGLY DISAGREE | 3         | 6.4     | 6.4           | 6.4                |

|  |                |    |       |       |       |
|--|----------------|----|-------|-------|-------|
|  | DISAGREE       | 3  | 6.4   | 6.4   | 12.8  |
|  | NEUTRAL        | 4  | 8.5   | 8.5   | 21.3  |
|  | AGREE          | 20 | 42.6  | 42.6  | 63.8  |
|  | STRONGLY AGREE | 17 | 36.2  | 36.2  | 100.0 |
|  | Total          | 47 | 100.0 | 100.0 |       |

**ACRM12**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | STRONGLY DISAGREE | 16        | 34.0    | 34.0          | 34.0               |
|       | DISAGREE          | 18        | 38.3    | 38.3          | 72.3               |
|       | NEUTRAL           | 5         | 10.6    | 10.6          | 83.0               |
|       | AGREE             | 4         | 8.5     | 8.5           | 91.5               |
|       | STRONGLY AGREE    | 4         | 8.5     | 8.5           | 100.0              |
|       | Total             | 47        | 100.0   | 100.0         |                    |

| <b>ACRM13</b> |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------------|-------------------|-----------|---------|---------------|--------------------|
| Valid         | STRONGLY DISAGREE | 17        | 36.2    | 36.2          | 36.2               |
|               | DISAGREE          | 18        | 38.3    | 38.3          | 74.5               |
|               | NEUTRAL           | 4         | 8.5     | 8.5           | 83.0               |
|               | AGREE             | 7         | 14.9    | 14.9          | 97.9               |
|               | STRONGLY AGREE    | 1         | 2.1     | 2.1           | 100.0              |
|               | Total             | 47        | 100.0   | 100.0         |                    |

**ACRM14**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | STRONGLY DISAGREE | 2         | 4.3     | 4.3           | 4.3                |
|       | DISAGREE          | 3         | 6.4     | 6.4           | 10.6               |
|       | NEUTRAL           | 6         | 12.8    | 12.8          | 23.4               |
|       | AGREE             | 18        | 38.3    | 38.3          | 61.7               |
|       | STRONGLY AGREE    | 18        | 38.3    | 38.3          | 100.0              |
|       | Total             | 47        | 100.0   | 100.0         |                    |

**BLRP1**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | STRONGLY DISAGREE | 1         | 2.1     | 2.1           | 2.1                |

|  |                |    |       |       |       |
|--|----------------|----|-------|-------|-------|
|  | DISAGREE       | 3  | 6.4   | 6.4   | 8.5   |
|  | NEUTRAL        | 4  | 8.5   | 8.5   | 17.0  |
|  | AGREE          | 20 | 42.6  | 42.6  | 59.6  |
|  | STRONGLY AGREE | 19 | 40.4  | 40.4  | 100.0 |
|  | Total          | 47 | 100.0 | 100.0 |       |

**BLRP2**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | STRONGLY DISAGREE | 3         | 6.4     | 6.4           | 6.4                |
|       | DISAGREE          | 4         | 8.5     | 8.5           | 14.9               |
|       | NEUTRAL           | 2         | 4.3     | 4.3           | 19.1               |
|       | AGREE             | 22        | 46.8    | 46.8          | 66.0               |
|       | STRONGLY AGREE    | 16        | 34.0    | 34.0          | 100.0              |
|       | Total             | 47        | 100.0   | 100.0         |                    |

| <b>BLRP3</b> |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------|-------------------|-----------|---------|---------------|--------------------|
| Valid        | STRONGLY DISAGREE | 2         | 4.3     | 4.3           | 4.3                |
|              | DISAGREE          | 4         | 8.5     | 8.5           | 12.8               |
|              | NEUTRAL           | 3         | 6.4     | 6.4           | 19.1               |
|              | AGREE             | 19        | 40.4    | 40.4          | 59.6               |
|              | STRONGLY AGREE    | 19        | 40.4    | 40.4          | 100.0              |
|              | Total             | 47        | 100.0   | 100.0         |                    |

**BLRP4**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | STRONGLY DISAGREE | 4         | 8.5     | 8.5           | 8.5                |
|       | DISAGREE          | 7         | 14.9    | 14.9          | 23.4               |
|       | NEUTRAL           | 5         | 10.6    | 10.6          | 34.0               |
|       | AGREE             | 17        | 36.2    | 36.2          | 70.2               |
|       | STRONGLY AGREE    | 14        | 29.8    | 29.8          | 100.0              |
|       | Total             | 47        | 100.0   | 100.0         |                    |

**BLRP5**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | STRONGLY DISAGREE | 2         | 4.3     | 4.3           | 4.3                |

|                |    |       |       |       |
|----------------|----|-------|-------|-------|
| DISAGREE       | 6  | 12.8  | 12.8  | 17.0  |
| NEUTRAL        | 2  | 4.3   | 4.3   | 21.3  |
| AGREE          | 22 | 46.8  | 46.8  | 68.1  |
| STRONGLY AGREE | 15 | 31.9  | 31.9  | 100.0 |
| Total          | 47 | 100.0 | 100.0 |       |

DESCRIPTIVES VARIABLES=BIWSME1 BIWSME2 BIWSME3 BIWSME4 BIWSME5 BIWSME6  
BIWSME7 BIWSME8 BIWSME9 BIWSME10 BIWSME11 BIWSME12 BIWSME13 EALRD1 EALRD2  
EALRD3 EALRD4 EALRD5 EALRD6 EALRD7 BPPRC1 BPPRC2 BPPRC3 BPPRC4 BPPRC5 BPPRC6  
ACRM1 ACRM2 ACRM3 ACRM4 ACRM5  
ACRM6 ACRM7 ACRM8 ACRM9 ACRM10 ACRM11 ACRM12 ACRM13 ACRM14 BLRP1 BLRP2  
BLRP3 BLRP4 BLRP5  
/STATISTICS=MEAN STDDEV MIN MAX.

## Descriptive

### Notes

|                        |                                |   |
|------------------------|--------------------------------|---|
| Output Created         |                                | 28-NOV-2018 14:49:39                                |
| Comments               |                                |   |
|                        | Data                           | F:\SPSS back up.sav 2.sav                           |
|                        | Active Dataset                 | DataSet1  |
| Input                  | Filter                         | <none>  |
|                        | Weight                         | <none>  |
|                        | Split File                     | <none>  |
|                        | N of Rows in Working Data File | 47  |
| Missing Value Handling | Definition of Missing          | User defined missing values are treated as missing. |
|                        | Cases Used                     | All non-missing data are used.                      |

|           |                |   |
|-----------|----------------|---|
| Syntax    |                | DESCRIPTIVES<br>VARIABLES=BIWSME1<br>BIWSME2 BIWSME3 BIWSME4<br>BIWSME5 BIWSME6 BIWSME7<br>BIWSME8 BIWSME9 BIWSME10<br>BIWSME11 BIWSME12<br>BIWSME13<br>/STATISTICS=MEAN STDDEV<br>MIN MAX. |
| Resources | Processor Time | 00:00:00.00   |
|           | Elapsed Time   | 00:00:00.00   |

[DataSet1] F:\SPSS back up.sav 2.sav

#### Descriptive Statistics

|         | N  | Minimum | Maximum | Mean   | Std. Deviation |
|---------|----|---------|---------|--------|----------------|
| BIWSME1 | 47 | 4.00    | 5.00    | 4.4255 | .49977         |
| BIWSME2 | 47 | 4.00    | 5.00    | 4.4468 | .50254         |
| BIWSME3 | 47 | 4.00    | 5.00    | 4.4468 | .50254         |
| BIWSME4 | 47 | 1.00    | 5.00    | 4.4043 | .74190         |
| BIWSME5 | 47 | 1.00    | 5.00    | 1.9362 | 1.00875        |
| BIWSME6 | 47 | 1.00    | 5.00    | 2.1064 | 1.22002        |
| BIWSME7 | 47 | 1.00    | 5.00    | 3.8723 | 1.11545        |
| BIWSME8 | 47 | 1.00    | 5.00    | 1.9787 | 1.03187        |
| BIWSME9 | 47 | 1.00    | 5.00    | 4.0000 | 1.06322        |

|                     |    |      |      |        |         |
|---------------------|----|------|------|--------|---------|
| BIWSME10            | 47 | 2.00 | 5.00 | 4.1489 | .80700  |
| BIWSME11            | 47 | 1.00 | 5.00 | 3.8085 | 1.20935 |
| BIWSME12            | 47 | 1.00 | 5.00 | 3.8936 | 1.06799 |
| BIWSME13            | 47 | 1.00 | 5.00 | 4.3617 | .84508  |
| Valid N (list wise) | 47 |      |      |        |         |

**Descriptive Statistics**

|                     | N  | Minimum | Maximum | Mean   | Std. Deviation |
|---------------------|----|---------|---------|--------|----------------|
| EALRD1              | 47 | 2.00    | 5.00    | 3.9149 | .99629         |
| EALRD2              | 47 | 1.00    | 5.00    | 3.8511 | 1.23321        |
| EALRD3              | 47 | 1.00    | 5.00    | 2.4255 | 1.31455        |
| EALRD4              | 47 | 1.00    | 5.00    | 3.8511 | 1.17914        |
| EALRD5              | 47 | 1.00    | 5.00    | 3.5957 | 1.32959        |
| EALRD6              | 47 | 1.00    | 5.00    | 2.1702 | 1.20360        |
| EALRD7              | 47 | 2.00    | 5.00    | 4.1702 | .86776         |
| Valid N (list wise) | 47 |         |         |        |                |

**Descriptive Statistics**

|                     | N  | Minimum | Maximum | Mean   | Std. Deviation |
|---------------------|----|---------|---------|--------|----------------|
| BPPRC1              | 47 | 1.00    | 5.00    | 3.8723 | 1.20897        |
| BPPRC2              | 47 | 1.00    | 5.00    | 2.0426 | 1.19705        |
| BPPRC3              | 47 | 1.00    | 5.00    | 1.8298 | .98509         |
| BPPRC4              | 47 | 1.00    | 5.00    | 2.2979 | 1.24961        |
| BPPRC5              | 47 | 1.00    | 5.00    | 2.0000 | 1.14208        |
| BPPRC6              | 47 | 1.00    | 5.00    | 2.2128 | 1.17836        |
| Valid N (list wise) | 47 |         |         |        |                |

**Descriptive Statistics**

|                     | N  | Minimum | Maximum | Mean   | Std. Deviation |
|---------------------|----|---------|---------|--------|----------------|
| ACRM1               | 47 | 2.00    | 5.00    | 4.2979 | .85757         |
| ACRM2               | 47 | 1.00    | 5.00    | 3.8085 | 1.26213        |
| ACRM3               | 47 | 1.00    | 5.00    | 2.0851 | 1.08005        |
| ACRM4               | 47 | 1.00    | 5.00    | 4.2766 | .92553         |
| ACRM5               | 47 | 1.00    | 5.00    | 2.1277 | 1.17246        |
| ACRM6               | 47 | 1.00    | 5.00    | 2.2340 | 1.27199        |
| ACRM7               | 47 | 1.00    | 5.00    | 1.6809 | 1.12494        |
| ACRM8               | 47 | 1.00    | 5.00    | 3.8511 | 1.25072        |
| ACRM9               | 47 | 1.00    | 4.00    | 1.9574 | .90787         |
| ACRM10              | 47 | 1.00    | 5.00    | 4.0000 | 1.06322        |
| ACRM11              | 47 | 1.00    | 5.00    | 3.9574 | 1.14127        |
| ACRM12              | 47 | 1.00    | 5.00    | 2.1915 | 1.24479        |
| ACRM13              | 47 | 1.00    | 5.00    | 2.0851 | 1.11958        |
| ACRM14              | 47 | 1.00    | 5.00    | 4.0000 | 1.08347        |
| Valid N (list wise) | 47 |         |         |        |                |

#### Descriptive Statistics

|                     | N  | Minimum | Maximum | Mean   | Std. Deviation |
|---------------------|----|---------|---------|--------|----------------|
| BLRP1               | 47 | 1.00    | 5.00    | 4.1277 | .96947         |
| BLRP2               | 47 | 1.00    | 5.00    | 3.9362 | 1.14975        |
| BLRP3               | 47 | 1.00    | 5.00    | 4.0426 | 1.10252        |
| BLRP4               | 47 | 1.00    | 5.00    | 3.6383 | 1.29255        |
| BLRP5               | 47 | 1.00    | 5.00    | 3.8936 | 1.12741        |
| Valid N (list wise) | 47 |         |         |        |                |