



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

**ASSESSMENT OF LEASE FINANCING REPAYMENT PRACTICES:
A CASE OF SMALL AND MEDIUM ENTERPRISES (SME) FINANCED
BY DEVELOPMENT BANK OF ETHIOPIA (DBE)**

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June, 2023

Addis Ababa, Ethiopia

**Assessment of Lease Financing Repayment Practices: A Case of Small and
Medium Enterprises (SME) Financed by Development Bank of Ethiopia
(DBE)**

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Department of Accounting and Finance in partial fulfillment of Masters of Science (MSc)
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STATEMENT OF CERTIFICATION

This is to certify that Heaven Abebe has carried out her thesis on the topic entitled '*Assessment of Lease Financing Repayment Practices: A Case of Small and Medium Enterprises (SME) Financed by Development Bank of Ethiopia (DBE)*'. This work is original in nature and suitable for the award of Masters of Science (MSC) in Accounting and Finance.

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STATEMENT OF DECLARATION

I, the undersigned, declare that this research is my original work, prepared under the guidance of **Abebaw Kassie (PhD)**. All sources of materials used for this research have been duly acknowledged, the researcher further confirm that the research has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.



Heaven Abebe

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ABSTRACT

This study was conducted to assess lease financing repayment practices. In particular, the study has assessed effectiveness of the skill training, identified lease finance management practices, and assessed challenges to lease finance. The study has used 107 SME in Addis Ababa that received lease finance from DBE. The study has applied descriptive and explanatory research designs and it has followed quantitative research approach. The study has collected primary and secondary data from the enterprises by using structured questionnaire and the data was analyzed by using descriptive statistics. The study has identified that lease finance skill training failed to meet expectation of the bank and the enterprises perceived that the training has no role for the enterprises. In addition, it was identified that there is weak lease finance management from the side of the enterprises and the bank. As a result, there is late repayment practice of the lease finance in different enterprises. Moreover, it was identified that the enterprises are facing different challenges including challenges from the bank.

Key Words: DBE, Lease Finance, Repayment Delay, Skill Training, SME

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

Businesses generally own fixed assets, but it is the use of land, buildings, and equipment that is important, not their ownership. One way to obtain the use of such assets is to raise debt or equity capital and then use these funds to buy them. An alternative way to obtain the use of assets is by leasing. Leasing is a possibility for Small and Medium Enterprises (SME) to expand their access to short- and medium-term financing. From an economic perspective, leasing can be defined as a contract between two parties where one party (the lessor) provides an asset for usage to another party (the lessee) for a specified period of time, in return for specified payments (Fletcher et. al., 2015).

SMEs finance themselves to a great extent by internal sources, both from the business owner and through retained profit. Many SMEs also use external sources of finance, informal sources (such as family and friends, and some types of business angel investment) and formal sources, such as bank loans, leasing, trade credits, factoring and more “formal” Venture Capital, which is important for a select group of high potential SMEs (EIM, 2019). Nevertheless, SMEs have usually more difficulties in accessing external financing than large enterprises.

According to the European Central Bank, ECB (2019), access to finance remained the second most pressing problem for SMEs in Euro area, and it appears to be a more severe concern for SMEs than for large firms. Nevertheless, leasing is the third most important financing source of SMEs, preceded by bank overdrafts, credit lines and credit card overdrafts and bank loans. The relatively high importance of leasing for the external financing of SMEs is confirmed by the recent study. In 2020, according to Oxford Economics (2021), leasing was the most popular source of external financing, which was used by 40% of the surveyed SMEs in 2020. However, even if a large number of SMEs uses leasing, the share of investment financed by leasing (16.7%) is actually smaller than the share of SMEs which used leasing as a financing tool.

According to the European Commission (2021) broken down by size classes, 28% of micro enterprises used leasing, 42% of small firms, and 53% of medium sized firms. Moreover, also

the share of investment which is financed by leasing (penetration rate) increases on average with the size of the SME. Penetration-rates for micro-enterprises (10%) are smaller than for small (16.4%) or medium-sized firms (17.6%). While it is generally difficult for young firms to access external financing sources, SMEs' access to leasing seems to develop quicker than the access to other sources of external financing. The relative importance of leasing was highest for relatively young enterprises aged between two and five years (Oxford Economics, 2021).

Leasing can be said to be an alternative mechanism to facilitate access to finance. It enables the use of capital equipment in particular new/young enterprises without credit track record and with limited possibilities to provide collateral. Leasing exposures are associated with relatively low risk compared to other forms of financing (Schmit, 2005), and De Laurentis and Mattei (2019). The presence of physical collaterals contributes very largely to this reduced risk profile. Lease financing increases the profitability of companies, but raises the corporate risk of companies accordingly.

Mengistu (2019) revealed that the bank's Small and Medium Enterprise selection criteria, poor supply chain with insufficient and appropriate capital goods suppliers, macroeconomic instability, inadequately prepared financial statements by SME, a lack of the enterprises, ignorance of SME in Lease Financing, inadequate credit risk management by the bank, and a lack of adequate internal controls are the challenges the bank faces. In addition, the challenges of lease finance in the context of DBE were studied by Dagnachew (2019) and it was revealed that there aren't enough and reliable capital goods suppliers, the macroeconomic environment is unstable, there aren't any SMEs or those that are available aren't creditworthy, there's a lack of knowledge about SME lease financing, the bank doesn't manage credit risk well, and there aren't any effective policies or procedures in place to lower the costs of SME lease financing.

This study was conducted to practices of assess lease finance provided by DBE to SME in Addis Ababa.

1.2 Statement of the Problem

DBE provides lease finance with objectives of sustainable growth by reducing unemployment and increasing production and productivity of SME, for new and existing SME that engage in selected sectors by the bank. The finance to meet objective of the bank, DBE involves in different activities in finance management. The activities of lease financing start by providing skill training for enterprises/individuals that have demand for the finance. These enterprises can be new or existing in the suggested sectors. Accordingly, the bank provided training for thousands of potential and existing enterprises by expending huge financial cost. However, according to DBE (2022), less than 10 percent of the enterprises participated are currently in operation and received lease finance from the bank. This is indicative that merely the training is not influencing the enterprises to engage in business. In addition, involvement of the smallest proportion of potential enterprises in the business, suggested existence of challenges to engage in the business and to qualify for lease finance service provided by the bank. Although there are few enterprises that meet requirement set by the bank to get the lease finance, number of enterprises faced challenges that delayed engagement in the business operation. In addition, challenges are extended even to operation period and influenced the loan repayment.

DBE provides lease finance to enterprises that meet requirement for the finance to purchase capital good by holding the capital good as collateral. The finance is repaid to the bank in form of rent and the enterprises own the good after completing the repayment. However, there are enterprises that default the period repayment of the finance (DBE, 2023). Moreover, it is practiced that there is frequent occurrence of repayment delay and even there are enterprises terminated the payment. The bank observed weakness the lease finance management and also repayment variation in the enterprises. As a result, the finance repayment might be affected by different factors from aspects of the enterprises and the bank. In Ethiopia, very few studies were conducted to examine lease financing practices and challenges of the lease financing; for example, Ismael (2022), Yosef (2022), IDA (2021), Hailekiros (2020), Badada (2020), Fekadu (2019), Sintayehu (2019) and Asfaw (2016). Yosef (2022) and Dagnachew (2019) identified challenges of lease financing from perspectives of the bank and failed to include the enterprises. Moreover, the studies mainly focused on macroeconomic factor that are uniform for all

enterprises and unlikely manageable by either by the bank or by the enterprises. This study argue that it is important to assess challenges of lease financing from the perspective of bank and the enterprises that are manageable and within scope of parties in the lease financing. However, although the bank provides different skill training in relation to lease financing (DBE, 2022), there were no studies conducted to identify effectiveness of skill training. The bank strictly expects regular repayment of the loan as per agreement with the enterprises. However, there were large number of enterprises, about 31%, that fail to repay the lease finance provided by the bank. In line with this problem, there were no studies conducted about lease finance repayment and factors affecting the repayment at the enterprise level (DBE, 2022). Hence, this study was conducted to assess lease financing repayment practices focusing on skill training provided by the bank, assess challenges of lease financing related to the bank and the enterprises, and assess repayment of lease finance.

1.3 Research Questions

This study intends to answer following research questions;

- What is perception of enterprises on lease finance skill training provided by DBE; a case of SME in Addis Ababa?
- What is the lease finance repayment performance of enterprises, a case of SME in Addis Ababa financed by DBE?
- What are challenges in lease finance for SME in Addis Ababa that are financed by DBE to repay the lease finance provided by DBE?

1.4 Objective of the Study

1.4.1 General Objective

In general, this study was conducted to assess lease finance repayment practice by SME in Addis Ababa that financed by DBE.

1.4.2 Specific Objectives

In particular, this study was conducted based on following objectives;

1. To assess perceptions of SME on lease financing training provided by DBE;
2. To identify lease finance repayment performance of SME in Addis Ababa;
3. To assess challenges to SME to receive lease finance provided by DBE.

1.5 Significance of the Study

This study will have managerial and theoretical implications in the area of lease finance. The study will be important for DBE to monitor management of the finance; particularly, in regards to skill training, challenges the enterprises face while requesting the finance and repayment of the finance. In addition, the study will be important for the bank by providing information on how lease finance is managed and repayment varies within sectors of the enterprises. Moreover, the study will have an important role for the bank by providing information on factors caused difference in repayment of the finance and it helps to make decision while providing lease finance.

In addition, the study contributes to management of the enterprises by sharing best practice of management and repayment of the finance and informing challenges in lease finance. Furthermore, the study will help the enterprises by informing factors for repayment.

Finally, the study will support empirical and theoretical literatures in the area of lease financing.

1.6 Scope of the Study

This study was conducted based on different scopes. First, the study was geographically scoped to Addis Ababa. Although the lease finance is provided by DBE in different part of the country, there are significant number of enterprises in Addis Ababa that engaged in different sectors. Since there are appropriate number of enterprises in Addis Ababa, this study includes SME in Addis Ababa. The bank provides lease finance for enterprises in agriculture, manufacturing, construction and tourism sectors. There are number of enterprises in agriculture, manufacturing and construction sectors in Addis Ababa. However, there are no or very few enterprises in

tourism that are under establishment. Hence, in relation to the geographic scope, this study excludes tourism sector and include enterprises agriculture, construction and manufacturing sectors that operate in Addis Ababa. Conceptually, the study includes effectiveness of skill training provided by the bank, challenges for the enterprises in lease financing, repayment of the finance and factors affected repayment the finance. In regards to the time scope, this study will follow cross-sectional survey because of limitation of data storage practices in the enterprises.

1.7 Organization of the Study

This study was organized into five chapters. While the first chapter highlights the introduction section, the second chapter presents the review of related literatures that includes theoretical review, empirical reviews and conceptual framework. Chapter three is about methodology of the study that includes research design, population and sampling, data type and method of collection, methods of data analysis. Chapter four presents results and discussion. Finally, chapter five presents summary of major findings, conclusion and recommendations based on the findings.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Concepts and Definitions

2.1.1 Definitions of Lease Financing

Leasing has been defined by different authors in different ways but all the same, the meaning is anchored toward the same thing. Kurfi (2003) conceptualized leasing as “an alternative mode of financing to the traditional debt and equity capital for the acquisition of capital assets by firms”. Kraemer and Lang (2012) see leasing as a contract between two parties where one party (the lessor) provides an asset for usage to another party (the lessee) for a specified period of time, in return for a specified payment. Leasing is a contractual agreement between an owner (the lessor) and another party (the lessee) which conveys to the lessee the right to use the leased assets for consideration usually periodic payments called rent. Therefore, leasing can be seen as a contractual agreement granting the use of an asset to the lessee by the lessor within a specified period of time in exchange of periodic payment of an agreed rental fee by the lessee to the lessor.

Leasing is referred to as asset-based financing. As lessors retain ownership of the assets they lease throughout the life of the contract, these leased assets are therefore an inherent form of collateral in such contracts (compared to traditional bank lending which will either be unsecured or make use of different types of collateral and typically not physical assets such as equipment which are inherent in leases). Conventional bank lending focuses on the loan repayment by the borrower from two sources: a primary source, the cash flow generation, and a secondary source, credit enhancements and collateral (if any). Leasing is focused on the lessee’s ability to generate cash flows from the business operations to service the lease payments (Gallardo, 1997), as the lessor retains legal ownership of the asset. Hence, leasing separates the legal ownership of an asset from its economic use. Ownership of the asset may or may not pass to the customer at the end of the lease contract. Contracts, where legal ownership of the asset passes directly to the customer at the start of the agreement, are not considered to be leases.

Leases are classified currently under IAS 17, as finance (Capital) or operating leases, depending on whether substantially all the risks and rewards of ownership transfer to the lessee or not.

Under a finance lease, the lessee has substantially all of the risks and reward of ownership. Finance lease are long-term, non-cancelable lease contracts (Kurfi, 2003). It combines some of the benefits of leasing with those of ownership. In a typical financial lease, the lessee selects the specific item needed and then negotiates the price and delivery terms with the manufacturer. The lessee then arranges to have a leasing firm (lessor) buy the equipment from the manufacturer, and the lessee simultaneously executes a lease agreement with the lessor. The terms of a financial lease call for full amortization of the lessor's investment, plus a rate of return on the lease that is close to the percentage rate the lessee would have paid on a secured term loan.

On the other hand, an operational lease, sometimes called service leases, involves the lessee only renting an asset over a time period which is substantially less than the asset's economic life. In such cases operating lease may run for 3 to 5 years (Adekunle, 2005). The lessor is usually responsible for maintenance and insurance. Operating leases generally provide both financing and maintenance. Operating leases typically require the lessor to maintain and service the leased equipment, with the cost of maintenance built into the lease payments. Additionally, operating leases are not fully amortized, that is, the payments required under the lease contract are not sufficient for the lessor to recover the full cost of the equipment. However, the lease contract is written for a period that is considerably shorter than the expected useful life of the leased asset, and the lessor expects to recover all costs eventually, either by lease renewal payments or by sale of the equipment.

Based on contractual arrangements, the lessee is allowed to use an asset which is owned by the lessor; the lessee pays specified periodic rentals. The lessor relies on the lessee's ability to generate sufficient cash flows to pay the lease rentals (rather than to rely on the lessee's other assets or track record/credit history). Leasing enables also borrowers with limited track record / credit histories and collateral to access the use of capital equipment, often even in cases where they would not qualify for traditional commercial bank lending (Gallardo, 1997; Berger and Udell, 2005).

The main channels leasing goods are the vendor channel and the customer channel (Oxford Economics, 2011). In the vendor channel, the SME leases an asset at its point of sale, i.e. at the same time as selecting the equipment from a manufacturer or dealer, it also selects to finance the

asset. In such cases, the financing can be provided directly to the end customer by the manufacturer or dealer,²¹ or the manufacturer/dealer may have an agreement in place with a 3rd party leasing company who provides the lease to the end customer. The customer channel involves initiating contact between the lessee and the provider of the lease in a number of ways, e.g. through the bank branch of the customer (in the case of bank owned leasing companies who distribute their leasing products through the banking network), directly through the sales network of a lessor or through a broker which may provide a range of financial services, including leasing.

Borrowers who receive loans in kind (such as, equipment) have better loan repayment compared to borrowers who receive loans in cash. This happens mainly because borrowers may use the loans in cash for non-business-related purposes (Okorie, 1986).

2.1.2 Types of lease financing

There are overall three main types of leasing: “operational lease”, finance lease”, and “hire purchase” lease. They generally vary in ownership rights and control of asset rights as well as responsibility for maintenance, damage and insurance. Leasing serves generally all sectors and can be applied for different size equipment’s (Helen, 2014). Financial lease is a type of leasing by which a leaser provides a lessee against payment of mutually agreed installments over a specified period with the use of specified capital goods which is either already acquired by the leaser; or purchased by the leaser from a third party, known as the manufacturer or supplier, chosen and specified by the lessee; and under which the leaser shall retain full ownership right on the capital goods during the period of the lease agreement, and subject to agreement between the two parties, the lessee may have an option to purchase the capital goods outright after the termination of the lease period at an agreed price. The price shall be determined based on agreement between the two parties (i.e. not more than 0.5% of the original cost of the capital goods) and included in the lease contract (DBE, 2016).

The lease transfers ownership of the asset to the lessee at the end of the lease term; The lessee has the option to purchase the asset at a price that is expected to be significantly lower than the true value of the asset at the time when this option becomes possible and it is clear that at the beginning of this option agreement will be used; The lease term is most economic life of the

asset even if title is not transferred yet; At the beginning of the lease the present value of total minimum lease payments is significant in all manner of fair value of the leased asset; and the leased assets are of a special nature in such a way that only the lessee cannot use them without major modifications carried out (Elidiana and Fatbardha, 2013).

Under operating lease, the user of the machinery makes payment for a short-term use of the asset. Essentially, operating lease is similar to renting with no ownership rights and control of asset rights transferred to the lessee (Helen, 2014).

An operating lease does not transfer the risks and benefits of ownership to the lessee. The leaser, as owner of the property, retains legal title. In this transaction, the leaser is entitled to any tax benefits of ownership (such as accelerated depreciation). The leaser also retains the rights to the property's residual value at the end of the term. In most operating leases, the term of the initial lease agreement is significantly shorter than the economic life of the property (Comptroller's Handbook, 2014).

In addition to this operational leasing is a type of lease in which the leaser acquires the property at your own risk, and then passes it to the lessee as the leased asset. Lessee may choose operational leasing, in the following cases: 1. If necessary to take advantage of leasing the property only for a time, to perform a single operation; 2. If the leased property is fast becoming obsolete and the lessee assumes that a new, more sophisticated and effective property will be after the end of the lease term (Eugenyet al, 2016).

Hire-purchase is a variation of finance lease, and one currently promoted in Ethiopia. A lessee agrees to pay for an asset in parts or a percentage over a number of months or years towards eventual ownership of the asset. The ownership of the asset remains with the leaser until the last payment is made. In effect, hire-purchase is similar to a mortgage system, whereby with each regular payment, the user's ownership rights increase until the payments are complete.

In Ethiopia, the focus is to develop enabling and vibrant environment for finance lease, in particular for hire-purchase lease, as this form of leasing leads to final ownership of the asset. The key characteristics of finance lease including hire-purchase are as follows: the lessee selects the asset; the procurement of asset is conducted by the leaser and not the lessee; the leaser

remains the owner of the asset throughout the lease period, while the lessee has control over the use of the asset; the leaser is fully secured in the event of destruction or damage; the lessee has the obligation to pay the lease fee and the lessee has the obligation to maintain the asset in line with the lease agreement. The lease agreement, among other items is non-cancellable. The agreement details, among other things, the actions to be taken in the event there is a default (Helen, 2014).

2.1.3 Lease Financing Policy in Ethiopia

Ethiopia has a leasing industry specific legislation. Issued in 1998, the first leasing proclamation, i.e. CGLB 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.

2.2 Theoretical Framework

2.2.1 Modigliani-Miller Theory

The corporate leasing decision was analyzed in the Modigliani-Miller framework of capital structure that usually began with invoking the assumptions of perfectly competitive capital markets with no information asymmetries and transaction costs. Modigliani and Miller (1958) wrote a seminar paper showing that subject to some conditions, the source of financing was irrelevant in determining the value of the firm. They assumed, either explicitly or implicitly that capital markets are frictionless, individuals can borrow and lend at the risk-free rate, there are no costs to bankruptcy, corporate taxes are the only form of government levy, all cash flow streams are perpetuities, corporate insiders and outsiders have the same information and managers always maximize shareholders wealth (i.e., no agency costs).

If these assumptions were to hold in all circumstances, then the question of whether to finance companies by either debt or equity would perhaps not pre-occupy various corporate stakeholders, including the shareholders, managers and theoreticians. Myers (2001) noted that despite the logic of the Modigliani and Miller (1958) results, financing can matter due to the factors such as existence of taxes, information asymmetry and agency costs. Smith and Wakeman (1985) argued that, as a special case of Modigliani and Miller irrelevance proposition, in case of competitive markets with no taxes and no contracting costs, the net cash flow from the use of an asset is independent of the set of financial contracts specifying the allocation of rights to use the asset. However, in actual financial markets, both the lessee and lessor firms face a variety of market imperfections, such as: information asymmetry, agency costs, financial distress and bankruptcy costs, taxes, transaction costs, costly external financing and incomplete contracting.

2.2.2 Financial Contracting

Theory Financial contracting is the theory of what kinds of deals are made between financiers and those who need financing. Also, it factors in company characteristics and how they affect contracting costs and choice of leasing as a financing vehicle. The theory starts with Modigliani-Miller theorem that ideal environment firms are indifferent of the sources of finance.

Traditionally, the theory of financial leasing has focused on the differential tax position of the lessee and the lessor as the primary rationale for leasing. The fundamental argument is that, if a firm is not in a full tax-paying position purchasing and depreciating an asset may be costly because it can use only a low capital or depreciation tax allowance (Imhoff, Robert & David, 2004). However, by leasing the asset, the lessor would claim the tax allowances, and the tax benefits could be transferred indirectly to the lessee through lower lease payments.

Mehran, Taggart and Yermack (1999) argued that a well-designed financial contract can increase corporate value in at least three ways; first contracts can transfer different forms of risks to those who can bear them cheaply. Second, contracts affect the incentives of contracting parties. They can afford positive incentives for agents to take value maximizing actions and third, it may be possible for a firm to transfer tax liabilities from heavily taxed to less taxed parties. Firms may choose a variety of financial contracts balance risk-sharing, incentives and tax considerations

efficiently. These include common and preferred stock, debt with different maturity and indenture provisions, and operating and financial leases.

Financial contracting occurs when there is information asymmetry (Sharpe & Nguyen, 1995). The influence of such capital market imperfection and financing policy has been the subject of extensive analysis and yet leasing has not been studied to determine how it fits into the equation. Leasing, in pecking order theory of capital structure, has first priority in external financing hence the need to study it (Marston & Harris 1988 and Krishnan & Moyer, 1994).

2.2.3 Theory of Delegated monitoring

Delegation is brought about by this basic question, why do savers/households give money to financial intermediaries and the intermediaries loan the same to borrowers/investors? The theory of delegated monitoring is one of the major explanations why financial intermediaries exist. The theory largely revolves around the collection of information regarding an individual or an institution before a financial transaction is done, this is done especially during the process of issuance of loans and securities. Delegated monitoring revolves to the idea that savers are professionally and time deficient to monitor institutional and individual borrowers for default risk. Default risk is the likelihood of a borrower not to honor repayment on a debt borrowed/a debt contract signed. Also, borrowers are most likely to hide information thus the need for monitoring. According to Gastineau (1999) delegated monitoring is a commercial banking function that involves collecting and analyzing information about the investments and obligations of borrowers to evaluate their ongoing creditworthiness for their own risk management purposes and as a supplement to risk management by their borrowers.

Financial intermediaries reduce the degree of information imperfection and asymmetry between the ultimate suppliers and users of funds. The cost of collection of information regarding financial transactions for savers is costly and thus that function is usually delegated to the financial intermediaries. A failure to do so would expose the investor to agency costs, which relate to the risk that the owners and/or managers of the firm will take actions that are contrary to the interests of the investor. Such agency costs arise whenever economic agents enter into contracts in a situation of incomplete information and thus costly information collection. The common solution to the problem of incomplete information is for the households to pool their

resources i.e. savings into a financial institution that will invest directly in another corporation/invest in activities that bring in better returns. Saccos have always pooled resources through the monthly member contributions that are used to issue loans and also invest in other economic activities (Gastineau, 1999).

According to Diamond (1996), Financial intermediaries are agents, or groups of agents, who are delegated the authority to invest in financial assets on behalf of households/savers. The cost of monitoring and enforcing debt contracts issued directly to investors (equity) is a reason that raising funds through an intermediary can be superior. The easiest way to lower the cost of information in the delegated theory is to acquire unmonitored debt and to disburse the same to borrowers. The unmonitored debt is usually in the form of deposits from households held by the financial intermediaries e.g. Saccos, banks and other financial institutions that provide loans/funds for the investment process. Financial intermediaries have profited from the role of collecting information that they use in disbursing private loans as compared to purchasing already securitized debts in the financial markets (the stock exchange). One of the most important things in delegated monitoring is the analysis of benefits and costs associated with the same. Monitoring involves increasing returns to scale which implies that it will be best done by a profession i.e. an intermediary. The collection of private information by the financial intermediaries will benefit them as the information can be used in lending. Though it's usually hard to verify if the monitoring has been done or not. Delegated monitoring pays off when its cost is equal or less than the cost of contracting without monitoring and the cost of direct monitoring.

2.3 Empirical Review

Ahmed et al. (2018) identified prospects of Pakistan's leasing industry. The main goal of this article was to identify the significant problems that were negatively influencing the performance of the financial industry in general and the leasing sector in particular. Accordingly, the study attempted to pinpoint two overarching macroeconomic scenario problems and four specific leasing company concerns in Pakistan. The study goes into great detail regarding the negative impact of the economic downturn and interest rate volatility on the operations of financial institutions, particularly leasing firms, with regard to the first two general issues. On the other hand, the four distinct issues covered in the study are: limited resources (funding issue), lack of

fair competition, a dearth of creative products, and tax-related issues. It was further argued that leasing companies needed to create innovative products and encourage the leasing of plant and equipment related to priority economic sectors like energy, IT (computers and other hardware), textiles, etc., subject to their intrinsic value, in order to improve the demand prospects for the leasing sector in particular in the near future.

Brahmaiah (2017) examined challenges and prospects of the leasing sector in India. The purpose of the paper is to investigate the issues that leasing companies in India are facing and to evaluate the future prospects of the Indian leasing market. The study is based on the questionnaire responses from 28 lessors and the results of in-depth interviews with executives from top leasing organizations. In India, there are around 400 private and public limited leasing organizations engaged in a variety of leasing activities, according to the report. The study also attempted to explain the various formation and structure of leasing companies across the nation. Pure leasing firms, organizations that specialize in hire-purchase and finance, and subsidiaries of manufacturing group corporations are some of the significant players in the private sector leasing market. The public sector leasing organizations, on the other hand, are split into three categories: (a) subsidiaries of nationalized commercial banks; (b) leasing divisions of financial institutions; and (c) other public sector leasing organizations. The study has determined the key issues that demand the greatest amount of attention after conducting a thorough review of the leasing business. Resource constraints, insufficient tax benefits and sales tax burdens, strict import/cross-border leasing procedures, a lack of proper and integrated accounting standards, a lack of laws, the existence of fierce competition, and a lack of managerial skills are some of these.

In his research on lease finance in Kenya, Michael (2015) observed that the Leasing Association of Kenya has to be proactive in marketing and disseminating knowledge about the leasing solutions available in Kenya. This could include regular updates on the leasing products, financial incentives to encourage leasing adoption, and leasing-related expenses. This will significantly boost the use of operating and financial lease, which could raise the importance of lease financing within Kenyan businesses.

Mengistu (2019) conducted study on the difficulties and opportunities of lease finance in Ethiopia for DBE. According to him, the bank's Small and Medium Enterprise selection criteria,

poor supply chain with insufficient and appropriate capital goods suppliers, macroeconomic instability, inadequately prepared Small and Medium Enterprise financial statements, a lack of Small and Medium Enterprises, ignorance of Small and Medium Enterprise Lease Financing, inadequate credit risk management by the bank, and a lack of adequate internal controls are the challenges the bank faces.

The challenges of lease finance in the context of DBE were studied by Dagnachew (2019). He discovered that there aren't enough reliable capital goods suppliers, the macroeconomic environment is unstable, there aren't any SMEs or those that are available aren't creditworthy, there's a lack of knowledge about SME lease financing, the bank doesn't manage credit risk well, and there aren't any effective policies or procedures in place to lower the costs of SME lease financing. Finally, he demonstrated that he had only focused on the bank side or supply side and urged further study on the demand side or SMEs to better understand the factors that influence lease financing practices.

According to Victoria (2014), having a business idea, money, finding the ideal site, locating staff, locating clients, being in competition, and dealing with unanticipated circumstances are the obstacles and opportunities of leasing for SMEs. In addition to leasing's difficulties Ample funding is necessary for the promotion of youth entrepreneurship to be effective. The government, the private sector, commercial banks, development finance institutions, capital markets, private equity/venture capital, crowd funding, and lease financing are frequently used as sources of funding. These are additional resources to ones own, such as those from family and friends. Governments, donor organizations, NGOs, and private financing sources are the main sources of funding in the majority of developing nations.

According to Yang & Xiaolan (2015), leasing offers financial services that are closely related to a nation's real economy via funding equipment. It can encourage the employment of cutting-edge technology and get rid of underperforming manufacturing capabilities. As a result, such a move may be one of the finest strategies for advancing China's old industrial sectors into high-end, cutting-edge upgrades. Manufacturing has emerged as the leading sector in this economic transition thanks to the special characteristics of leasing, and local governments all over the nation have rushed to introduce policies that are advantageous to leasing investment, such as

preferential land or tax treatment and fiscal subsidies. Opportunities for the leasing industry in China also include improved social awareness and market infrastructures that provide access to the credit information of any specific organization nationwide. The Chinese leasing market is facing a number of challenges, including a structural transformation, a slowdown in growth, a sharp increase in market size, but poor development quality, a lack of qualified workers, and inadequate funding sources for Chinese lessors.

According to Asfaw (2016), the main obstacles facing Ethiopia's lease finance industry are a lack of low-cost, sustainable funding, ambiguity surrounding the legal interpretation of tax incentives, a lack of leasing expertise in the market, weak supply chain connections and other obstacles to procurement, a lack of domestic suppliers, and a lack of a specialized leasing training facility. Despite these obstacles, the study found that Ethiopia has a large market for leasing due to the government's focus on supporting the manufacturing industry and SMEs finance through equipment leasing. The study suggests modifying the legal and regulatory framework to foster the growth of leasing in the nation and ensure that leasing laws and regulations are clear and that challenges facing the sector are addressed through the coordinated efforts of key stakeholders.

Watson et al., (2004) examined the challenges and opportunities of leasing for SME in Egypt. The result indicates that regulatory and legal deficiencies were one of the main reasons hindering the development of the leasing market there despite the suitability of the economic conditions. Lack of funding and absence of guarantees still represent an obstacle towards the development of the leasing market. The study finds that there is a good potential for lease market development there are also still several constraints, both on the leasing as well as the SME levels. A study by addressed the problem of leasing from the legal point of view and the importance of leasing law in Jordan. The researcher found that there is a lack of standard leasing law that addresses the problems related to leasing contracts in Jordan.

Acquah and Addo (2016) conducted study to examine determinants of lease finance repayment performance of enterprises in agriculture sector in Ghana. The study has assessed effect of education, diversification of income sources, loan processing procedure, income from main business activity and size of loan. For this purpose, the study has employed multiple regression analysis. Their results revealed that low level of education, lack of alternative income generating

activity, cumbersome loan processing procedures, they are likely to have high loan default. The study identified income from agriculture sector, amount borrowed and size of loan invested into fishing as significant predictors of credit finance repayment.

Bhatt and Tang (2002) assessed factors that affect lease finance repayment performance of borrowers by using different borrowers from different sectors in Nigeria. The study has included socio-economic characteristics of owners of the business, business characteristics and the loan features. The characteristics of the owners was proxied by gender, age, and experience of a borrower. In addition, characteristics of the business was indicated by sector, income and size of a business, proximity of the borrower's business to the lending agency, and motivation of the borrower for receiving future loans. Further, the study has included loan features such as amount of loan, payback period, and type of loan. The study has used structured questionnaire and collected primary and secondary data from the business. The data was analyzed by following regression method, OLS model. The study identified that the lease finance repayment performance is determined by owner characteristics, business characteristics and also by loan features. In particular, the study has identified that lease finance performance is affected by gender, age, experience the borrower has had in the same sector, education, income, business sector, formality of the borrower's business, social ties of the borrower, group homogeneity, payback period, type of loan (cash or in kind), loan size, proximity of the borrower's business to the lending agency, and motivation of the borrower for receiving future loans.

Sintayehu (2019) identified the overall opportunities and challenges of lease financing service in development Bank of Ethiopia. The study identified opportunities of lease financing and got high level of agreement by respondents. The level of agreement on opportunities questions responded as lease business sector, strong support from the government, leasing business opportunity for employment creation, new investment opportunity and contributing for SMEs development. The study also found out that the major internal and external challenges of the lease financing in DBE are high lease NPLs, tight lease requirements, lack of hard currency, inadequate MIS, policy and procedure amendments repeatedly, and lack of capital.

Fredu and Edris (2016) have conducted the studies about SMEs access to finance in Ethiopia. By using ordered logistic regression analysis they found that: lack of access to finance on reasonable

terms and conditions, limitation of financial intermediaries, high level of collateral requirements by financial institutions; lack of transparency of loan conditions, lengthy application and disbursement process, recent establishment of the SMEs, lack of SMEs engagement with banks, lack of experience of the manager of SMEs and lack of owner manager are the main constraints of SMEs to participate in finance.

2.4 Literature Summary and Research Gap

Studies conducted at companies at level of SME has shown that lease finance repayment performance is mainly associated to characteristics of the borrowers; gender, age, education, business experience. Although Godquin (2014) revealed that lease finance repayment performance is not affected by gender of owner of a business, different studies show, different studies have shown that female owned business have lower risk of default and consequently have better loan repayment performances compared to male owned businesses (Roslan and AbdKarim, 2009; Mokhtar, 2017; Bennett and Goldberg, 2013). Bennett and Goldberg (2013) justified that this may happen because women use the business as a tool to empower family economics and the females minimize risks not to lose the enterprise because of loan default. Besides, lease finance repayment performance is also found to depend on the age of the borrower Mokhtar, (2017). Due to lack of experience, borrowers at younger age have higher default risk compared to older borrowers.

Moreover, researches show that educated borrowers have lower default risk (Nitin, 2012; Matin, 2017; Khandker, 2015; and Bhatt and Tang, 2012). Education supports borrowers in two ways. First, better skills in mathematics and accounting can assist borrowers in their business activities. Second, educated borrowers have higher chance of finding a second job or part time job. So, they can pay back their loans with fewer problems when they face difficulties (Bhatt et al., 2012). Borrowers with higher level of education enjoy better repayment performance compared to those with lower level of formal education that education increase borrowers' productivity, and helps borrowers to have a better understanding of the consequence of the default (Chaudhary, 2013). Borrowers who have more experience in their business usually have better repayment performances since they have a more stable business and more reliable flows of cash and income (Bhatt et al, 2012). Motivation is also among the parameters that affect loan repayment. MFIs

generally do not ask for significant collateral, so the main motivation for loan repayment is the borrowers' expectation for receiving future loans Field and Pande, (2008).

Third, the lease finance repayment performance of enterprises is associated to the finance provided. Lease finance loan is characterized by size of finance associated to cost of equipment (capital), repayment period, and different studies have shown that repayment performances lease finance depends on these characteristics. It was revealed that too short payback period causes possibility of low returns on investment in that period; on the other hand, too long repayment period causes borrowers to divert to use extra money on non-productive uses, especially on consumption" (Chaudhary, 2003). Moreover, repayment of lease finance is positively affected by size of the finance. Larger finance indicates expensiveness of the capital, and higher repayment is expected from the enterprises; it is assumed that as size of finance increased production capacity of the borrower is increased because of quality of the product and high performance of a capital that increases the expected profit of a borrower. This happens because "the net return is an increasing function of the size of production (Godquin, 2004; and Okorie, 2016). However, Martin (2017) and Fremieret (2015) argue that higher lease finance is not predictive to its repayment because unless the capital is relevant for the production capacity of the business and it appropriately valued. Moreover, Godquin (2014) claims that larger loan size makes it more difficult to pay back the loan over a certain period of time and hence, it has to be adjusted with loan repayment period and repayment capacity of an enterprise.

Fourth, repayment of lease finance is associated to relationship between the borrower and finance provider. In this regard, it is indicated that borrowers that receive support and follow up from the financier and borrowers that make frequent communication about the repayment performance and business management practices better lease finance repayment (2002). It is indicated that lease finance provided by development organizations to SME needs regular follow up of the organizations to meet objective of the finance and to collect rent from the finance. Loan supervision through continuous follow up helps to evaluate the lease finance utilization and repayment. This makes borrowers to observe their obligation and improve the proper utilization of the loan thereby improving repayment performance.

2.5 Conceptual Framework

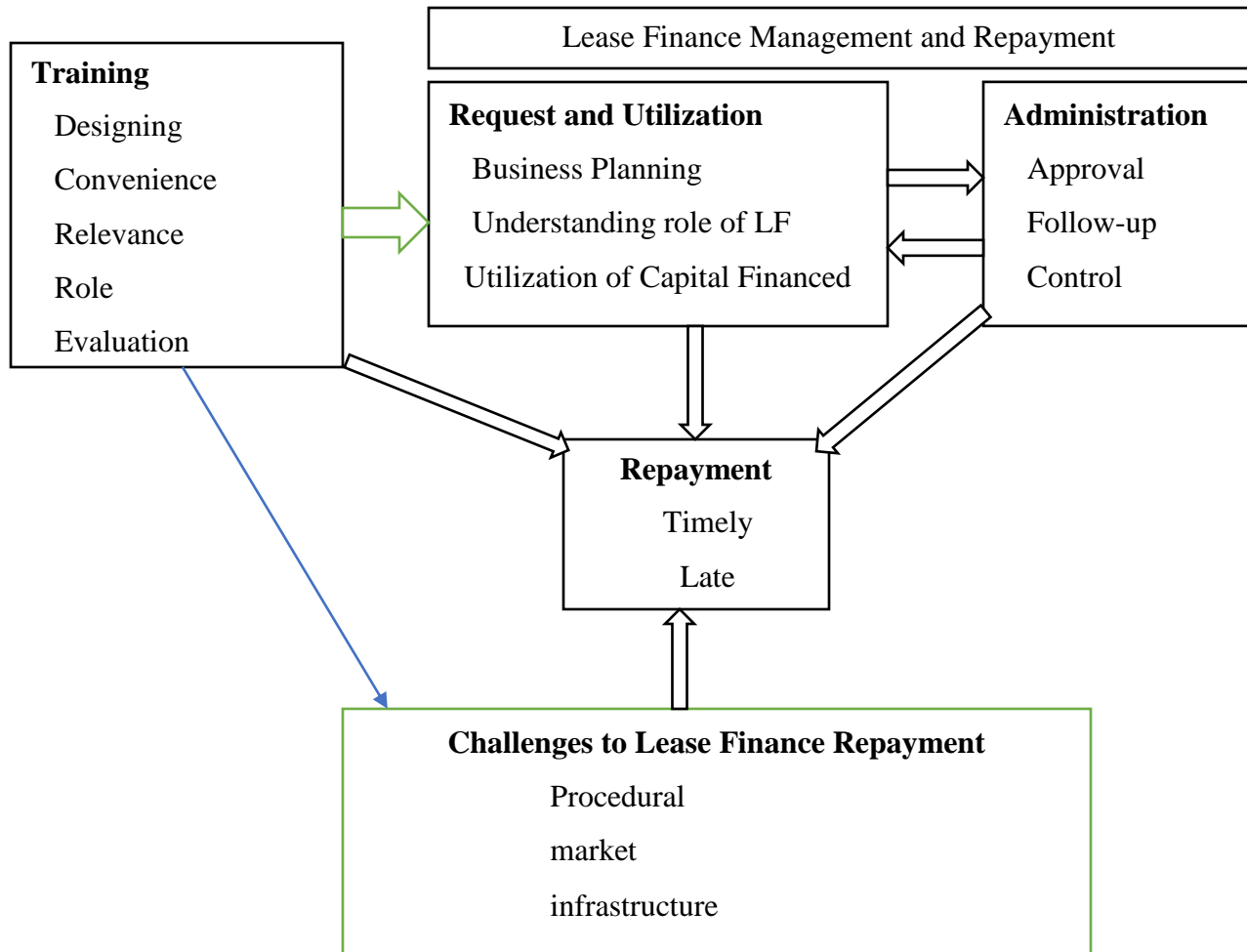


Figure 2. 1: Conceptual Framework

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Designing a study helps to plan and implement a way that enable to obtain intended results, thus increasing the chances of obtaining information that could be associated with the real situation (Burns & Grove, 2001). The research design for this study has followed cross-sectional survey method. In cross-sectional surveys, variables of the study are measured at the same point in time using a single questionnaire.

Along with the cross-sectional nature, the study has employed descriptive research design. It is intended to describe about skill training, challenges of lease financing and lease finance repayment and it has applied by using descriptive statistics such as frequencies, percentage, and mean.

3.2 Research Approach

According to Creswell (2007) the three methods that are commonly implemented in research are quantitative, qualitative and mixed, where one of them is not better than the others, all of this depends on how the researcher want to do a study. To achieve the research objectives, this study has followed a quantitative research approach that uses statistical tools and numbers. Quantitative research is the systematic and scientific investigation of quantitative properties and phenomena and their relationship (Kothari, 2005). The quantitative data was generated by using structured questionnaire. Therefore, in terms of approach, this study has employed quantitative method while conducting the study.

3.3 Target Population

There are about 673 enterprises in the Addis Ababa that are registered for business activities that are involving in different business sectors. But only 325(48.3%) of the enterprises are currently in their business activities. DBE is providing different lease finance to enterprises that meet

requirement of the bank. The services provided by the institutions are lease financing, trainings on finance management and business strategies in their business activities.

This study targets SMEs in Addis Ababa that received lease finance. From the enterprises, only 170(52.3%) of the active enterprises are using the services. Therefore, the target population of the study that are enterprises in Addis Ababa which contracts lease financing service from DBE is 170 SMEs in Addis Ababa. These enterprises are involving in different business sectors. The main business sectors of the enterprises include agriculture, manufacturing, construction and service sectors. Majority of the enterprises involve in manufacturing sectors that comprises 78(41.1%) of the enterprises and followed by construction enterprises that include 59(32.2%) of the enterprises. Moreover, 33(20.1%) of the enterprises involve in agriculture sector (especially urban agriculture).

3.4 Sampling and sample size determination

3.4.1 Sample Size Determination

Alreck & Settle (2005) noted that the choice of sample size is made after considering statistical precision, practical issues and availability of resources. There is no a single and precise way to determine size of sample; hence there are a number of inadequacies for deciding on sample size.

However, to determine the sample size, the study has used Yamane's (1967) formula that provides a simplified method to calculate the sample size. This formula is based on a 95% desired confidence level and 5% desired level of precision. It was employed to compute total participants in the study.

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

Where: - n = Sample size; N = population size; e = level of precision

$$n = \frac{170}{1 + 170(0.05)^2}$$

$$n = 120$$

Thus, 120 enterprises were included in the study. To make the enterprises representative from each sector, sample was computed proportionally. The sample size for each sector is presented in Table 3.1 below.

Table 3.1: Sample Size Determination

Sector	Target	Sample Size
Agriculture	43	30
Construction	59	42
Manufacturing	68	48
Total	170	120

Source: Own Computation, 2023

As shown in Table 3.1 above, 55 enterprises from manufacturing sector, 42 enterprises from construction sector and 23 enterprises from agriculture sector were computed for the study.

3.4.2 Sampling Techniques

Enterprises that have involved in the study were considered based utilization of service provided by the bank. To make the samples representative and to change in to homogenous groups, the study used stratified sampling based on the business sector where the enterprises are engaged in. Then the enterprises were selected randomly from the strata set from the sampling frame of list of enterprises in the bank by using simple random sampling. The respondents selected were be contacted by using address registered by the bank and the enterprises were contacted physically which are located in Addis Ababa around kality, akaki, jakros etc... Thus, this study was conducted by using the sampling techniques of purposive sampling, stratified sampling and simple random sampling.

3.5 Data Source and Types

This study was conducted by using primary data. The data was collected by using questionnaires. Hence, the study was conducted based on the data that that was collected from primary sources through questionnaire. The questionnaire includes about skill development training provided by DBE, challenges to receive the lease finance provided by DBE, lease finance management and repayment by SME, and factors affecting the lease finance repayment performance of the SME.

The questionnaire was adopted from different studies in area of skill development training provided by development organizations and finance providers; challenges to receive loan, in

general, and the lease finance, in particular; lease finance management and repayment by SME; and factors affecting the lease finance repayment performance of the SME.

This study has used primary and secondary data. The data was collected from the selected enterprises by using structured questionnaire. The primary data was about observation of enterprises about skill training, lease finance management practices, and challenges of the lease finance. In addition, the secondary data was about lease finance amount, repayment and financial performance of the enterprises. This data was collected from the enterprises and appended to the primary data.

The study has used questionnaire as a quantitative data collection instrument that helps to cover larger target groups than the interview, given the quality and chance of no response. The questionnaire includes close ended questions and 5-point Likert-Scale approach (i.e., from “Strongly Disagree to Strongly Agree”). Accordingly, respondents were asked to indicate their level of agreement on 5-point Likert scale with the following ratings; Strongly Disagree (1), Disagree (2), neutral (3), Agree (4) and Strongly Agree (5) for ordinal scale measurement and to generate data suitable for quantitative analysis.

3.6 Methods of Data Analysis

While analyzing the data, statistical tools was aligned with the objectives of the study. The data was analyzed by following descriptive and inferential statistical techniques. The descriptive analysis was conducted by using statistical tools mainly frequencies, percentages, mean and standard deviation to summarize the responses. This study employed the descriptive analysis to assess skill development training provided by DBE, challenges to receive the lease finance provided by DBE, and lease finance management and repayment practices by SME.

The data was analyzed using computer software, Stata version 16.

3.7 Reliability and Validity analysis

3.7.1 Validity

Bryman & Bell (2007) defined validity as how much any measuring instrument measures what it is intended to measure. They also suggest that the important issue of measurement validity relates to whether measures of concepts really measure the concept or not. There are several ways of establishing validity such as content validity; convergent validity concurrent; predictive validity; construct validity; and convergent validity. This study addresses validity of data collection instrument by using content validity through the review of literature and adapting instruments used in previous studies.

3.7.2 Reliability Test

Nunnally (1978) stated that reliability is the consistency of a test, survey, observation, or another measuring device. The level of reliability of the instrument indicates the consistency of the variables. Cronbach's alpha is an index of reliability associated with the variation accounted for the true score of the underlying construct and it can only be measured for variables which have more than one measurement question.

This study has included different questions; including demographic and social characteristics of managers of the SME, startup and current financial performance characteristics of the enterprises, perception of SME about lease finance skill training, lease finance received by the enterprises and its management, and challenge of the lease finance. These questions include close ended, open ended and 5-point likert scale responses. The reliability analysis was conducted for questions with likert scale responses. These questions include perception about skill training, lease finance management, and challenges of lease finance with measurement items of 8, 6 and 9, respectively. The reliability analysis was conducted by using Cronbach's alpha statistics and result of the reliability analysis is presented in Table 3.2 below.

According to Nunnally (1978), 0.5 is a sufficient value, while 0.7 is a more reasonable value. As shown in Table 3.2 above, the values of scale reliability coefficients above standard value of 0.7 suggesting the items reliability. Hence, the study has proceeded to data analysis without affecting items included to measure the constructs.

Table 3. 2: Reliability Statistics

Construct	Number of items	Alpha
Skill Training	8	0.8901
Lease finance management	6	0.7292
Challenges	9	0.7351

Source: Own Survey, 2023

3.7 Ethical Considerations

Before the data collection, permission from the company was requested. During the distribution of the questionnaire, respondents were informed about the purpose and the benefit of the study along with their full right to refuse or accept the participation. The respondents` were told their response would be kept confidential and their identity shall not be exposed. Every person involved in the study was entitled to the right of privacy and dignity of treatment, and no personal harm was caused to subjects in the research. Information obtained was held in strict confidentiality. All assistance, collaboration of others and sources from which information drawn were acknowledged.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS, AND DISCUSSION

4.1 Introduction

This chapter presents result of data analysis and discussions on the results and the result of data analysis was separately presented in five sections. In relation to the study objectives, the data analysis was conducted on different areas; first, general characteristics of the enterprises that includes demographic and social characteristics of managers of the enterprises, establishment features of the enterprises, and current financial positions of the enterprises; second, perception about lease finance skill trainings; third, lease finance management and repayment practices; and fourth, challenges of lease finance. However, before presenting the result of data analysis, first section of the chapter presents response rate report for the study.

4.2 Response Rate

This study was mainly conducted to assess lease finance and its repayment by SME in Addis Ababa that financed by DBE. This study was conducted by using managers of SME or employees with the same role in the enterprises. Based on the sampling procedure followed, 120 questionnaires were distributed to the targeted respondents. However, from the questionnaires distributed 107 questionnaires were returned appropriately filled, i.e., 89.2% response rate. Hence, this study has proceeded data analysis.

4.3 General Information

This section presents general information about characteristics of the enterprises that includes demographic and social characteristics of managers of the enterprises, establishment features of the enterprises, and current financial positions of the enterprises. First, the study has assessed general characteristics of the managers and followed by characteristics of the enterprises.

Characteristics related to the managers include sex, age, education level and experience in business and business management. Summary statistics about respondents is presented in Table 4.1 below.

Table 4. 1: General Characteristics of Managers

Variable	Category	Frequency	Percent
Sex	Male	67	62.6
	Female	40	37.4
Age	18-30	19	17.8
	31-40	38	35.5
	41-50	30	28.0
	Above 50	20	18.7
Education Background	Primary/Secondary Schools	19	17.8
	TVET/Diploma	40	44.9
	Degree and above	48	37.4
Experience in Business and Business Management	less than a year	38	35.5
	1 – 3 years	39	36.4
	3 – 5 years	10	9.3
	Above 5 years	20	18.7

Source: Field Survey, 2023

As shown in Table 4.1 above, the enterprises are mainly managed by male and it includes 62.6% of the enterprises in the study. In addition, Majority of the managers are at the age level of 31 to 40 years; 35.5% of them are at age level of 31-40 years and followed by the age category of 41-50 years that includes 28% of the managers. This result shows that the managers have favorable age to acquire relevant skill to handle the enterprises.

Further, the managers have educational qualifications of secondary schools, TVET/College graduates and degree and above. Among these educational qualifications, majority of the managers have qualification of degree and above that include 44.9% of the managers. This result suggests that largest number of the enterprises have managers with an appropriate educational skill to handle operations of the enterprise unless favored by other factors.

Managers of the enterprises have different experience level in business and business management. their experience falls inf four categories; less than a year; 1 to 3 years; 3 to 5 years; and above 5 years. As depicted in Table 4.1 above, largest number of managers of the enterprises

have experience in business for 1 to 3 years. This group of experience includes 36.4% of the enterprises and it is followed by the group of managers that have the experience for less a year that includes 35.5% of the enterprises. These two levels of experience include majority (71.9%) of the enterprises. Hence, this result shows that SME that received the lease finance from DBE lacks management with relevant skill of business and management to handle the enterprise.

Second, in relation to general information, this study has assessed establishment characteristics of the enterprises. These features include business experience of the enterprises, sector, form of ownership, source of startup capital, and lease finance motive of the enterprises. The survey result is summarized in Table 4.2 below.

Table 4. 2: Establishment Characteristics of Enterprises

Variable	Category	Frequency	Percent
Business in operation	Less than one year	9	8.4
	1-3 years	49	45.8
	3-5 years	29	27.1
	5-10 years	20	18.7
Sector of enterprises	Agriculture	28	26.2
	Construction	39	36.4
	Manufacturing	40	37.4
Form of Ownership	Sole proprietorship	27	25.2
	Partnership	50	46.7
	Co-operatives	30	28.0
Source of Start-up capital	Own	28	26.2
	Family	29	27.1
	Loan	50	46.7
Established to use lease finance of DBE	Yes	49	45.8
	No	58	54.2

Source: Field Survey, 2023

Enterprises in the study include different periods in operation. It is observed that majority of the enterprises have period of 1 to 3 years that include 45% of the enterprises and followed by period of 3 to 5 years that include 27.1% of the enterprises. This result shows that the enterprises were recently established that might cause lack of experience in business environment; hence, it might result on low enterprise performance, general, and low lease finance repayment performance, in particular.

In addition, majority of the enterprises are in sector of manufacturing. This sector includes 37.4% of the enterprises and it is followed by the sector of construction that includes 36.4% of the enterprises. But the smallest group of enterprises are involved in agriculture and this sector includes 26.2% of the enterprises.

The enterprises were formed based on three forms of ownership; sole proprietorship, partnership, and cooperatives. The enterprises were mainly established in the form of partnership that include 46.7% of enterprises. Cooperative is second largest form of ownership that includes 28% of enterprises. In addition to these ownership forms, 25.2% of the enterprises are formed by single owner, sole proprietorship.

During the start-up, these enterprises have four sources of initial capital. As shown in Table 4.2 above, majority of the enterprises sourced their initial capital through loan that includes 46.7% of the enterprises. The second main source of the capital is family that includes 27.1% of the enterprises. This result shows that prior dependence on loan may affect the enterprises during acquiring and repayment of least finance provided by DBE.

Moreover, this study has assessed relation of establishment of the enterprises with purpose of receiving lease finance provided by DBE. In line with this, based on the survey, it was observed that majority of the enterprises were not established to use opportunity of lease finance provided by the bank. This includes 54.2% of the enterprises. However, 45.8% of the enterprises were formed considering the lease finance provision. This may have differed association with its financial performance and the lease finance lease repayment performance; if the enterprise is formed mainly targeting the finance without existing business motive, the enterprise might not be successful; in contrast, if the enterprise was formed to earn the finance for the existing business

motive, the enterprise might be successful in its operation. However, this needs further investigation by using empirical estimations.

In addition to the establishment related characteristics of the enterprises, this study has assessed employment and financial position of the enterprises. It is summarized by using descriptive statistics; such as, mean, standard deviation, minimum and maximum. The result of summary statistics is presented in Table 4.3 below.

Table 4. 3: summary Statistics-SME

Variable	Obs	Mean	Std.Dev.	Min	Max
Employee	107	11.14	5.58	4	21
Asset	107	2,084.091	1211.954	1,345	9,300
Revenue	107	535.841	228.634	315.613	1,431.297
Net Income	107	341.103	49.658	301.244	606
ROA	107	18.45	4.474	5.175	25.166

Source: Own Survey, 2023

As shown in Table 4.3, the enterprises are described by using number of employees in the enterprises. It is intended to assess size of the enterprises and its role for employment. The enterprises have an average of 11 employees; ranging from minimum of 4 employees to maximum of 21 employees. The enterprises have included small number of employees and the lease finance of DBE has indirect contribution for these employees. In addition to the number of employees, the size of enterprises is indicated by its asset. The asset of the enterprises ranges from 1.4 million Birr to 9.3 million Birr; with an average of 2.1 million Birr. The enterprises are generating an average annual revenue of 535,841 Birr by using employees and the capital financed by DBE and other capital owned by the enterprises. They earn net income of 341,103 annually. This shows, an average profitability rate of 18.45% per year with minimum and maximum of 5.2% and 25.2% respectively. This indicates the enterprises are engaged in very profitable businesses.

4.4 Lease Finance Skill Training

The first step in lease finance of DBE starts from provision of business skill development training. The training is provided with different objectives; including, handling businesses and utilization of lease finance provided by the bank. As a result, this study has assessed perception of enterprises about role of the training. The survey result is summarized by using descriptive statistics; such as frequency, percentage, mean and standard deviation. The summary descriptive statistics is presented in Table 4.3 below.

Table 4. 4: Skill Training

		SD	D	N	A	SA	\bar{X}	δ
The training is set in consideration with trainees' skill gap.	F	3	59	13	27	5	2.74	1.02
	%	2.8	55.1	12.1	25.2	4.7		
The training program is properly scheduled	F	3	60	14	24	6	2.72	1.03
	%	2.8	56.1	13.1	22.4	5.6		
The training environment is convenient to attend.	F	3	39	49	10	6	2.79	0.87
	%	2.8	36.4	45.8	9.3	5.6		
The training delivery is convenient to get necessary knowledge.	F		61	14	28	4	2.77	0.97
	%		57.0	13.1	26.2	3.7		
The training establishes a clear view of business	F		61	12	30	4	2.79	0.98
	%		57.0	11.2	28.0	3.7		
The training is directly related to activity of the enterprise	F		65	23	13	6	2.63	0.91
	%		60.7	21.5	12.1	5.6		
The training improves knowledge and skill that contribute to performance of the business.	F		62	25	14	6	2.66	0.91
	%		57.9	23.4	13.1	5.6		
DBE evaluates the training when trainees are back to their business.	F		67	26	8	6	2.56	0.86
	%		62.6	24.3	7.5	5.6		

NB: F is Frequency, \bar{X} is mean, δ is standard deviation

Source: Own Survey, 2023

As presented in Table 4.4 above, there are enterprises that perceived the training in contrast to objective of the training by DBE. These enterprises have shown that the training was not designed by considering the skill gap of majority of the trainees. This is evidenced by 2.8% and 55.1% of enterprises that strongly disagree and disagree respectively. In contrast, only 4.5% of enterprises evidenced that the training highly consider skill gap the trainees and 25.2% of the enterprises perceive that the training considers skill gap of the trainees. Moreover, an overall statistic shows that for majority of the trainees, the training was not provided by considering skill gap in the area of training. Hence, this study revealed that the bank is providing similar training that failed to consider skill variation of the trainees. This might limit effectiveness of the training in meeting its objective.

Second, the study has assessed schedule of the training in conformance to expectation of the trainees and objective of the training. Based on its survey, this study has computed that 2.8% of the trainees were highly dissatisfied with the schedule of the training. In addition, 56.1% of the trainees in the study has implied that the training is not properly scheduled. However, 22.4% of the trainees in the study were satisfied with the training schedule. Based on these results, the study revealed that the training has another limitation in scheduling; specially, in regards to very short period for the training contents. Unless the trainees were comfortable with schedule of the training, they might have low interest for the training.

Third, this study has assessed convenience of the training environment. It is identified that for majority of the trainees, the training is not convenient of business objective of the trainees. This is indicated by 2.8% of the trainees were highly dissatisfied and 36.4% of the trainees were dissatisfied with inconvenience of the training. However, only 9.3% and 5.6% of the trainees have showed that the training was convenient and highly convenient, respectively. The overall mean score (2.79) shows that for majority of the trainees, the training is not convenient. As a result, this study revealed that the skill training fails to meet expectation of majority of the attendants. In addition, the training fails to meet convenience in providing business knowledge and skills. This is depicted by 57% of the trainees that feel they have not earned relevant knowledge and skill from the training.

Furthermore, this study has assessed role of the training in providing knowhow about business. However, majority of the enterprises in the study perceive that the training has drawback in providing appropriate view about the existing and future business environments. This is evidenced by 57% of the trainees in the study. Although largest number of enterprises perceive that they have not gained knowledge from the training, 28% and 3.7% of the trainees in the study feel that the training provided them clear and very clear view about current and future businesses. Based on this, this study revealed that although the training provided clear view on business environments, the training lacks this future for majority of the trainees. The training has weakness of failure to provide clear view about business environments. An overall mean about perception of the trainees about this issue is 2.79 that shows the training provides clear view about only small portion of the trainees.

The training lacks some important features of effective training. The training is general and it fails to fit to activities of majority of enterprises in the study. In this regard, for 60.7% of the enterprises in the study, the training is not related to activity of the enterprise. However, only 12.1% and 5.6% of the trainees observed that the training is related and highly related, respectively, to activities of the enterprises. The overall mean statistics have shown that the training is relevant to few numbers of the enterprises in the study.

This study has identified that the trainings have limitation in improving the knowledge and skill of the trainees that helps to improve performance of the enterprises. As depicted in Table 4.4, 57.9% the enterprises perceived that the training is not important to gain knowledge and skill to improve performance of the enterprises. But, only 13.1% of the enterprises found that the training provides knowledge and skill for trainees to support performance of the enterprise. Moreover, 5.6% of the enterprises have indicated that the training highly improved knowledge and skill of the trainees that contributed to performance of the enterprise.

Finally, this study has assessed involvement of the training at workplaces. In this regard, it is identified that there is very low practice of evaluation of the training at workplaces. However, for majority (62.6%) of the enterprises the bank has not practice of evaluating the training when trainees are back to their business. Based on the overall statistics, this study revealed that the

bank is not considering the ultimate goal of the training that it is not appropriately evaluating applicability of the training for the enterprises.

The result of summary statistics has shown that the training has different limitations in meeting its objectives. The weakness of the training starts from its designing that the trainees perceived that the training does not consider skill gap of the trainees and the schedule is not appropriate, and it is not convenient in regards to attend the training. In addition, the training is that provide relevant knowledge and skill to the trainees, and it is not directly related to overall business, activities of an enterprises and performance improvement strategies of the enterprises.

4.5 Lease Finance Management and Repayment

The bank provides lease finance to illegible enterprises. One of the eligibility criteria was attending the training provided by the bank. Hence, after attending the training, different enterprises applied the lease finance loan of the bank and they received different amount of loan based on characteristics of the enterprises and procedures of the bank. The lease finance includes activities starting from lease finance request to its repayment. Hence, this study found it is important to assess lease finance management practices followed by the enterprises and repayment performance of the lease finance. As a result, the second objective of this study was to assess lease finance management and its repayment practices. This section of the study presents lease finance management and its repayment practice by the enterprises. The survey result is summarized in Table 4.5 below.

The lease finance request starts by submission of documents required by the bank. In direct relation to the lease finance management and repayment of the finance, feasibility study report of the business has high role in forecasting future performance of the business, amount of lease finance request and repayment of the finance. First, in this study effective management of the lease finance is indicated by professionally written business plans. In relation to this, this study has identified that in majority of the enterprises, the business plan during request of the finance is not professionally written. However, the business plan is professionally written only in 11.2% of the enterprises in the study. This suggested that business plan submitted to the bank for loan request is not professionally writing except few exceptions. Hence, unless the bank follows its procedures, this results on false information about performance of the enterprises.

After the lease finance is approved by the bank, understanding role of the finance for success of an enterprise have important role in the effective management of the machinery and repayment of the finance. However, it is computed that only 38.3% of the enterprises clearly understand role of the finance for the enterprise. Nevertheless, majority (55.1%) of the enterprises do not know about role of the finance for the enterprise. This is linked to weakness of the training in providing knowhow link between lease finance and success of an enterprise.

Table 4. 5: Lease Finance Management

		F	%	\bar{X}	δ
Business plan of the enterprise is professionally written	SD	3	2.8	2.38	0.72
	D	72	67.3		
	N	20	18.7		
	A	12	11.2		
The enterprise clearly understands role of the finance for the enterprise	D	7	6.5	3.32	0.59
	N	59	55.1		
	A	41	38.3		
The enterprise efficiently utilizes the equipment, and follow up its health and make regular maintenance	D	71	66.4	2.61	0.89
	N	7	6.5		
	A	29	27.1		
DBE assesses status of the machinery and provide feedbacks	D	47	43.9	2.81	0.81
	N	33	30.8		
	A	27	25.2		
DBE set clear and realistic penalties on default and late repayment	D	85	79.4	2.28	0.60
	N	14	13.1		
	A	8	7.5		
DBE provides prompt notification in event of late payments or default	D	76	71.0	2.36	0.60
	N	24	22.4		
	A	7	6.5		

Source: Own Survey, 2023

This study argued that efficient utilization of the machinery financed by the bank has important role in managing the finance, especially, the machinery handling and repayment. However, it was identified that majority of the enterprises were not utilizing the machinery efficiently. This might have resulted in low production and low performance of the enterprise. In particular, only 27.1% of enterprises in the study were efficient in using the machinery. However, 66.4% of enterprises in the study have inefficient utilization of the machinery. This indicates there is inefficient utilization of the lease finance of the bank.

In addition to side of the enterprises, this study has assessed management of the lease finance from perspective of the bank. This is about assessing status of the machinery, setting penalties on default and late repayment, and providing notifications for late payment or default. This study has identified the bank has limitations in all three cases. First, as evidenced by 43.9% of the enterprises in the study, the bank has low practice of assessing condition of the machinery. However, the bank has assessed status of the machinery at 25.2% of the enterprises. This indicates the bank is providing low attention for lease finance provided for the enterprises; instead, it is focusing on repayment of the finance provided.

Second, it was observed that there are enterprises that perceive the penalties on late payment and default is not clear and realistic. This is indicated by 79.4% of the enterprises in the study. However, only 7.5% of enterprises perceived that the penalties are clear and realistic. This indicates that bank is not considering real conditions in the business environment of the enterprises. Nevertheless, the bank is not liable for uncertainties in the business environment as it is expected that occurrence of these conditions was predicted in the business plan provided during request for lease finance. Instead, it is suggested that the bank has limitations in training the enterprises for management of the finance procedures that helps the enterprises to take precaution for repayment default.

Third, it is identified that the bank fails to provide prompt notification in events of late payments or default. This was observed in 71% of the enterprises. However, the bank has differing practice and 6.5% of the enterprises receives the notification. The summary statistics (mean = 2.36) shows that the bank has very low practice of providing prompt notification for late payment and default. This may be due to that the bank is not responsible to provide the notification based on

the lease finance agreement; instead, it is responsibility of the enterprises to comply the repayment agreement and take note on payment dates.

In addition to the lease finance management practices, this study has assessed repayment performance of the firms. In this regard, this study has assessed amount of finance provided, periodic repayment amount, delay between the finance requested by the enterprises and approval by the bank. Moreover, performance of the lease finance repayment is indicated by number of enterprises that have late repayment or default, number of delay periods, and amount of delay payment or default. This information was computed from secondary data collected from the enterprises in the study and it is summarized by using descriptive statistics and presented in Table 4.6 below.

Table 4. 6: Lease Finance and Repayment

Variable	Obs	Mean	Std.Dev.	Min	Max
Loan finance approval delay	107	5.533	2.373	3	10
Lease Finance Received	107	904.617	403.186	500	2000
Periodic Repayment amount	107	15.077	6.72	8.33	33.33
Late Repayment					
Overall					
amount	107	27.684	34.328	0	110.83
Periods	107	2.187	2.628	0	7
Proportion	107	3.645	4.381	0	11.667
Defaulters					
periods	47	4.979	1.31	2	7
Amount	47	63.026	20.967	24.1	110.833
Proportion	47	8.298	2.184	3.333	11.667

Source: Own Computation, 2023

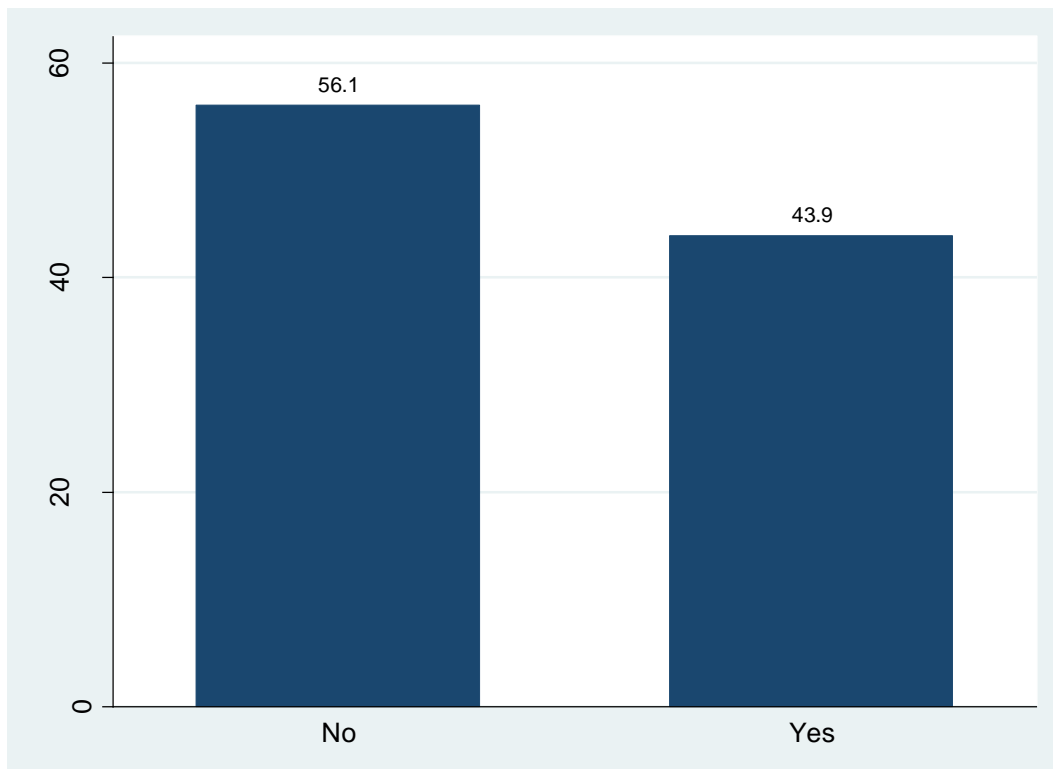
As shown in Table 4.6 above, there is delay of the finance approval. It was identified that, on average, the finance approval was delayed for 5.5 months with minimum and maximum of 3 and 10 months, respectively. This indicates the bank is delaying approval of the finance and the enterprises could not start their operation at planned time and it is delayed at least with period of

approval delay. This implies the enterprises were receiving the lease finance approval beyond the planned dates that results higher price of the machinery and delayed beginning of operation of the enterprise.

The enterprises received an average of 904,617 Birr; ranging from 500,000 to 2,000,000. The lease finance repayment takes 5 years and it is paid monthly. Periodically, monthly, the enterprises are repaying amount of 15,077.00. Enterprises with largest loan amount pay monthly repayment of 33,330 Birr (399,960 Birr, annually). Nevertheless, repayment of the finance is not adequately performed by the enterprises. This implies the bank set periodic repayment of lease finance that can be difficult in comparison to revenue of the enterprises.

This study has observed that there are enterprises that have the finance repayment delay/default. The number of enterprises delayed repayment of the finance is summarized in Figure 4.1 below.

Figure 4. 1: Number of Enterprises delayed lease finance repayment



Source: Own Computation, 2023

As depicted in Figure 4.1 above, this study has computed that about 43.9% of the enterprises have delayed the repayment. On the other hand, 56.1% enterprises are paying the lease finance according the agreement with the bank. In addition, as shown in Table 4.7 above, on overall, 27,684 Birr of lease finance is delayed or defaulted by an enterprise. Further, the enterprises have delayed the repayment for 2.2 periods (months). Furthermore, it is computed that, on an average, 3.65% of the finance provided is delayed by the enterprises with maximum of 11.7% repayment delay. This indicates that bank is not adequately collecting 3.65% of the finance provided for the enterprises. This indicates, there is weak management of lease finance from the side of the bank and the from the enterprises.

On average, the enterprises that delayed repayment of the finance have not repaid for about 5 months. The period of delay ranges from 2 months to 7 months; where the lowest and highest delay periods are 2 months and 7 months respectively. On the other hand, in these delay periods, about 63,026 Birr repayment of the finance is delayed by an enterprise. The least performing enterprise delayed/defaulted repayment amount of 110,833 Birr from the finance provided by the bank and the lowest amount of delay by an enterprise is 24,100 Birr. Furthermore, it is computed that these enterprises delayed 8.3% of the finance provided by the bank.

4.6 Challenges of Lease Finance

As presented in previous sections, the enterprises have different level of financial performance and the lease finance repayment performance. In line with this, this study has assessed challenges of the lease finance from the perspective of the enterprises. The challenges assessed by this study include eligibility conditions, lack of machinery with relevant quality, conflict of interest between the machinery supplier and financier, perception of suppliers about SME, lack of information on availability of machineries, procedure of the financier on provision of the finance and repayment the finance, lack of infrastructure for operations of enterprises, market problem, and lack of human resources for enterprises with entrepreneurial, managerial and operational skills. The survey result is summarized in Table 4.7 below by using descriptive statistics.

As shown in Table 4.7, the enterprises face different challenges to meet the business objectives and repayment of the lease finance provided by DBE. Based on the survey result, it was observed that the first group of challenges were related to the financier, DBE. This group includes three

challenges that include difficulty to meet the eligibility criteria set by the bank, procedural difference between the DBE and supplier of the machinery, procedural rigidity of DBE during provision of the finance and repayment of the finance.

Table 4.7: Challenges of Lease Finance

		SD	D	N	A	SA	$\bar{X}(\delta)$
It is difficult to meet requirement for eligibility to lease finance	N		4	30	73		3.64(0.55)
	%		3.7	28.0	68.2		
There is conflict of interest between DBE and supplier of machinery during purchase of machinery	N	3	14	7	57	26	3.83(1.03)
	%	2.8	13.1	6.5	53.3	24.3	
DBE lacks flexibility in provision and/or repayment of the finance	N	2	6	13	56	30	3.99(0.90)
	%	1.9	5.6	12.1	52.3	28.0	
It is difficult to get machinery with required quality and time	N		4	20	83		3.74(0.52)
	%		3.7	18.7	77.6		
There is lack of information on availability of appropriate machinery and its operation	N		18	15	37	37	3.87(1.07)
	%		16.8	14.0	34.6	34.6	
SME are not taken seriously by suppliers of capital good	N	1	14	18	51	23	3.76(0.97)
	%	0.9	13.1	16.8	47.7	21.5	
Interest of customers is low to use products of the enterprise	N	1	6	9	63	28	4.04(0.81)
	%	0.9	5.6	8.4	58.9	26.2	
There is lack of infrastructure/utilities to operate efficiently	N		8	46	49	4	3.46(0.69)
	%		7.5	43.0	45.8	3.7	
There is lack of human resource with entrepreneur, managerial and operational skills	N	1	10	9	73	14	3.83(0.81)
	%	0.9	9.3	8.4	68.2	13.1	

Source: Own Survey, 2023

The second group of challenges lease finance management and repayment is related to the market. These challenges include lack of machinery in the market with required quality and at needed time, lack of information about availability and operation of the required machinery, low interest of suppliers and customers to work with the enterprises and to use products of the enterprises.

Finally, challenges of the enterprises to their performance, in general, and lease finance repayment in particular, include infrastructure problem and lack of human capital. The enterprises face frequent shortage/outage of utilities during operation of the enterprise. In addition, the enterprises face lack of interest and skill of employees to work in the enterprise. As a result, performance of the enterprises is significantly affected and the enterprises face challenge of finance shortage to repay lease finance provided by the bank.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

5.1 Summary of Major Finding

This study was mainly conducted to assess lease finance repayment of SME in Addis Ababa for finance provided by DBE. The lease financing process starts from providing skill training for interested and illegible individuals and enterprises for the finance provided by the bank. Further, the lease finance process extends provision process of the finance and it ends on repayment of the finance provided. Hence, this study has evaluated effectiveness of the training based on perception of SME that took the training and currently they are in operation. In addition, the study has assessed the lease finance management practices and the repayment of the lease finance. Finally, the study has assessed challenges in the lease finance management and repayment. For these purposes, the study has used primary and secondary data from the enterprises by using structured questionnaire from 107 SME in Addis Ababa. The study has used the descriptive analysis to evaluate the skill training, to assess the lease finance management, and to assess challenges in lease finance management and repayment. Based on the methodology followed and data analysis results, this study has reached on following major findings.

- The training was not provided by considering skill gap in the area of training; instead, the bank is providing similar training that failed to consider skill variation of the trainees. In addition, the skill training fails to meet expectation of majority of the attendants. the training period is very short for the training contents. The training fails to meet convenience in providing business knowledge and skills and the trainees feel that they have not earned relevant knowledge and skill from the training. Furthermore, it was identified that the training has weakness of failure to provide clear view about business environments. Moreover, the trainings have limitation in improving the knowledge and skill of the trainees that helps to improve performance of the enterprises.
- Second, this study has identified that there were different practices of lease finance management and repayment applied by the bank and the enterprises. In this regard, the study has identified that the enterprises submitted business plan that was not

professionally written during the lease finance request. The enterprises have significant limitations in utilization of the machinery financed by the bank that the machinery is not adequately used to operate the business activities and repayment of the finance. In addition, there were weaknesses of the bank that the bank is not following up the enterprises and machinery financed by the bank. Moreover, the enterprises perceive that the penalties on late payment were not realistic and the bank is fails to provide prompt notification for late payments or default. Finally, this study has identified that there is delay of loan approval, on average, for more than 5 months. The bank provided, an average of 904,617 Birr for an enterprise. This study has identified that significant number of enterprises failed to pay the lease finance on the set schedule. This includes 43.9% of the enterprises have practice of late repayment of the finance for, an average of 5 repayment periods and 63,026 Birr (8.3%) of the finance.

- Finally, this study has identified different challenges that the enterprises face in lease finance management. The eligibility criteria, unavailability of machinery with required quality and time, procedural difference between the bank and the machinery supplier, procedure of the bank is approval and repayment of the finance, lack of interest of suppliers and customers to work with the enterprises, infrastructure problems (e.g., utility shortage and outage), and lack of human resource with entrepreneur, managerial and operational skills.

5.2 Conclusion

Based on its major findings, this study has drawn following conclusions;

- The training is not meeting its objectives as expecting by the bank. The training has different limitations; including, weakness in designing the training that the training is not provided based on the skill gap of the trainees and it has low relevance to knowledge and skill required for objective of the business of the enterprise, activities of an enterprises and performance improvement strategies of the enterprises. Hence, the trainees were participating in the program to meet qualifications for lease finance.
- Despite its role for different stakeholders, the lease finance provided by DBE to SME in Addis Ababa is not adequately managed by the bank and the enterprises. The enterprises

provide misleading information to the bank in their feasibility study report, the bank is not following up the finance provided and machinery purchased, and fails to provide knowhow on lease finance procedures; on the other hand, the enterprises fail to optimally utilize the machinery financed by the bank. Moreover, the bank takes lengthy period to approve the finance request by the enterprises. Hence, the lease finance management is weak from side of the bank and the enterprises.

- There are different challenges that SME in Addis Ababa that received lease finance from DBE face. These challenges include eligibility conditions that are difficult to meet, lack of machinery with relevant quality, conflict of interest between the machinery suppliers and DBE, suppliers and customers underestimate the enterprises, shortage of information on availability of the machineries, rigid procedures of the bank on provision of the finance and repayment the finance, lack of infrastructure for efficient operations of the enterprises, and demand problem for products of the enterprises.

5.3 Recommendations

Based on the conclusions drawn, this study provides following suggestions to management of lease finance in DBE and SME received lease finance from DBE.

- Management of the bank is suggested to check the skill training practice. It is suggested to assess effectiveness of the training, revise the design of the training, schedule of the training, appropriateness of the training in improving knowledge and skill of the trainees in relation to future business operations. Further, the management is suggested to collect feedback of the trainees about the training. As much as possible, the bank has to customize the training based on skill gap of the training; for example, by differentiating new and existing enterprises, educational background in relation to business and business management, and so on.
- In addition, management of the bank and the enterprises are suggested to improve their practices of lease finance management. first, management of the enterprises is suggested to increase utilization of machinery financed by the bank because it is main capital good to improve production capacity of enterprises and this results on cost efficiency of the enterprises. In line with this, the enterprises are suggested to consider demand for their

products and availability of complementary resources; like, utilities. Hence, in addition to improving utilization of the machinery, the enterprises are suggested to improve their market management from the side of the suppliers and the customers. Further, the enterprises are suggested to follow procedures in lease finance agreement; especially, about late repayment and its penalties. Second, this study suggests lease finance management of DBE to provide trainings for the enterprises at workplace about procedures of the lease finance and its repayment, and the machinery handling and its utilization.

- Finally, this study suggests management of the enterprise and lease finance management of the bank to develop strategies to minimize effects of different challenges on loan repayment and the performance of the enterprises. Accordingly, the enterprises are suggested to make strategic relationship with selected suppliers and customers; and produce focusing on the strategic partners that helps the enterprises to changing supply and demand; and manage shocks from infrastructure problems. Management of lease finance of the bank is suggested to revise procedures of the lease finance; and to host awareness creation programs for the enterprises about procedures of the lease finance; including, requirement for lease finance, procedures of approval of the finance, repayment of the finance provided to the enterprises.

5.4 Limitations and Suggestions for Further Studies

This study has tried to meet its objectives and generalizable findings. However, it is not free from some limitations that might affect its quality. As a result, this study provides suggestions for further studies in the area. First, this study has mainly used empirical and theoretical studies in the area of loan management and liability management. This study suggests further studies to develop or customize theories about lease finance and advance the empirical studies in the area of lease finance. In addition, this study suggests further studies to develop measurement of lease finance by applying advanced methodologies. Further, this study has limitation of entirely depending on quantitative data from primary and secondary sources. Hence, further studies are suggested to include qualitative data and qualitative analysis to find out detailed results and most generalizable conclusions.

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APPENDICES

Appendix A: Questionnaire

Dear Respondent,

I am Postgraduate student in Addis Ababa University. As partial fulfillment of Degree of Masters of Science in Accounting and Finance, I am conducting research study entitled “Assessment of Lease Financing Repayment: A Case of Small and Medium Enterprises (SME) in Addis Ababa Financed By Development Bank Of Ethiopia (DBE)”. The success of this study depends on your genuine participation in the study.

Therefore, I would appreciate if you could spare a few minutes of your time to answer the following questions. All the information provided will be purely used for academic purposes and your identity will be treated with utmost confidentiality.

Your assistance will be highly appreciated and thank you in advance for your cooperation.

Yours faithfully,

Heaven Abebe

General Instruction

- There is no need of writing your name.
- Please select the right answer to the best of your knowledge and put “√” mark in the boxes.

Management of the Enterprise

- 1) Gender
 Female Male
- 2) Age
 18 - 28 29 - 39 40 - 50 Above 50
- 3) Highest level of education
 Primary/Secondary Schools Diploma/TVET Degree and above
- 4) Experience in Business and Business Management
 less than a year 1 – 3 years 3 – 5 years Above 5 years

Enterprise Description

- 5) Sector of enterprises
 Agriculture Manufacturing Construction Service
- 6) What is the form of your business?
 Sole proprietorship partnership Cooperative
- 7) How did you get start-up capital?
 Own Family Loan
- 8) Was the enterprise established to use lease finance opportunity provided by DBE?
 Yes No
- 9) How long the enterprise been in operation?
 Less than 3 years 3 – 5 years Above 5 years
- 10) Currently, number of employees in the enterprise
 1 – 10 11 – 20 Above 20
- 11) Capital of the enterprise _____
- 12) Total asset of the enterprise _____
- 13) Net income of the enterprise (recent report) _____

Lease Finance

Please fill following request about lease finance provide provided by DBE

Code	Lease finance	Response
LF1	Time difference between request and approval of lease finance (in months)	
LF2	Amount of lease finance provided	
LF3	Loan period (number of periods to fully repay)	
LF4	Periodic (monthly) repayment amount	
LF5	Amount lease finance paid	
LF6	Outstanding finance	
LF7	Number of periods of late payment/default	
LF8	Amount of late payment/default	

Please show your level of agreement on following statements about lease financing presented in following tables; training, management and repayment practice, and challenge of lease financing, respectively (where 1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly agree).

Training

Code	Statements	1	2	3	4	5
TR1	The training is set in consideration of the trainees' skill gap.					
TR2	The training program is properly schedules					
TR3	The training environment is convenient to attend the training program.					
TR4	The training delivery is convenient to get the necessary knowledge.					
TR5	The training establishes a clear view of business					
TR6	The training is directly related to activity of the enterprise					
TR7	The training enabled me to gain skills required by my business.					
TR8	The training improved knowledge and skill which increase my					

	performance on the business.					
TR9	DBE evaluates the training result (the importance) when trainees are back to their business.					

Management and Repayment Practices

Code	Statements	1	2	3	4	5
MRP1	The provide sufficient advice on the lease finance					
MRP2	The bank assesses status of capital and conducts valuation of the capital regularly					
MRP3	DBE consistently reviews financial health of the enterprise					
MRP4	Business plan of the enterprise is written by professionals					
MRP5	The enterprise clearly understands role of the finance for the enterprise					
MRP6	The enterprise efficiently utilizes the machine, and follow up its health and make regular maintenance					
MRP7	The rent repayment is strict and deadlines are clear					
MRP8	DBE set clear and realistic penalties on default and late repayment					
MRP9	DBE provides prompt notification in event of late payments or default					

Challenges of Lease Financing

Code	Statements	1	2	3	4	5
CLF1	It is difficult to meet requirement for eligibility to lease finance					
CLF2	It is difficult to get machinery with required quality and time					
CLF3	There is conflict of interest between DBE and supplier of machinery during supply of machinery					
CLF4	SME are not taken seriously by suppliers of capital good					
CLF5	The is lack of information and skill on availability of appropriate machinery and its operation					

CLF6	DBE lacks flexibility in provision and/or repayment of the finance					
CLF7	The enterprise face lack of infrastructure/utilities to operate efficiently					
CLF8	There is low interest of suppliers and/or customers work with the enterprise					
CLF9	There is lack of human resource with entrepreneur and managerial skills					