



**THE OPPORTUNITIES AND CHALLENGES OF LEASE
FINANCING SERVICE IN DEVELOPMENT BANK OF ETHIOPIA
(DBE)**

BY:

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THE OPPORTUNITIES AND CHALLENGES OF LEASE
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DECLARATIONS

I, the undersigned, hereby declare that this thesis entitled “The opportunities and challenges of lease financing in Development Bank of Ethiopia” is my original work and it has not been submitted partially; or in full, by any other person for an award of degree in any other university/institution. To the best of my knowledge and belief, the thesis contains no materials previously published or written by another person except where due reference is made.

Therefore, I confirm that the intellectual content of this project work is the result of my own efforts and prepared under the guidance of my advisors.

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ACRONYMS

ACGF	Addis Capital Goods Finance
CGPSD	Capital Goods Procurement and Supply Directorate
DBE	Development Bank of Ethiopia
FeSMEDA	Federal Small and Medium Enterprises Development Agency
IAS	International Accounting Standards
IASB	International Accounting Standard Board
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
LFFD	Lease Financing Follow-up Directorate
MIS	Management Information System
NBE	National Bank of Ethiopia
NL	Number of leases
NPLs	Non performing lease
OCGF	Oromiya Capital Goods Finance
SMEs	Small and Medium Enterprise
SPSS	statistical Package for social science
SSA	Sub Saharan Africa
VPSMEF	Vice President Small and Medium Enterprise Financing
WB	World Bank

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Abstract

The main objective of this paper is to assess the overall opportunities and challenges of lease financing service in development Bank of Ethiopia. Leasing is financing in kind and DBE has been providing lease financing service in the form of supplying capital goods to small and medium enterprises since 2016. The research approach adopted in this study was a mix of quantitative and qualitative approaches. Both primary and secondary data were used. In identifying the respondents from the study population, purposive sampling was adopted. All District offices of the Bank and selected work units from Head office were included in the sample. 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. Based on the survey and interview results the researcher forwarded its conclusion and recommendation.

CHAPTER ONE

1. Introduction

1.1. Background of the study

Lack of access to finance is the biggest obstacle affecting SMEs, micro enterprises and new firms in developing countries (IFC, 2009). The lease of asset started in the USA and in Europe to business and industry development since World War II. After World War II, the victorious allies decided to create a new international system to promote world trade and prosperity, which resulted in the establishment of two new international financial institutions, the International Monetary Fund (IMF) and the World Bank, and also the General Agreement on Tariffs and Trade (GATT) whose successor organization was the World Trade Organization (WTO) (Mishkin 2005). At present thousands of businesses which are long on ideas and short on cash is using leasing as a simple and flexible financing solution to increase productivity and generate profits.

Though it is believed that SMEs play a key role in economic development and make an important contribution to employment creation and GDP Ayyagari et al. (2007), access to finance remains a key constraint to SME development, especially in emerging economies. Access to finance is disproportionately difficult for SMEs in Least Developed Countries (LDCs), with 41 percent of SMEs in LDCs reporting access to finance as a major constraint to their growth and development, as compared with 30 percent in middle- income countries, and only 15 percent in high-income countries (GPFI & IFC, 2011). Yet, many governments have recognized the SME sector as an important driver of economic development and employment creation, and also see as a priority (MIDAS, 2009 in CGAP & IFC, 2013).

Similarly, in Ethiopia, as in many developing economies, SMEs have very limited access to bank credit or other financial services. According to a survey conducted by IMF (2013), in 2012/13, 79 percent of total loans issued by the banking sector were allocated to the big public enterprises, with only 21 percent going to the private sector (mainly comprises SMEs). This is due to the fact that SMEs possess insufficient

collateral or credit history to access more traditional bank finance.

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

Leasing companies play an important role in the financing of small and medium- sized businesses, which need funds to expand but often do not have the credit history or collateral sufficient for credit from conventional financing sources. Leasing is a highly flexible alternative as a form of financing with several advantages. One of the most important advantages of leasing is that the leased asset itself is the principal security in a lease arrangement. Enterprises through the world use leasing to finance vehicles, machinery and equipment. In developed (OECD) countries, up to one third of private investment is financed through leasing. Because, leasing gives SMEs the opportunity to create and modernize their operations hence increasing productivity, lowering transaction costs, increasing employment opportunities, increasing business profitability, promoting innovation and creativeness, and increasing product product choices (World Bank, 2015).

Currently, leasing industry in Ethiopia is still at infant stages of development despite the large potential market in the country. The five leasing companies and Development Bank of Ethiopia has been providing lease financing service to micro enterprise and SMEs respectively as they contribute their part to the country economy.

1.2. Statement of the problem

The World Bank (2011) revealed that Ethiopia lags behind other Sub-Saharan Africa's countries and developing countries in terms of lending to SMEs. The share of SME lending in overall lending portfolio in Ethiopia is in fact only 7 percent, among the smallest shares in Sub-Saharan African Countries as well as far below that of developing economies.

Moreover, various conducted studies have showed that Small and Medium Enterprise in Ethiopia have lack of access to bank credit or other financial services (IMF, 2013; World Bank, 2015). This is due to the fact that SMEs do not have sufficient collateral or

credit history to access more traditional bank finance. A study of SME finance in Ethiopia by the World Bank (2015) revealed that only 3% of small enterprises and 23% of medium enterprises have a loan facility or a line of credit mainly due to extreme high value of collateral needed for a loan, corresponding to 249.3% and 253.5% of the loan for small and medium enterprises, respectively against a Sub-Saharan African.

Accordingly, the government of Ethiopia has taken its initiative to address Small and Medium Enterprise (SMEs) in the form of lease financing service called equipment leasing and issued capital goods business Proclamation and its amendment (no. 103/1998 and 807/2013), council of ministers

regulation providing for the registration of capital goods and leasing contracts (Reg.309/2014), minister of trade Directive on the registration of capital goods leasing agreements (MOT Dir. 001/2017) and also NBE has issued Directive no. CGEB 102/2013 for the Licensing of Capital Goods Finance Service. The government measures support those investors who have the desire, knowledge, and profession to participate in various investment activities but could not act due to lack of capital and collateral through creating an enabling environment for the establishment of alternative sources of financing.

To this end, in addition to the five leasing companies in Ethiopia, the government has given additional mission to the Development Bank of Ethiopia to provide lease financing service to small and medium enterprises (SMEs) projects in the form of hire purchase modality.

Globally various researches were conducted with regard to the overall assessment of lease financing service and due to the newness of leasing business locally limited research under taken related to the topic (such as Abera, 2016; Mohamed, 2014; Kemal, 2012 and Befekadu, 2018) under Addis, Oromiya, Kaza, Debu and Waliya capital good leasing companies. Moreover, the studies have identified many challenges such as lack of availability of low cost and sustainable funding, lack of clarity on interpretation of tax incentives provided by law, lack of leasing expertise in the market, existence of inadequate supply chain linkages, procurement hurdles, existence of limited domestic suppliers, and absence of specialized leasing training center. DBE is the only government financial institution that engages in small and medium enterprises. June

2017 and 2018 Annual reports of the Bank listed out a number of challenges and less performed plan against actual. Lease financing service providing by the Bank is a new research area and challenges have been facing by the Bank initiated the researcher to conduct in this particular area. In fact, the opportunities and challenges of lease financing service in Development Bank of Ethiopia is a new research topic and needs further study. Moreover, the researcher is going to identify lease financing challenges in DBE so as to verify whether the identified challenges is similar with that of the conducted studies by international and local researchers. In addition, the conducted research by Befkadu, 2018 among DBE, OCGF and ACGF is focused only DBE at head office but, lease financing service is not providing at head office level and the service has been providing through District and Branch offices. In general, there is no published research in Ethiopia similar with this topic. This study work is differing from that of the above-mentioned study in that: it is focused on DBE lease financing activity and besides the challenges faced, it assessed how many beneficiaries or SMEs have benefited from lease financing service provided by the Bank.

1.3. Research questions

To achieve the objectives of the study and address the research problem, the following research questions were designed:

1. What are the opportunities of lease financing service?
2. Does the current lease financing service DBE is providing addresses beneficiaries (SMEs)?
3. What bottlenecks DBE is facing in lease financing business? (Is DBE effective and efficient in lease financing business?)

1.4. Objectives of the study

1.4.1. General objective

- The purpose of this research is to assess the opportunities and challenges of lease financing service in development Bank of Ethiopia and to provide possible recommendations based on the findings.

1.4.2. Specific objectives of the study

The specific objectives of the study are:

- To identify the opportunities of lease financing service
- To evaluate the overall lease financing activities of the Bank
- To examine internal factors that affect lease financing service
- To assess external factors that affect lease financing service

1.5. Scope of the study

Development Bank of Ethiopia is well known by financing development projects and those projects financed by the bank have significant impacts on the country's economy. In addition, the government has given additional mission to the Bank to serve SMEs in lease financing service. In fact, the required data can easily be found in the bank. Therefore, due to time and budget constraint the study was focused on Development Bank of Ethiopia head office and selected Branches.

1.6. Significance of the study

Lease financing service is a new product for the country like Ethiopia, thus it worth studying. Accordingly, the study is believed to contribute and have a paramount importance in providing a better ground for the Development Bank, potential SMEs, policy makers, practitioners, stakeholders which are keenly concerned with and engaged in leasing business to take it as a basis for understanding the business in Ethiopian context and serve as a stepping stone for further research on the subject. As indicated in the above section, there is a gap of local publications on leasing business in Ethiopia.

This work, will contribute to the leasing awareness regarding the opportunities and challenges to the general public.

CHAPTER-TWO

2. REVIEW OF RELATED LITERATURE

2.1. Definition of Leasing

A lease is an agreement that allows one party to use another's property for a stated period of time in exchange for consideration. Leases are an alternative method used by businesses and consumers to finance the acquisition of fixed assets. A lease agreement involves at least two parties: a lessor (such as a bank), who owns the property, and a lessee, who uses the property. The lessor, essentially a creditor in the transaction, is repaid from a combination of lease or rental payments, tax benefits, and proceeds from the sale or re-lease of the property at the end of the lease term (Comptroller Handbook, 2014).

The concept of leasing is based on the proposition that income is earned through the use of assets, rather than from their ownership (World Bank, 2000; Fletcher et al. 2005; IFC, 2009). It focuses on the lessee's ability to generate cash flow from business operations to service the lease payment, rather than on the balance sheet or on past credit history (IFC, 2009). This explains why leasing is particularly advantageous for young companies, as well as small and medium businesses that do not have a lengthy credit history or a significant asset base for collateral. Furthermore, absence of collateral requirement with leasing offers an important advantage in countries with weak business environments. Because the lessor owns the equipment it can be repossessed relatively easily when the lessee fails to meet lease rental obligations.

Leasing in its simplest form is a means of delivering finance, with leasing broadly 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. Leasing, in effect, separates the legal ownership of an asset from the economic use of that asset (IFC, 2009).

Leasing means a financing in kind for production and service purpose by which a lessor provides lessee with the use of specified capital goods on financial or operating lease or

hire purchase agreement basis, without requirement of collateral, for a specified period of time and collects in turn a certain amount of installment in periodical payments over the specified period (capital goods proclamation 103/1998)

2.2. Evolution and concepts of leasing

Historically, leasing was first found used in the 1700s in United States to finance horses and wagons. In mid-1800s, lease financing option was popularly used to finance locomotives, cars and other railroad equipment (Taylor, 2011). Short-term leases were more preferable and widely utilized in mid-1900s due to specific circumstances such as World War II and high demand of goods from customers (Taylor, 2011).

Modern leasing emerged in the 1950s as a specialized financial service industry in the United States and expanded to Europe and Japan in the 1960s, and has been spreading through developing countries since the mid-1970s (Nair, Todd, & Mulder, 2004).

2.3. Characteristics of Leasing

Based on (IFC, 2009) the characteristics of leasing is based on the proposition that profits are earned through the use of assets rather than from their ownership, it focuses on the lessee's ability to generate cash flow from business operations to service the lease payments rather than on the balance sheet or the credit history, It is particularly advantageous for SMEs without lengthy credit history or significant asset base for collateral, and Lack of collateral requirement offers an important advantage in countries with weak business environment, especially weak creditor's rights, collateral laws and weak registries.

2.4. The main parties in leasing Transaction

The main parties in leasing transaction are lessor, lessee and supplier and their function is depicted as follows (IFC, 2009).

In Ethiopia, according to the Capital Goods Leasing Proclamation No. 103/1998, leasing means a financing in kind for production and service purpose by which a lessor provides lessee with the use of specified capital goods on financial or operating lease or hire-purchase agreement basis, without requirement of collateral, for a specified

period of time and collects in turn a certain amount of installment in periodical payments over the specified period.

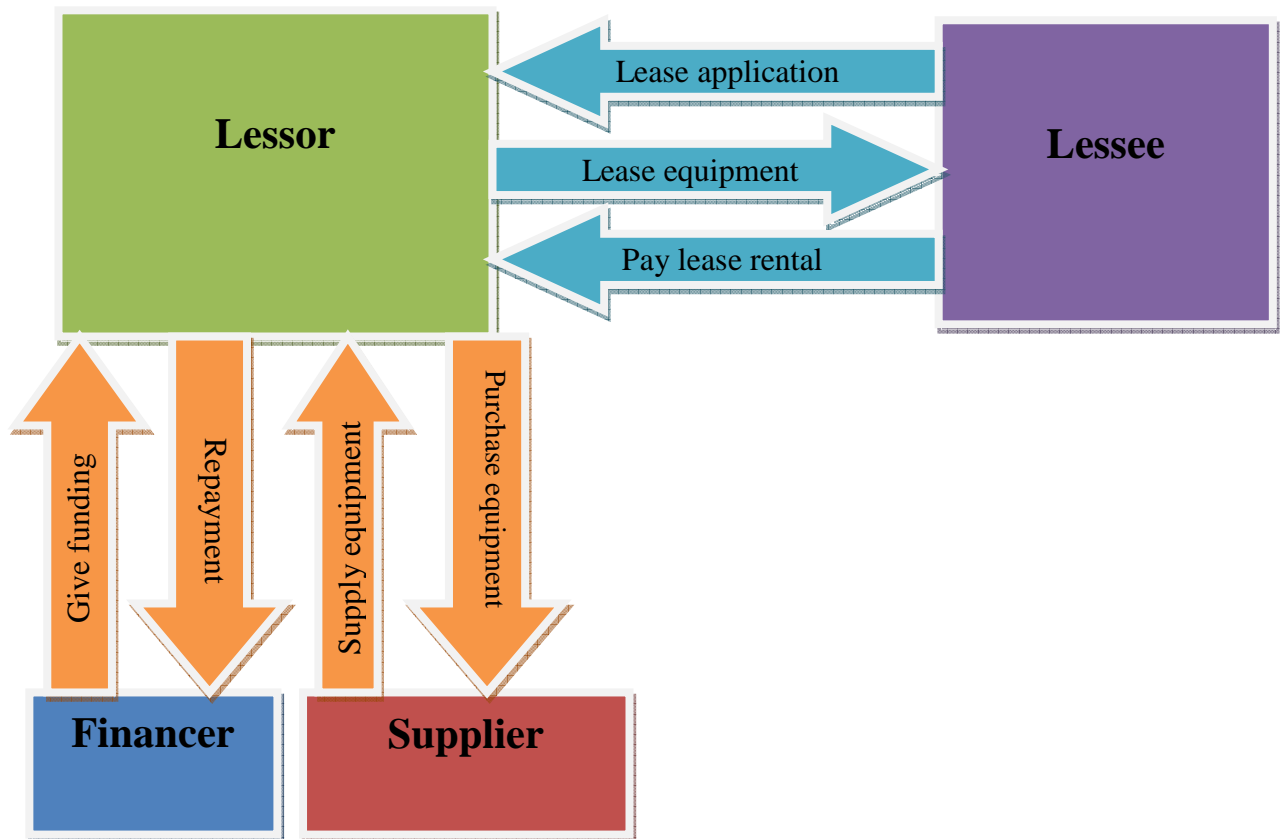


Figure 2-1: The main parties in leasing Transaction

Source: Kraemer & Lang (2012).

As can be seen from table 1 the main parties in lease financing service are lessee, lessor and supplier. Moreover, in the above table the arrow in number one is indicated that the lessee shall submit lease application to the lessor for its capital goods needs. Number two arrow is indicated financier shall give fund to the lessor to be procured capital goods from supplier or manufacturer. Number three is showed that the lessor will procure capital goods from the

Supplier and the supplier to be delivered the required machinery to the lessor ware house as it indicates in number four arrow. Consequently, the lessor will hand over the machinery to the lessee as indicates in arrow five. The lessee shall pay machinery rental repayment to the lessor so as to cover administrative expense and to be reallocated to another purchase as indicated in number six. Finally, the lessor will pay its repayments to the financier as indicated in arrow seven.

2.5. The importance of leasing

Leasing is often reported to provide a number of benefits to an economy (IFC, 2009). Moreover, leasing is more important in which it Creates access to finance that in turn can create employment opportunities, it provides opportunities for those without a significant asset base leasing enables small enterprises to leverage an initial cash deposit with the inherent value of the asset being purchased acting as collateral, Offers an important advantage in countries with weak business environments, particularly those with weak creditor's rights and collateral laws and registries for instance in countries where secured lenders do not have priority in the case of default over collateral, It is a means to deliver increased domestic investment within economies, It is a way to deepen the activities of the financial sector by introducing new products and/or industry players and financial instruments, It is used as a means of asset financing by all business types from microenterprise to large global company for assets worth ranging from tens of dollars to tens of millions of dollars, Allows smaller scale entrepreneurs to become more economically active by enabling access to finance and subsequently access to income-producing assets, and Plays a critical role in bringing in small businesses into the formal financial system as informal businesses have access to lease financing, they start building a track-record of financial transactions.

2.6. Approaches same to Leasing Modalities

2.6.1. Types of Lessors

In different countries various institutions, including banks, are involved in sponsoring lease businesses. Bank-owned leasing companies, nonetheless, dominate the leasing markets as they have the advantage of accessing low cost public deposits as sources of fund.

In most developed lease markets, there are three distinct types of companies sponsoring or offering leasing facilities (IFC, 2009). The name of the companies are Banks that offer leasing as part of their product mix through a specialized leasing unit or through their regular lending units, Leasing companies that are subsidiaries of banks or banking groups; typically banks have a significant share in the company, Leasing companies that are privately owned and have no bank as a majority shareholder. These companies are often subsidiaries of major equipment manufacturers or dealers, and practice “captive

financing”, but there are also many totally stand-alone leasing companies in many countries. Moreover, according to Leaseurope and KPMG (2012) in World Leasing Year book (2014), 50% of European leasing companies were bank related, 18% captives, and 32% independent in 2010. However, in terms of shares of new volumes “90% of the European leasing market is in the hands of bank-owned leasing companies” (Mignerey, 2012; in World Leasing Year book, 2014).

2.7. Types of Leases

The types of leases are Finance Lease, Operating lease, and Hire purchase lease. Moreover, the accounting treatment of the transaction, the legal right of the lessors and the lessees, the ownership rights and control of the asset, maintenance and insurance as well as price of rentals are the main difference between them

2.7.1. Finance lease:

This is also referred to as capital or full pay out lease. Under a financial lease the customer carries the risks and rewards of the asset’s ownership although the lessor remains the legal owner of the asset throughout the contract. In other terms the lessee benefits from the economic life of an asset in a similar way to a legal owner and takes on related risks, such as maintenance and insurance responsibilities. This includes contracts where the length of the lease is close to the useful economic life of the asset, as well as contracts where the lessee has the possibility to become the owner of the asset at the end of the lease, automatically or purchasing the asset for a specified nominal amount (Oxford Economics, 2011). Typically, financial leases are used by firms to finance long-lived assets, instead of resorting to long-term borrowing for acquiring these assets (Clarke, 1996).

FAS 13 (Ross et al., 2003) states that: the present value of the lease payments is at least 90 percent of the fair market value of the asset at the start of the lease, the lease transfers ownership of the property to the lessee by the end of the term, the lease term is 75 percent or more of the estimated economic life of the asset and the lessee can purchase the asset at a price below fair market value when the lease expires. This is frequently called a bargain-purchase-price option.

2.7.2. Operating lease

An operating lease is typically of a shorter duration than the useful economic life of the asset and the customer has no possibility to purchase it at the end of the contract, or can acquire at a higher price than under a finance lease. An operating lease is thus essentially a rental contract for the temporary use of an asset (Oxford Economics, 2011; Kraemer-Eis and Lang, 2012).

2.7.3. Hire purchase lease

A hire-purchase which is similar to a finance lease is a way to finance the purchase of equipment. It is normally used for small items like sewing machines and fridges. In hire-purchase, part of the ownership is transferred with each payment. Up on payment of the last installment, the lessee becomes the full owner. However, hire-purchase is a type of installment purchase, with a well-defined purchase option for the customer, who agrees to pay the cost of the asset over time, including principal amount and interest for the period the asset is used (ILO, 2003)

Table 2-1: Main Types of Leasing

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

Insurance			
Key Benefits	Enhanced cash flow with lower payments	Same as operating lease; with option to own at end of lease period.	Same as operating lease; gradual ownership

Source: Helen Tedla (2014)

2.8. The role and Benefits of Leasing

Generally, leasing fosters economic development and job creation, by providing access to financing to micro, small and medium businesses that often cannot access other forms of financing (IFC, 2009). According to (ILO, 2003), leasing offers several advantages over other kind of financing. The most important advantages are:

2.8.1. Absence of collateral requirements

The great advantage of leasing is the absence of collateral requirements. The equipment itself serves as security because the lessor retains ownership. If the lessee is unable to make the payments, the lessor can repossess the asset. In most countries this is a relatively straightforward procedure (ILO, 2003). Banks usually secure their loans by requiring additional collateral such as real estate, equipment, inventory, receivables or house. In fact, it is common practice for banks to file a blanket lien against all current and future assets of your company. Whereas, in lease financing in most instances, the only collateral is the equipment being leased (IFC, 2009).

2.8.2. Simpler evaluation

A lease can be concluded more quickly and simply than a bank loan. In traditional loan, lenders want to see years of financial history and a decent credit score, among other documentation. With an equipment lease, on the other hand, lenders are less concerned about your credit score and financial history especially since the equipment will be used to secure. Moreover, rather than looking into the credit history and asset structure of the client, the leasing company only has to make sure that the client has the ability to generate sufficient cash through the leased equipment. Less detailed documentation is necessary, and the appraisal can be processed relatively quickly (ILO, 2003).

2.8.3. 100% finance

Capital goods finance which require huge investment. The lessee is able to avail of 100 percent financing without resorting to any immediate down payment. Thus, the lessee experiences no hurdles in commencing his business without making any initial investment and in a lease, 100% of the equipment value is financed and up-front security payments seldom exceed 10%. This enables lessees to retain more of their scarce resources as working capital. Leasing is said to provide *100 percent financing*, whereas most borrowing requires a down payment. This is the major reason cited by lessees for why they choose lease financing. However, because lease payments are normally made in advance of each period, this 100 percent financing benefit is diminished by the amount of the first required lease payment. From the lessee's perspective, leases can *increase a firm's liquidity*. For example, a sale and leaseback transform some of a firm's fixed assets into cash in exchange for an obligation to make a series of fixed future payments (ILO, 2003).

2.8.4. Tax incentives

In many countries, the tax system is conducive to leasing. The lessor, as the owner of the equipment, registers the full lease payment (principal plus interest) as income but deducts the depreciation of the asset, usually on an accelerated schedule. The lessee claims the lease payment as deduction from taxable income. The lease term is usually shorter than the economic life of the equipment, so the lessee in fact "depreciates" the equipment more rapidly than if he/she had purchased it. Since both parties benefit from tax relief on an accelerated basis, overall tax payments on the lease are reduced (ILO, 2003). As lease rentals are considered as a revenue expense while determining taxable profits, it is advantageous for the lessee in minimizing tax liabilities. Moreover, the lessor who is usually in the higher tax bracket passes on the benefit of depreciation advantage to the lessee in the form of reduced lease payments. The lessee can also arrange to adjust lease rentals in such a way that it reduces his tax liability and thus helps him in tax planning. On the other hand, A lot of tax advantages can be derived by the lessee through suitably structured rental payments. In case of heavy taxation rentals may be increased to lower taxable income. Rental payments are deductible from income. If the lessor is liable to tax, the rentals may be lowered. Less income attracts less tax. The lessor can pass on a part of tax benefit to the lessee (IFC, 2009).

2.8.5. No risk of fund diversion

In leasing, the funding provided goes to the purchase of equipment without even passing through the hands of the lessee. This averts the risk that the lessee might use the funds for purposes not agreed upon. It also avoids the risk that the lessee might use the credit to pay back a loan from another financial institution (ILO, 2003).

2.9. Regulatory framework for leasing in Ethiopia

The government of Ethiopia has issued capital goods proclamation no.103/1998 and this proclamation has amended by capital goods proclamation no.807/2013. National Bank of Ethiopia (NBE) has also issued Directive no. CGEB 102/2013 for the Licensing of Capital Goods Finance service. The government measures support those investors who have the desire, knowledge, and profession to participate in various investment activities but could not act due to lack of capital and collateral through creating an enabling environment for the establishment of alternative sources of financing (Proc.No. 103/1998).

The regulatory and legal environment plays an important role for the development and promotion of small and medium enterprises for their financial needs. Financial institutions in Ethiopia operates under conducive regulatory framework and directives to ensure financial stability and financial sector soundness. The micro financing institutions licensed by the National Bank of Ethiopia may engage in capital goods finance business without the need to obtain any additional license (Proc.No. 807/2013).

The minimum paid up capital requirements Directive No. CGFB/07/2017 states that, the minimum initial paid up capital required to establish a company that targets lessees having capital goods finance requirement up to Birr 1,000,000.00 (Birr One million) per single lessee and to obtain a capital goods finance business license shall be Birr 200,000,000.00 (Birr Two Hundred million). The minimum initial paid up capital required to establish a company that targets lessees having capital goods finance requirement not exceeding Birr 30,000,000.00 (Birr Thirty million) and to obtain a capital goods finance business license shall be Birr 400,000,000.00 (Birr Four Hundred million).

A recent directive issued by National Bank of Ethiopia (NBE), the limit on capital Goods Finance exposure to a single lessee Directive No. CGFB/08/2019 states that, the aggregates sum of capital goods finance granted to and outstanding at any one time to any single lessee shall not exceed 2.5% of the total capital of the company. The capital Goods Finance exposure of a company intending to serve lessees having relatively higher capital goods finance requirements through meeting to Birr 400,000,000 minimum paid-up capital requirements for any single SME shall not exceed 15% of the total capital of the company. Whereas, the aggregate sum of capital goods finance granted to and outstanding at any one time to a large business to a large business that does not constitute a SME shall not exceed 25% of the total capital of the company.

To this end, the Development Bank of Ethiopia (DBE) has developed its internal lease financing policy and procedure to entertain small and medium enterprises (SMEs). Moreover, based on credit policy and procedure of the Bank dated October, 2015, Capital Goods Proclamation No.103/1998 and 807/2013, the Bank has customized and endorsed its lease financing policy and procedure in January, 2016 so as to operate lease financing service.

2.10. Enabling Environment for Leasing: Legal & Regulatory framework

According to World Bank (2004) an enabling environment is crucial for the development of leasing as for any economic activity. Two crucial elements are clear legal basis and minimal regulation. The use of internationally accepted accounting standards and a tax code that is not biased against leasing would further enhance leasing sector development. Additional factors such as a clear property rights regime, adequate creditor protection, and well-functioning asset registries and credit bureaus (that enable financial activity in general) also contribute to the development of a strong leasing market.

2.10.1. Legal Framework

World Bank (2004) study revealed that in most countries the civil code provides the legal basis for leasing. Some countries such as United States, France, Argentina, Brazil, Russia, Korea, Indonesia, Morocco, and Ghana have specific leasing laws. Tajikistan,

Uzbekistan, and Kyrgyz Republic have recently enacted leasing laws with support from IFC. Whether provided by a specific leasing law or by the general civil code, the effectiveness of the legal framework will depend on first the Clarity in defining a lease contract, leased assets, and responsibilities and rights of parties to a lease contract, secondly Liability, third Priority of lessor's claim over leased asset and finally Repossession.

Moreover, Repossession: Easy and fast repossession of leased assets is one of the main advantages the lessor has compared with the lender. The legal framework should permit non court repossession, so that lessors can repossess leased assets without going to court as long as the lessee does not contest the repossession (World Bank, 2004).

2.10.2. Fundamental Elements of Financial leasing law

According to Amembal et. al. (2000) in some circumstances, a separate legal and regulatory framework for leasing companies can be helpful to create a suitable environment for leasing and promote confidence in the industry. Many developed countries, despite their long history of leasing, do not have a separate leasing law. Those countries usually have well-developed common and civil laws that provide an adequate basis to support leasing transactions. In countries where the leasing industry is still in the very early stages of development, a new legal and regulatory framework could help promote confidence in the efficiency and fairness of the market.

Fundamental elements of efficient financial leasing comprise (IFC, 1998): Elements of efficient financial leasing comprise are Freedom of contract, Recognition of the three-party structure of the modern financial lease, duties consistent with party's role in the transaction, lessee's duty to pay after acceptance, lessor lack of equipment responsibilities, lessee's recourse against the seller, equipment not liable to other creditor's claims, transfer freedom and restraint, default remedies, including the right to accelerate the remaining lease payments, and expedient repossession and recovery.

In the contractual agreement the rights and duties of the lessor as legal owner of the asset and the rights and duties of the lessee as user of the asset should be clearly stated. The legal owner needs a clear, simple, workable, timely process to reclaim an asset if the terms of the lease are breached by the user, including the automatic right of repossession

without lengthy court proceedings and the right to claim payments due and other damages. The lessee must have the right to use the asset unimpeded and gain the full productivity of the asset. In some countries, it may be necessary to clarify that the lessee does not have the right to create a lien on leased assets (IFC, 1996).

2.10.3. Regulatory framework for Leasing

Prudential requirements for lessors are generally less stringent than those for banks, because lessors are not usually allowed to attract deposits. Nevertheless it is in the interest of shareholders as well as lessees that there are minimum prudential requirements. This helps to maintain a stable and vibrant leasing industry (ILO, 2003).

The regulation and supervision of lessors is usually vested in a country's Central Bank or Ministry of Finance. The regulating authority will spell out certain financial and administrative requirements for all leasing companies. According to ILO (2003), the most common of these are: minimum capital requirements, maximum debt to equity ratio, standardized financial statements, as well as foreign exchange and customs.

2.10.3.1. Minimum capital requirements

Financial institutions and banks are required to have a minimum amount of capital. Capital requirements for leasing companies are normally lower than those for banks.

2.10.3.2. Maximum debt to equity ratio

The debt-equity ratio compares the amount of capital borrowed by the lessor with amount of capital injected by shareholders. It is advisable that this does not exceed 10:1, meaning that no more than 10 units of capital should be borrowed for every unit invested by the shareholder. The 10:1 maximum ratio was recommended by the International Finance Corporation after many years of experience in leasing ventures throughout the world (IFC, 1996)

2.10.3.3. Standardized financial statements

Financial statements are a means by which external parties can evaluate the financial health of the lessor. To stabilize the leasing industry in the country, the regulatory authority may make specific rulings concerning the presentation of the lessor's financial statements.

2.10.3.4. Foreign Exchange and customs

Lessors need to be able to freely convert local currency into foreign exchange. This enables them to buy equipment with foreign currency while setting lease payments in local currency. It is important that any customs duty that lessors pay on imported equipment is the same or less as would be paid by the entrepreneurs if they imported the equipment themselves. Many countries have adopted favorable regulation regarding customs duty in leasing.

2.11. Sources of funding for leasing companies

As per (ILO, 2003) an institution offering leasing needs to attract matching resources to finance the leasing scheme. A lessor offering leases with 2 or 3 years lease terms needs medium term financial resources at the liability side of its balance sheet. Leasing companies are generally not deposit-taking institutions – they rely on capital markets for equity and debt. In developing countries, the medium-term debt needed to finance the leasing scheme can be difficult to attract. In the same notion, (IFC, 2009) asserts that funding is critical to leasing companies. Stand-alone leasing companies have no parent from whom to receive assured funding compared with bank owned leasing companies that have access to funding from the bank. Thus, stand-alone leasing companies without secure financing can find its sources of funding totally disappearing and, even if it can have access to finance, its cost of funds will inevitably rise, not only affecting its profits but also its ability to on-lend at a reasonable cost. To this end, (IFC, 1996) suggested that leasing companies should be allowed to mobilize term deposits, but not demand deposits.

Many bank-owned leasing companies will have debt-to-equity ratios of 10:1 (or even more) but stand-alone will only be permitted (by their funders) to leverage up to around 7:1 and in their early phase perhaps only 2 or 3:1 (IFC, 2009).

2.11.1. Tax issues of Leasing Businesses

Income or profit tax and value-added taxes (VAT) are two major taxes that have significant implications for leasing. Actual impact of taxes on leasing is however much more complicated. (Deelen et al., 2003) discuss some additional taxes (capital gains tax, property tax, stamp duty, etc.) which impact leasing in some countries.

Income or profit tax: Two factors of particular relevance are: First whether lessors are allowed to deduct depreciation and lessees deduct lease payments from their taxable income; and secondly, whether accelerated depreciation is permitted. The first factor depends on whether a country follows a "form" approach or "substance" approach towards lease taxation. In "form" countries, lessors can deduct depreciation only if a lease satisfies criteria specified in the tax regulations that qualify it as a 'true lease.' As for (b), some countries permit lessors to depreciate the leased asset over the lease period (typically shorter than the economic life period over which normal depreciation is allowed). This further increases the tax-gains because taxes are deferred (and thereby have lower present value).

One of the advantages of leasing is that it allows the lessor to use depreciation as a tax-shield. Additionally, the lessee gains from the larger-tax shields arising out of deducting lease rentals rather than interest on a loan and depreciation on equipment. Operating leases automatically benefit from the typical tax treatment of leasing. "Form" approach to lease taxation encourages leasing since it allows even full- payout leases to obtain tax savings usually associated with leasing. This is especially relevant to developing economies where simple finance leases form the major proportion of leasing, and particularly for microenterprises and SMEs that are more likely to use finance leases rather than operating leases.

Although, using form approach results in governments foregoing tax revenue, the gains to the economy from higher investments resulting because of the favorable treatment could be larger. It is also worth noting that adoption of IAS-17 for accounting purposes (which requires lessees to capitalize all finance leases) does not restrict the use of the form approach for taxation purposes. This would only require lessors and lessees to maintain an additional set of accounts for taxation purposes and reconcile it with their primary accounts (Boobyer, 2003).

The most common arrangement is for lessor to pay VAT during equipment purchase, and for lessee to pay VAT on lease payments and on value of the asset if ownership is transferred at the end of the lease period. (Amembal, 2000) recommends waiving VAT on lease payments in emerging markets since in these markets most leases are simple finance leases that are close substitutes for term-loans; VAT is typically not charged on

loan payments. (Westley, 2003) also argued that loans and finance leases need to be treated similarly for tax purposes (since they are close substitutes).

Thus, VAT has a profound impact on the leasing business. According to the IFC (2009), the tax treatment of leases for both the lessor and the lessee is a major determinant of whether a country develops leasing as a successful financial product. As per the IFC's assessment, countries with laws that create no noticeable tax treatment differences between finance leasing and bank loans have the most vibrant leasing sector. What matters most is the existence of a level playing field between leasing and other forms of credit. It is a plain fact and for policy reasons, governments should retain the right to introduce preferential tax treatment to the leasing business in the interests of encouraging domestic investments in the economy (IFC, 2009).

2.12. Lesson from Bangladesh about Lease financing Service

Based on Haradhan (2012) Bangladesh is a developing country; the national calamity and political unrest slow the industrial growth as well as economic growth of the country. In this country most of the people depend on agriculture only. Lease financing was first introduced in Bangladesh in the early 1980s. Industrial Development Leasing Company of Bangladesh Limited (IDLCL), the first leasing company of the country, was established in 1986 under the regulatory framework of Bangladesh Bank. It was a joint venture of the Industrial Promotion and Development Company of Bangladesh Limited (IPDC), International Finance Corporation, and Korea Development Leasing Corporation. Another leasing firm, the United Leasing Company Limited started its operations in 1989. The number of leasing companies grew quickly after 1994 and by the year 2000, raised to sixteen. The objectives of lease financing in Bangladesh are to assist the development and promotion of productive enterprises by providing equipment lease financing and related services, to assist in balancing, modernization, replacement and expansion of existing enterprises, to extend financial support to small and medium scale enterprises, to provide finance for various agriculture equipment, and to activate the capital market by operating as managers to the issue, underwriters, or portfolio managers.

The leasing business in Bangladesh involves in regular leasing activities and is now involved in stock-market related activities such as issue management, underwriting, trust

management, private placement, portfolio management and mutual fund operations. The lease financing services are textiles, food and beverage, transport, apparels and accessories, paper and printing, pharmaceuticals, construction and engineering, chemicals, telecommunications, agro-based industries, and leather and leather products. Private leasing companies attract clients by providing relatively better services and the down payments of their leasing are not high and the growth period is low. In Bangladesh leasing companies face some problems in conducting their business. The relatively slow growth of the demand side compared to the fast growth of the lease business is one such problem. Leasing companies often find difficulties to raise funds through short- or long-term borrowing from money and capital markets. They are hard pressed to deal with the financial assets because of the present laws of the country, which are also not fully enforceable. The leasing market is becoming more competitive because of the new leasing companies are entering in the market (Haradhan, 2012).

2.13. Prospects of lease financing

Leasing in Ethiopia has enormous potential. Provided an enabling environment for leasing is present, Ethiopia has good economic growth prospects and is a large market, with its population of nearly 90 million, and approximately 80% engaged in agriculture. IFC's leasing support analysis points to agricultural equipment such as tractors, irrigation equipment, basic food processing and drying equipment having the greatest potential for entry in leasing. Currently, access to finance is one of the biggest challenges in the country. Thus, leasing as an alternative to lending would be an attractive option primarily due to the leasable asset serving as collateral, and equipment that would have been out of reach, becoming possible to obtain (Helen, 2014).

Work is ongoing by NBE and IFC to address and close the gaps and challenges in the leasing sector. Even the current scarcity of leasing professionals'/skill sets could improve in the medium-to long-term, as concerted efforts are made to make available extensive and widely available training and capacity building by NBE. The private leasing companies also plan to address the skills set gaps in the sector by drawing expatriates to train their local staff (Helen, 2014).

2.14. Empirical review

Empirical study by (Victoria Kisyombe) founder and managing director of SELFINA, 2014) the challenges and opportunities of leasing for SMEs are developing business idea, capital, finding the right location, finding of employees, finding customers, being competition, and unforeseen circumstance. Beside the challenges of leasing Effective promotion of youth entrepreneurship requires adequate funding. In many cases financial sources include: the government, the private sector, commercial banks, Development finance institutions, capital markets, private equity/venture capital, crowd funding and lease finance. These are in addition to own sources including family and friends. In most developing countries governments, donor agencies and NGOs and own sources are major sources of funding.

Through financing equipment, leasing provides financial services closely linked to a country's real economy. It can promote the use of advanced technologies and eliminate lagging production capacities. Therefore, such a move can be one of the best tools to boost China's traditional manufacturing industries into more advanced, high-end upgrades. The unique nature of leasing makes it possible for manufacturing to become the most prominent industry in this economic transition, local governments across the country have rushed to put forward favorable policies for leasing investment, such as preferential land or tax treatment and fiscal subsidies. Also, Better Social Awareness and Market Infrastructures access to the credit information of any particular enterprise nationwide are opportunities for leasing business in Chinese (Yanging & Xiaolan , 2015)

Challenges faced by the Chinese leasing market is slowing down, facing a structural transformation, the market size increases dramatically but the development quality is still low, lack of qualified personnel, insufficient funding sources faced by Chinese lessor are some of challenges faced by Chinese leasing market (Yanging & Xiaolan, 2015).

As empirical study indicates lease financing is at its infant stage of development in Ethiopia and has potential prospects for growth even it encounters so many challenges like law contradiction, there is no law that prohibit foreign investors, there is no mechanism of easy repossession of leased asset (particularly for hire-purchase product) without judicial process.

In addition, lease financing in Ethiopia has high market potential for growth. Leasing as an alternative source of financing has many benefits for SMEs in Ethiopia. It reduces the collateral requirement, one of the major challenges of SMEs to have access to finance, since the equipment itself serves as a security. The research conducted by Asfaw (2016) and the results of his finding indicates the major challenges of the lease finance sector in Ethiopia include: lack of availability of low cost and sustainable funding; lack of clarity on interpretation of tax incentives provided by law; lack of leasing expertise in the market; existence of inadequate supply chain linkages as well as procurement hurdles; existence of limited domestic suppliers; and absence of specialized leasing training center Asfaw (2016).

Ethiopia leasing sector is at an infant stage, currently characterized by inadequate regulatory and legal framework and little know-how of leasing operation by potential key players and by NBE. To-date, renting of equipment is more common, typically in the construction sector. Leasing was limited to a few larger microfinance institutions that leased for example small irrigation equipment and beehives, typically to farmers with co-operatives co-signing. The slow development of the leasing sector to-date may be due to the uncertainty and lack of clarity surrounding permissible leasing modalities and the authority that mandates the activity in general. Leasing sector is recently experiencing positive developments. There is a growing interest by the government and NBE, as well as by private sector players, to integrate leasing as a crucial instrument to address the gap in access to finance and meet economic growth targets. An enabling environment for leasing typically requires appropriate laws and regulations, in terms of taxation, operation and ownership, as well as demand and supply of leasable assets, leasing operation knowledge by leasing companies, suppliers and potential lessees (Helen, 2014).

Asfaw (2016) has conducted the research entitled “Lease Financing in Ethiopia: an assessment of the Five regulated lease financing companies” The research assessed the state of lease financing in Ethiopia and investigate the challenges or impediments of the sector as well as its review of legal and regulatory framework. The research approach adopted was a mix of quantitative and qualitative method. Both primary and secondary data were used as evidence for the study. A mix of both random and purposive sampling was adopted. All the five regulated lease finance companies and supervisory bodies were included in the sample. The study found out that the major challenges of the

lease finance sector in Ethiopia include: lack of availability of low cost and sustainable funding; lack of clarity on interpretation of tax incentives provided by law; lack of leasing expertise in the market; existence of inadequate supply chain linkages as well as procurement hurdles; existence of limited domestic suppliers; and absence of specialized leasing training center in the country. Despite these challenges, the study identified that leasing has high market potential for growth in Ethiopia due to government's attention to support the manufacturing sector and SMEs financing through equipment leasing. This is evidenced by both the survey analysis and interview result. The study recommends changes to legal and regulatory framework to create an enabling environment for leasing development and ensure clarity of leasing laws and regulations as well as challenges of the leasing sector be resolved by the concerted efforts of key stakeholders in a way that spur the development of leasing in the country.

The study assessed lease financing in Ethiopia among Addis Capital Goods, Oromiya Capita Goods and Development Bank of Ethiopia and the study mainly tried to focus on internal and external factors that affect lease financing service, nature and benefit of lease financing and future prospects. The study used both qualitative and quantitative method with primary and secondary data collections approaches were applied for the study. Random and purposive sampling methods were adopted. The data were analyzed through descriptive statistics that involves tables, frequency distribution and percentage. The study identified a number of challenges such as: lack of leasing expertise in the market; existence of inadequate supply chain linkages, existence of limited domestic suppliers; and absence of specialized leasing training center, lack of stakeholder integration, shortage of hard currencies, limitation on capital goods re-possession, absence of adequate local manufacturers, long lease processing time, awareness gap and rental problem were identified. The study identified also leasing has high market potential for growth in Ethiopia due to government support, economic growth and industry focus of the country. Based on the results and findings the study recommends lease sector should create strong bond with different stakeholders, promote local manufacturers to create enabling environment (Bekekadu, 2018).

In general, the study has reviewed both theoretical and empirical evidences from different sources. In theoretical part, the study reviewed the definition of leasing by different scholars, evolution and concepts of leasing, characteristics of leasing, parties of leasing, importance of leasing, approaches to leasing modalities, legal and regulatory

framework and prospects of leasing business. On the other hand, the researcher reviewed the empirical evidences which are related to this research topic. Various empirical studies have been conducted to assess the challenges and prospect of leasing business in different countries of the world. However, few studies conducted on the challenges and prospect of lease financing in Ethiopia. The opportunities and challenges of lease financing service in Development Bank of Ethiopia is a new research topic and needs detail study. Therefore, this study attempted to address the opportunities and challenges of lease financing service in Development Bank of Ethiopia.

2.15. Conceptual framework

As described in chapter one the main objective of the study is to assess the challenges and opportunities of lease financing in DBE by focusing on the internal and external factors that affect the leasing operation. In the literature part different aspects of lease financing issues are addressed. As Creswell J. (2009) suggests that after summarizing the literature review, structuring it thematically or organizing it by important concepts to end the literature review is commendable. Therefore, in view of the various literatures reviewed the following conceptual framework is developed to provide a rationale for the study.

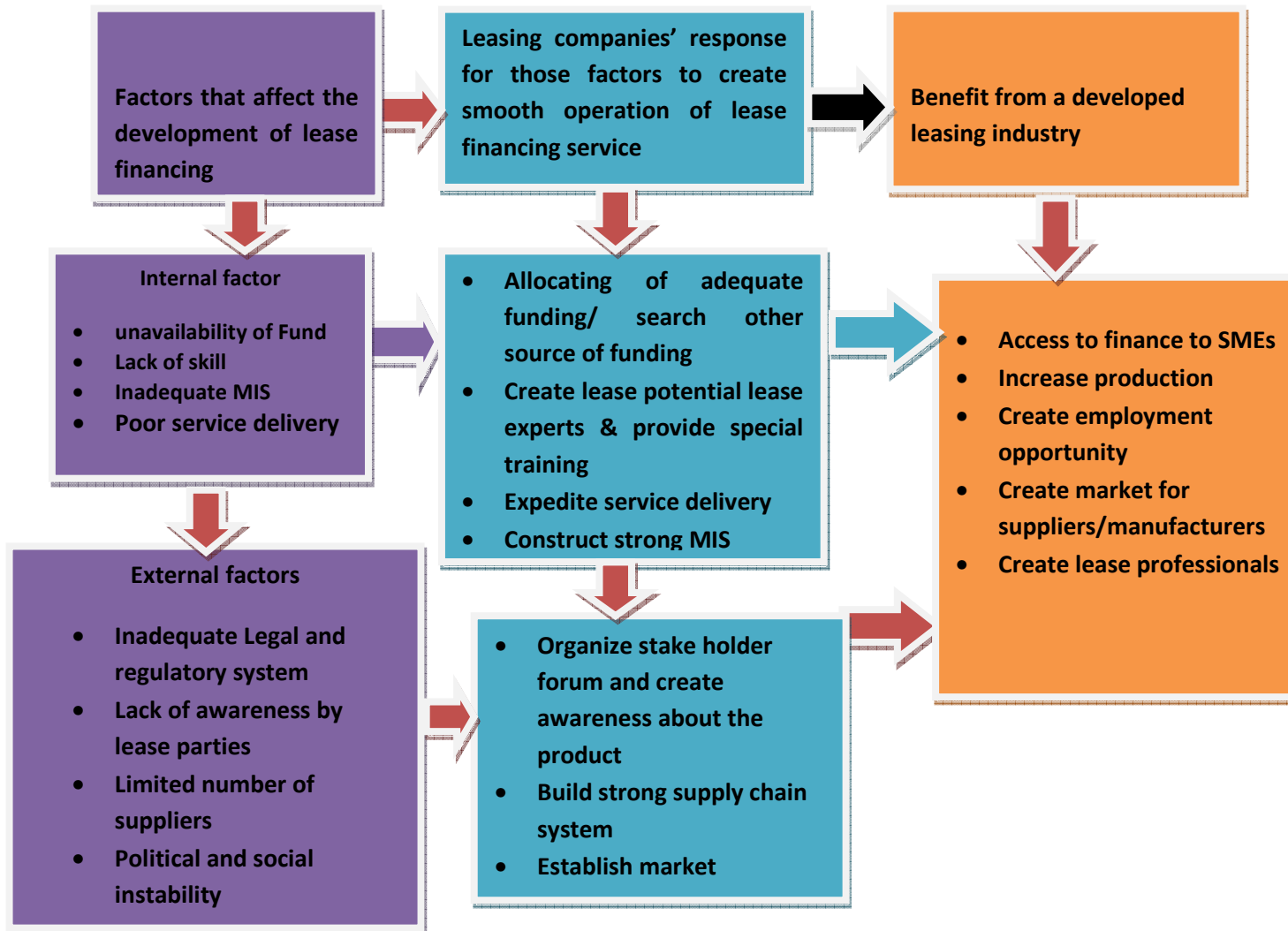


Figure 2-2 Conceptual framework

Source: - Customize from literature review and adopted from Abera (2016).

CHAPTER THREE

3. RESEARCH METHDOLOGY

This chapter presents the methodologies that have been used for the study and it explains about the research design, sampling techniques, sample design, population and sample size, data and collection instruments as well as method of data analysis was given.

3.1. Research design

The research is designed to examine the opportunities and challenges of lease financing in DBE. The research used qualitative methods for conducting the research because the overall strength of the study greater from either qualitative or quantitative research (Creswell and Clark, 2007). Exploratory research design was used to gain new insight about lease financing service providing by the Bank. The population of the study were cover all District offices, Lease financing follow-up Directorate and Equipment procurement and supply Directorate from head office.

3.2. Sampling Techniques

The study used employees who are directly involved in lease financing operation of the Bank so as to get pertinent information for accurate result of the study. The method was applied purposive sampling. Purposeful sampling is a technique widely used in qualitative research for the identification and selection of information-rich cases for the most effective use of limited resources (Patton, 2002). This involves identifying and selecting individuals or groups of individuals that are especially knowledgeable about or experienced with a phenomenon of interest (Cresswell & Plano Clark, 2011).

3.3. Sample Design

The researcher used purposive sampling based on the requirement of information from the lease experts and managers from all Districts in which directly involved the day to day activities of lease financing service so as to obtain pertinent information. In addition,

Vice President SME financing, Capital goods procurement and lease Financing Follow-up Directorates and selected lease experts are interviewed to get more information.

3.4. Population and Sample Size

The Bank has a total of 114 Branches under 13 Districts. From the existing 13 Districts the study took all Districts and selected managers, senior lease officers and lease officers. Under Addis Abeba, Adama, Hwassa, Bahir Dar, Gonder, Mekelle, Jimma, Nekemte, Wolayta Sodo, Butajira, Dessie, Gambella and Dire Dawa Districts 12, 7, 16, 9, 5, 10, 7, 7,10, 9,10, 3 and 9 Branches respectively. In each District the Bank has three senior officers and four officers. All District managers, senior officers and officers were included in the sample of the study. In addition, lease experts in head office from Lease Financing Follow-up Directorate (LFFD) and Capital Goods Procurement Directorate (CGPD) work units participated in a given questionnaires. Also, a kind of interview with Vice president SME Financing, LFFD and CGPD Directors located in head office were conducted.

3.5. Data and Collection Instruments

The study is employed both primary and secondary data. Primary data was collected through questionnaire and interview. Secondary data sourced from the Bank's annual report, various available publications of the Bank. The five-point Likert rank order scale measurement was introduced in the questionnaire to requests to indicate the level of agreement as "SA" for "1", "A" for "2", "N" for "3", "D" for "4" and "SD" for "5".

The study used primary data and collected through structured questionnaires with 26 closed ended and two open ended questions were distributed to 85 respondents and out of these, 83 were collected from thirteen Districts, LFFD and CGPD work units of head office. The questionnaire was adapted and customized from literature review and World Bank.

Interview questions were also used to ensure the validity of information collected through questionnaires from respondents and also to know general overview of lease financing service of the Bank.

The Bank's lease financing policy and procedure, lease brochure, lease check list, annual reports, capital goods proclamation and others lease related documents reviewed.

Moreover, June 2016, June 2017, June 2018 and March 2019 annual and quarterly reports were used for secondary data analysis.

Non structured interview was conducted with vice president small and medium enterprise financing, lease follow-up Director and Capital goods procurement and supply Director. During interview used the researcher makes some degree of flexibility to gather the required information for the purpose of the study.

3.6. Method of data analysis

The collected data was coded and analyzed using SPSS (Software Package for Social Sciences) Software. The data collected through the questionnaires were analyzed through descriptive statistics that involves tables, frequency distribution and percentages. Information obtained through interview and document review is interpreted qualitatively and summarized in line with research objective. Secondary data is analyzed quantitatively. Moreover, the secondary data was compiled, analyzed and comparison made with excel sheet with table and percentage.

CHAPTER- FOUR

4. DATA ANALYSIS AND DISCUSSION

4.1. Introduction

This chapter deals with the result of the study which includes descriptive statistics specifically frequency of the variables, mean of the variables, relationship between variables, correlation coefficient result between explanatory variables, and discussion of the result. The result of the explanatory variables has been described based on the findings of the study in the descriptive statistics. The results of descriptive analysis are presented in the form of mean, percentages, relationship between variables and correlation coefficient. The researcher has been categorized the continuous variable by using frequency distribution formula for the descriptive part of the study.

A total of 85 questionnaires which consisted 26 closed ended and 2 open ended questions were distributed to purposely selected lease performers of DBE. Accordingly, from the total questionnaires, 83 were returned for analysis of the data. Thus, only two questionnaires were unable to return by respondents. The survey respondents were located in Addis Ababa, DBE head office, and its 13 Districts found in out of Addis. However, in order to collect the required data, the researcher used each individual intranet address due to easily accessible.

4.2. Background information of the respondents

The demographic characteristics of the respondents are analyzed in terms of age, gender, level of education, work experience. The demographic data output of the respondents from SPSS can be presented and discussed as follows:

Table 4-1Description of respondents by age and sex

Respondents`		Frequency	Percent	Valid Percent	Cumulative Percent
Sex	Male	68	81.9	81.9	81.9
	Female	12	14.5	14.5	96.4
	Missing	3	3.6	3.6	100.0
	Total	83	100.0	100.0	
Age	21-30	44	53.0	53.0	53.0
	31-40	21	25.3	25.3	78.3
	41-50	11	13.3	13.3	91.6
	>50	6	7.2	7.2	98.8
	Missing	1	1.2	1.2	100.0
	Total	83	100.0	100.0	

Source: Survey Result, 2019

The respondents indicated their gender profile in terms of either male or female in order to determine the nature of gender relations with the study under investigation. As can be seen from the above table 4-1, most of the respondents are male; they accounted for 81.9% of the total respondents whereas female respondents cover only 14.5%. And three respondents accounting for 3.6% failed to fill their sex. With regard to age concerned the majority of the respondents, about 53% will fall within the age of 21-30 years followed by the age category 31-40 years (25.3%), 41-50 years (13.3%) and greater than 50 years accounted to 7.2 %. One respondent did not indicate age.

Table 4-2 Educational Qualification. Working experience and Current position of Respondents

Respondents`		Frequency	Percent	Valid Percent	Cumulative Percent
Educational Qualification	Degree	57	68.7	68.7	68.7
	MBA	25	30.1	30.1	98.8
	Missing	1	1.2	1.2	100
	Total	83	100	100	
Working Experience	<5	36	43.4	43.4	43.4
	6-10	11	13.3	13.3	56.6
	11-15	14	16.9	16.9	73.5
	16-20	16	19.3	19.3	92.8
	>20	6	7.2	7.2	100
	Total	83	100	100	-
Current position	Officer	29	34.9	34.9	34.9
	senior officer	23	27.7	27.7	62.7
	Team Manager	16	19.3	19.3	81.9
	Director	12	14.5	14.5	96.4
	Missing	3	3.6	3.6	100
	Total	83	100	100	

Source: Survey Result, 2019

Most of the respondents are first degree holders. As can be seen on the table 4-2, about 68.7% of the respondents or 57 of them are BA/BSc holders. And the remaining 30.1% of the respondents are Master's Degree holders. This shows that the respondents are capable and reliable to explore the issues related to the study.

As far as the work experience of respondents is concerned, they can have a significant impact in providing the relevant information by answering the appropriate answers in cognizant to what has been happening currently. As depicted on the table about 43.4% of the respondents are having work experience less than five, 13.3% of them are having from 6 -10 years, 16.9% of them are having from 11-15 years' work experience, 19.3% of them are having 16-20 years work experience and six of them or 7.2% are having more than 20 years work experience. Therefore, the probability of getting reliable information is very high as most of the respondents are experienced personnel of the bank.

The position of respondents also has significant contributions in providing the reliable and valid information for this study. As depicted from the above table, the officer position accounted to 34.9%, senior officer accounted to 27.7%, Team managers accounted for 19.3% and Director accounted for 14.5%. Three respondents are failed to explain their position. This indicates that most of the respondents are above officers. And this in turn assures the probability of getting reliable information.

Table 4-3 Lease Financing Activity from Inception to March 31, 2019

Sr. No	Economic Sector	Application		Approval				Disbursement			Collection		
		NL	Amount	Plan	Actual		Perf. (%)	Plan	Actual	Perf. (%)	Plan	Actual	Perf. (%)
					NL	Amount							
1	Agriculture	342	3,085,555		210	1,758,257			325,664			47,802	
2	Agro-processing	280	2,009,196		196	1,401,024			444,919			34,800	
4	Construction Materials Manufacturing	344	1,686,961		128	752,697			191,095			19,775	
3	Manufacturing	624	4,405,371		365	2,130,882			1,487,763			45,252	
5	Mining & Quarries	521	4,223,287		248	2,222,461			830,935			57,087	
6	Tour operation	51	213,917		38	146,330			30,146			2,452	
7	Agricultural Mechanization	149	537,231		67	307,691			91,381			4,585	
Bulk Purchase									190,469				
TOTAL		2,311	16,161,519	13,113,259	1,252	8,719,339	66%	10,285,020	3,592,372	35%	1,028,539	211,753	21%

(In

'000) in Birr

Source: June, 2016, 2017, 2018 Annual reports and March 31, 2019 Quarterly report of the Bank

As we can see from the above table 4-3 The Bank has received 2,311 applications amounting to Birr 16.2 billion. Out of the total applications received, the Bank has approved Birr 8.7 billion for 1,252 lease projects with performance against plan of 66%. On the other hand, the Bank has disbursed Birr 3.6 billion to SMEs with performance against plan of 35%. In contrast, the Bank has collected Birr 211.8 million with performance against plan of 21%. In general, lease approval, Disbursement and collection of the Bank showed under performed in the report under review (see table 4-3).

In addition, we have observed a number of lease application under process and from the total lease application received which is 2,311 SMEs only 54% or 1,252 SMEs lease requests are approved under the report review and only 491 SMEs started lease operation (see table 4-4).

In general, DBE has been performing under against its plan and small number of SMEs (491) which is started lease operation mainly due to shortage of hard currency, tight requirements of lease financing service and prolonged procurement process and this issue evidenced by interview results.

“in 000” in Birr

Table 4-4 Lease outstanding Balance as of March, 2019

Sr. No.	Economic Sector	Outstanding Lease Amount				
		NL	Principal	Interest	Total	% Share
1	Agriculture	106	284,764	27,812	312,576	11%
2	Agro-processing	105	424,621	10,707	435,328.43	15%
4	Construction Materials Manufacturing	26	133,476	3,205	136,681.65	5%
3	Manufacturing	150	1,041,793	36,718	1,078,510.25	37%
5	Mining & Quarries	75	833,841	33,392	867,233.31	29%
6	Tour operation	11	26,707	724	27,431.90	1%
7	Agricultural Mechanization	18	82,299	726	83,025.72	3%
TOTAL		491	2,827,502	113,285	2,940,787	

Source: Compiled from March 31, 2019 monthly report of the Bank

As we have seen from the above table 4-4, the lease outstanding balance of the Bank stands at Birr 2.94 billion out of which the biggest share is taken by the manufacturing sector amounting to Birr 1.08 billion with percentage share of 37% followed by mining & quarries sector amounting to Birr 867.2 million accounting for 29%.

Table 4-5 Lease Financing Activities for the Fiscal Years 2015/16, 2016/17, 2017/18 and 2018/19

(in 000`birr)

Fiscal Year	Application Received		Approval		Disbursement	Collection	Total Outstanding Lease Amount	NPLs Ratio
	NL	Amount	NL	Amount	Amount			
2015/16	197	987,126	18	120,341	2,243	-	2,243	
2016/17	1165	8,639,233	502	3,845,131	697,476	2,946	222,692	6%
2017/18	587	4,724,585	428	3,240,209	1,395,217	69,224	1,465,645	12%
2018/19	362	1,810,575	304	1,513,658	1,497,436.69	139,583	2,940,787	21%
Total	2311	16,161,519	1,252	8,719,339	3,592,372	211,753		

Source: Annual report of the Bank for the year ended June 2016, 2017, 2018 and March, 2019

From the above table 4-5 the application received in 2015/16 F.Y amounted to Birr 987.1 million for 197 lease applicants in which the lease application amount increased by 775% in 2016/17 F.Y amounting to Birr 8.6 billion for 1165 lease applicants. In 2017/18 F.Y the lease application amount decreased from the previous year by 98% amounting to Birr 4.7 billion for 587 lease applicants. For 2018/19 F.Y covering the partial year which has not ended yet, the lease application received amounts to Birr 1.8 billion for 362 lease applicants.

Lease approval in 2015/16 F.Y amounts to Birr 120.3 million for 18 lease projects in which the approval amount increased by 3095% in 2016/17 F.Y. In 2017/18 F.Y, the approval amount decreased from the previous year by 16%. For 2018/19 F.Y covering the partial year which has not ended yet, the lease approval amounts to Birr 1.5 billion for 304 lease projects.

Relating to disbursement in 2015/16 F.Y amounts to Birr 2.2 million which increased by 30,999% in 2016/17 F.Y amounting to Birr 697.5 million. In 2017/18 F.Y, the

disbursement amount increased from the previous year by 100% amounting to Birr 1.4 billion. For 2018/19 F.Y covering the partial year which has not ended yet, the disbursement amounts to Birr 1.5 billion which has surpassed the disbursement amount of the previous year at this stage.

As far as lease collection is concerned in 2015/16 F.Y. In 2016/17 F.Y, there was a collection of Birr 2.9 million which increased in 2017/18 F.Y by 2250% amounting to Birr 69.2 million. For 2018/19 F.Y covering the partial year which has not ended yet, the collection amounts to Birr 139.6 million which has surpassed by 102% from the previous year at this stage.

The total lease outstanding in 2016/17 F.Y increased by 9830% compared with the previous year. In 2017/18 F.Y it increased by 558% compared to the previous year while in 2018/19 F.Y, the outstanding lease balance increased by 101% compared to the previous year before the fiscal year has ended.

Lastly, NPLs ratio has been increasing from year to year and accounting for 6.2%, 12% and 21% as of June 2017, 2018 and March, 2019 respectively. During interview conducted with the Banks higher officials, the reason for NPLs is mainly due to market and raw material shortage, unwillingness to pay by some lessees, social instability in some part of the country, and partial delivery of machineries. The Bank should have been design strategy for NPLs reduction.

4.3. The opportunities of lease financing

The government has given additional mission to the Bank to serve SMEs in the form of capital goods financing. The Product is new Business area for the Bank and it has been providing lease financing service following government priority area. Following this the Bank has categorized priority business sectors under Agriculture, Agriculture Mechanization service, Agro-processing, Manufacturing, Construction Industry, Mining and Quarry and Tourism Industry. All these sectors need capital goods or machineries and each business sector shall have its own advantages to enhance the leasing market. The leasing sector has also given a great attention by the government in such a way that no need to pay or exempted from custom duty and value added tax. In addition, the machineries are transferred to the lessee by considering the capital goods as

collateral or no need to pledge additional collateral. The service rendering by the Bank is in the form of hire purchase modality and at each machinery rental payment the capital goods ownership right is proportionally transferred to the lessee and up on the last payment affected the ownership right is automatically transferred to the lessee.

In relation to the opportunities of the lease financing, ten (10) questions were presented to respondent

Table 4-6 Opportunities of Leases financing activities in DBE: lease performers perception

<i>Sr.No</i>	<i>Opportunities</i>	<i>No of Respondents</i>	<i>Strongly Agree (1)</i>	<i>Agree (2)</i>	<i>Neutral (3)</i>	<i>Disagree (4)</i>	<i>Strongly Disagree (5)</i>	<i>Degree of Agreement (1+2)</i>
1	The areas of leasing business (sectors selected by the Bank) are vital to the growth and development of the leasing business.	83	66.27%	33.73%	0.00%	0.00%	0.00%	100.00%
2	The government has strong support for the development of leasing business.	83	31.33%	66.27%	0.00%	2.41%	0.00%	97.59%
3	Lease financing service of the Bank has great opportunity for employment creation	83	55.42%	39.76%	4.82%	0.00%	0.00%	95.18%
4	Lease financing service is an alternative source of finance by create new investment opportunity	83	69.88%	24.10%	6.02%	0.00%	0.00%	93.98%
5	Lease Financing service providing by the Bank has create opportunities for suppliers and manufacturers	83	55.42%	38.55%	2.41%	1.20%	0.00%	93.98%
6	Lease financing has high market potential throughout the country.	83	46.99%	42.17%	6.02%	4.82%	0.00%	89.16%
7	Lease financing service of the Bank has contributing its part for promoting export and import substitution	83	27.71%	60.24%	8.43%	3.61%	0.00%	87.95%
8	The concerned stakeholders have strong support and commitment for leasing business	83	60.24%	24.10%	3.61%	7.23%	4.82%	84.34%
9	Lease Financing service providing by the Bank in the Form of Hire-purchase modality is assure owner ship right of the lessee at each instalment period.	83	56.63%	22.89%	7.23%	8.43%	0.00%	79.52%
10	Lease financing service of the Bank have been enhancing SMEs development	83	44.58%	15.66%	16.87%	14.46%	8.43%	60.24%

Source: Own survey, 20

According to the survey result with concerning the opportunities of lease financing activities in DBE, as indicated in the above table 4-6 all respondents confirmed that the areas of leasing business (selected by the Bank) are vital to the growth and development of the leasing business. On the other hand, 97.59% of the respondents asserted that the government has strong support for the development of leasing business. In relation to employment creation, 95.18% of the respondents confirmed that lease financing service of the Bank has created a great opportunity for employment creation. Regarding alternative source of finance, 93.98% of the respondents confirmed lease financing service as an alternative source of finance by creating new investment opportunity. In terms of the opportunity for suppliers and manufacturers, 93.98% of the respondents asserted that lease financing service provided by the Bank has created opportunities for suppliers and manufacturers. Relating to market potential, 89.16% of the respondents support that lease financing has high market potential throughout the country. Regarding the contribution for promoting export and import substitution, 87.95% of the respondents confirmed that lease financing service of the Bank is contributing its part for promoting export and import substitution. Concerning the role of stakeholders in the leasing business, the concerned stakeholders have strong support and commitment for leasing business. In relation to ownership of the lessee, 79.52% of the respondents affirmed that lease financing service provided by the Bank in the form of hire-purchase modality assures ownership right of the lessee at each installment period. Lastly, 60.24% of the respondents confirmed that the lease financing service of the Bank have been enhancing SMEs development. In a nutshell, majority of the respondents confirm that enormous opportunities abound in the lease financing activities of the Bank. (See the table 4-6 below).

On the other hand, the respondents were asked the level of their agreement for the question that the areas of leasing business (sectors selected by the Bank) are vital to the growth and development of the leasing business. Accordingly, 66.27%, 33.73% of the respondents have respond as strongly agree and agree respectively. This indicates that the selected lease area of the Business has great opportunity for small and medium enterprise. As far as government attention and support is concerned, the percentages of respondents who agreed has significant portion with 66.27% and 31.33% strongly agree with the issue. The remaining respondents have responded as disagree (2.41%). This

indicates that lease financing service of the Bank has given great attention by the government. The rest of opportunities questions have got high level of agreement and we can interpret in the aforementioned analysis way.

Table 4-7 Descriptive Statistics for lease financing opportunities

Lease Financing opportunities	N	Minimum	Maximum	Mean	Std. Deviation
Lease financing has high market potential throughout the country.	83	2	5	4.31	.795
The government has strong support for the development of leasing business.	83	2	5	4.27	.586
The areas of leasing business (sectors selected by the Bank) are vital to the growth and development of the leasing business.	83	4	5	4.66	.476
Lease financing service of the Bank has great opportunity for employment creation	83	3	5	4.51	.592
The concerned stakeholders have strong support and commitment for leasing business	83	1	5	4.28	1.140
Lease Financing service providing by the Bank has create opportunities for suppliers and manufacturers	83	2	7	4.58	.718
Valid N	83				

As we have seen from the above table 4-7 the mean response of the six questions were more than 3.00 and the standard deviation were also less than 1.00 except one question. This indicates that the respondents have the same perceptions towards the raised questions

4.4. The challenges of lease Financing

4.4.1. Internal challenges of leasing business

As far as internal challenges of lease financing service of the Bank are concerned, nine (9) questions introduced to the respondents.

Table 4-8 Internal challenges for Lease financing based on respondents' perception

Rank	Internal Challenges	Respo ndent Surv er	Disa g ly Agree (1)	Agree (2)	Neutr al (3)	Disag ree (4)	Disa g ly Disag ree	Level of Agree ment
1	Lease Financing requirements of the Bank are convenient for SMEs so as to get lease financing service easily and they are considered the potential of SMEs	83	0.00%	2.41%	3.61%	33.73%	60.24%	93.98%
2	Lack of adequate hard currency is obstacle for procuring capital goods from abroad	83	60.24%	31.33%	4.82%	2.41%	1.20%	91.57%
3	Management information system is available and strong network in the District and Branches under the District for smooth operation of lease financing service.	83	0.00%	15.66%	4.82%	26.51%	53.01%	79.52%
4	Lease financing Policy of the Bank has clearly developed to provide lease financing service	83	4.82%	12.05%	8.43%	18.07%	55.42%	73.49%
5	Lease financing procedure and guideline of the Bank are suitable and easily understandable to address lease financing service.	83	1.20%	13.25%	14.46%	18.07%	53.01%	71.08%
6	The lease experts have adequate skill about the product and lease related training is given to all lease performers, technical experts and managers to aware of the product.	83	0.00%	27.71%	7.23%	45.78%	19.28%	65.06%
7	Strict onsite & periodic follow up is undertaken by the respective Branch to monitor the leased asset	83	0.00%	27.71%	8.43%	46.99%	16.87%	63.86%
8	Lack of adequate capital is the main problem in the Bank.	83	44.58%	16.87%	14.46%	19.28%	4.82%	61.45%
9	Lease financing service cycle time (from application receiving to delivering the machine) is short and satisfied customers.	83	0.00%	9.64%	3.61%	37.35%	49.40%	59.04%

Source: Own Survey, 2019

From the above table 4-8 in the first place which is 93.98% of the respondents confirmed that lease financing requirements of the Bank are not convenient to get lease financing service. On the second level, 91.57% of the respondents asserted that lack of hard currency the major problem of the Bank to procure capital goods from abroad. In relation to MIS system, 79.52% of the respondents confirmed that inadequate management information system among Branches contributed for poor service delivery. Regarding lease financing policy of the Bank, 73.49% of the respondents confirmed that lease financing policy of the Bank is not clearly developed to provide lease financing service. In addition, lease financing procedure and guideline of the Bank, 71.08% of the respondents asserted that lease financing procedure and guideline of the Bank are not suitable and easy to understand by lease performers. Relating to lease experts of the Bank, 65.06% of the respondents on support that majority of lease experts have no adequate skill about the product and lack of lease related trainings are created gaps on the issue. Regarding strict onsite and periodic follow-up, 63.86% of the respondents confirmed that strict onsite follow-up and regular follow-up is not undertaken by the respective Branches to manage risk of the Bank. Concerning the adequate capital of the Bank, 61.45% of the respondents asserted that lack of adequate capital is the main problem of the Bank. Lastly, 59.04% of the respondents confirmed that lease financing service cycle time which is from application receiving to delivering of the capital goods has been taking long time and did not satisfied customers. In a nutshell, majority of the respondents agreed in all internal challenges of lease financing service of the Bank. (See the table 4-7 below).

On the other hand, the respondents were asked the level of their agreement on each internal challenge of lease financing and for the question that leases financing requirements of the Bank are convenient for SMEs to get lease financing service easily. Accordingly, 60.24% of the respondents were responded as strongly disagree, 33.73% of the respondents were responded as disagree, 3.61% of the respondents were responded as neutral and the rest of respondents (2.41%) were responded as agree. This indicates that lease financing requirements of the Bank to get capital goods have challenging and they are not suitable to small and medium enterprise and this issue also supported by interview result.

For the question that lack of adequate hard currency is obstacle for procuring capital

goods from abroad was presented to the respondents. Consequently, the respondents were responded as 60.24%, 31.33%, 4.82%, 2.41% and 1.20% strongly agree, agree, neutral, disagree and strongly disagree respectively. This showed us in sufficient hard currency to be procured capital goods from international source is a crucial challenge for the Bank. This kind of challenge shall contribute for prolonged procurement process.

As far as management information system of the Bank is concerned, the percentages of respondents who strongly disagree has significant portion with 53.01% and 26.51% of the respondents disagree with the issue. The remaining respondents 15.66% and 4.82% were responded as agree and neutral respectively. This indicates that most of Branches of the Bank have not core banking system and we can conclude that there is in adequate management information system.

Regarding of lease financing Policy of the Bank has clearly developed to provide lease financing service. Accordingly, 55.42% of the respondents were responded as strongly disagree, 18.07% of the respondents were responded as disagree, 8.43% of the respondents were responded as neutral, 12.05% of the respondents were responded as agree and the rest of respondents (4.82%) were responded as strongly agree. This indicates that lease financing policy of the Bank is not clearly address lease related issue and we can conclude that it creates confusion on lease performers. The rest of internal challenges have got high level agreement by the respondents and could be interpreted in similar way.

Table 4-9 Descriptive Statistics for internal challenges

The internal challenges of lease Financing	N	Minimum	Maximum	Mean	Std. Deviation
Lack of adequate capital is the main problem in the Bank.	83	1	5	3.77	1.328
Lack of adequate hard currency is obstacle for procuring capital goods from abroad	83	1	5	4.47	.801
Lease financing Policy of the Bank has clearly developed to provide lease financing service	83	1	5	4.10	1.255
Management information system is available and strong network in the District and Branches under the District for smooth operation of lease financing service.	83	2	5	4.17	1.091
The lease experts have adequate skill about the product and lease related training is given to all lease performers, technical experts and managers to aware of the product.	83	2	5	3.57	1.095
Lease Financing requirements of the Bank are convenient for SMEs so as to get lease financing service easily and they are considered the potential of SMEs	83	2	5	4.50	.694
Valid N	83				

As we have seen from the above table 4-9 the mean response of the six questions were more than 3.00 and the standard deviation were also less than 1.00 for two questions and more than one for four questions. Thus, indicating that the respondents perceptions are close to one another.

4.4.2. External factors of lease financing service

Development bank of Ethiopia as a policy Bank provides lease financing service to small and medium enterprises following government priority areas and it has established a number of SMEs projects and created job opportunities for many of country citizens. As the interview and questionnaire result indicates the Bank give priority to domestic supplier or manufacturer but due to the nature of the product and business sectors complexity the local suppliers and manufactures have limited capacity and are not competitive. They are also few in numbers and the Bank unable to create strong relationship with local suppliers. The Bank is not delivered capital goods at once due to deplete from supplier stock and time taking in machinery production process. Moreover,

concerned stakeholders have not cooperative and collaborating with the Bank based on the interest of the Bank. Also, the issued capital goods proclamation is its own limitation to repossess capital goods from defaulted lessees and tax related issues are not clearly address in the lease proclamation. The conducted interview and questionnaire result also indicate that most of established SMEs projects have been facing raw material and market problem and as a result some lessees are unable to pay machinery rental payment as per the contractual agreement and lease arrears is increasing from time to time.

Table 4-10 External challenges for Lease financing based on respondents' perception

Rank	External Challenges	No of Respondents	Strongly Agree (1)	Agree (2)	Neutral (3)	Disagree (4)	Strongly Disagree (5)	Level of Agreement
1	There is adequate and clear legal and regulatory framework to repossess the leased capital goods in case of default	83	0.00%	1.20%	6.02%	22.89%	69.88%	92.77%
2	Limited number of supplier in local source is the main problem of leasing business in DBE.	83	31.33%	54.22%	12.05%	2.41%	0.00%	85.54%
3	All leasing players or stakeholders have been collaborating or working with the Bank to enhance leasing awareness of SMEs.	83	0.00%	9.64%	15.66%	56.63%	18.07%	74.70%
4	There is strong relationship between manufacturers/suppliers and lessors/the Bank.	83	0.00%	10.84%	20.48%	28.92%	39.76%	68.67%
5	Lack of market is a key problem of operational lease projects (SMEs)	83	30.12%	28.92%	8.43%	24.10%	8.43%	59.04%
6	Capital goods and its accessories have been delivering at once to the lessee	83	0.00%	25.30%	24.10%	40.96%	9.64%	50.60%
7	Leasing laws and regulations has clarity define lease contract, leased assets, responsibilities and rights of both parties.	83	0.00%	21.69%	27.71%	33.73%	16.87%	50.60%

Source: Own Survey, 2019

As indicated in the above table 4-10 generally, seven questions regarding to external challenges were presented to the respondents, accordingly, 92.77% of the respondents confirmed that there is no adequate and clear legal and regulatory framework to repossess the leased asset in case of default. On the other hand, 85.54% of the respondents asserted that limited numbers of suppliers in local market has been the main problem of lease financing activity of the Bank. As far as stakeholders of the Bank is concerned, 74.70% of the respondents confirmed that majority of stakeholders of the Bank have not been working in collaboration to enhance lease financing service. Regarding establishing relationship between the Bank and suppliers, 68.67% of the respondents confirmed that absence of strong relationship between the Bank and suppliers is one of external factors among others. Relating to market problem of the lessee, 59.04% of the respondents support the issue that lack of market in some of the existing operational lease projects (SMEs) and this issue supported by interview result that have contributed for lease arrears. Regarding capital goods delivery, 50.60% of the respondents confirmed that capital goods and its accessories have not been delivered at once to the lessee. Concerning on leasing laws and regulation, 50.60% of the respondents asserted that leasing laws and regulations has not clearly defined lease contract, leased asset of the Bank and responsibilities and rights of both parties. In a nutshell, majority of the respondents agreed in all external challenges of lease financing service of the Bank. (See the table 4-9 below).

On the other hand, the respondents were requested the level of their agreement on each external challenge of lease financing service and for the question that there is adequate and clear legal and regulatory framework to repossess the leased capital goods in case of default by the lessees. Accordingly, 69.88% of the respondents were responded as strongly disagree, 22.89% of the respondents were responded as disagree, 6.02% of the respondents were responded as neutral and the rest of respondents (1.2%) were responded as agree. This indicates that lease financing proclamation is not adequate and clear to address capital goods repossess in case of default by the lessees. In addition, tax related issues are not clearly stipulated in the given lease proclamation.

For the question that limited number of suppliers in local source was presented to the respondents. Consequently, the respondents were responded as 31.33%, 54.22%, 12.05%, and 2.41% strongly agree, agree, neutral, disagree respectively. This indicates

that unavailability of eligible suppliers from local source may lead the Bank to be procure capital goods from international source and this resulted, the Bank has been facing shortage of hard currency

With regard to all leasing players or stakeholders have been collaborating or working with the Bank to enhance SMEs development. Accordingly, the respondents were responded as 9.64%, 15.66%, 56.63%, and 18.07% agree, neutral, disagree and strongly disagree respectively. This indicates that lack of collaboration and support by concerned stakeholders is challenging for smooth operation of lease financing service. The rest of external challenges have got high level agreement by the respondents and could be interpreted in similar way.

Table 4-11 Descriptive Statistics for external challenges

The External Challenges of lease Financing	N	Minimum	Maximum	Mean	Std. Deviation
Limited number of supplier in local source is the main problem of leasing business in DBE	83	2	5	4.14	.718
There is strong relationship between manufacturers/suppliers and lessors/ Bank.	83	2	5	3.98	1.024
There is adequate and clear legal and regulatory framework to repossess the leased capital goods in case of default	83	2	5	4.61	.659
All leasing players or stakeholders have been collaborating or working with the Bank to enhance leasing awareness of SMEs.	83	2	5	3.83	.843
Valid N	83				

As we have seen from the above table 4-11 the mean response of the four questions are more than 3.00 and the standard deviation were also less than 1.00 except one question. Thus, indicating that the respondent's perceptions are close to one another.

CHAPTER- FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. SUMMARY of Findings

The main objective of this research project was to identify the opportunities and challenges of lease financing service in Development Bank of Ethiopia and how many SMEs are benefited from the business in which the Bank has been providing lease financing service. Accordingly, this particular work tried to assess the leasing business of the Bank based on the stated research objectives. Thus, the research touched the status of lease financing activities and in what extent SMEs have been benefited from the product, and with respect to the challenges the internal and external factor identified. In addition, the opportunities of lease financing service also assessed.

The study used qualitative methodology approaches. The population of the study was considered development Bank of Ethiopia head office and selected Branches staffs which are directly or indirectly involved in lease financing service. This is therefore; purposive sampling methods were used to draw a sample of the study. The instruments used to collect the needed data were questionnaire, interview and lease related documents analysis. Finally, Descriptive analysis was used to present the result of the study.

Moreover, Lease financing service or supplying of capital goods in kind is a new product for the Bank and the country as well. The Bank has been procured and transferred more than six hundred capital goods and in other words more than six hundred SMEs are beneficiaries from the leasing business and this data supported by secondary data collected and compiled by the researcher and also confirmed by interview result. The challenges of lease financing are classified as internal and external factors in general. For instance: lack of capital, shortage of hard currency, un clarity of lease financing policy and procedure, in adequate MIS system and lease financing skill gap, lack of follow-up, lease requirements and long process to obtain lease financing service are classified as internal factors. Besides, unavailability of local suppliers, weak r/ship b/n supplier and the Bank, in adequate legal and regulatory framework, lack of market,

inadequate stakeholders' collaboration are also classified as external factors. During interview conducted with concerned staffs of the Bank, they explained that, the Bank has been facing so many internal and external challenges and agreed with all questions raised by the researcher. Moreover, based on the result of the study lease financing challenges of the Bank has been identified but not limited to the following.

Lease Financing requirements of the Bank are not convenient for SMEs to get lease financing service easily and also the preconditions set by the Bank did not consider the potential of SMEs. There is also a definition mismatch between the country five-year strategy plan and the Bank lease financing policy. On the country strategy plan SMEs means those enterprises whose capital is from 100 thousand to 20 million. In contrast, in DBE context SMEs means those enterprises whose capital is from 500 thousand to 7.5 million. The Bank was over ambitious to open 75 new Branches throughout the country. However, more than 20 Branches are closed recently due to unavailability of SMEs at that particular area.

Lack of adequate hard currency had created obstacle for capital goods to be procured from international source. As it can be observed from secondary data and analysis part lease application is birr 16.16 billion out of this 8.72 billion is approved. While, lease Disbursement is 3.60 billion this is under performed due to shortage of hard currency. This indicates that a number of lease applications are under procurement process. In relation to this finding the empirical study conducted by (Victoria Kisyombe) founder and managing director of SELFINA, 2014) and (Befekadu, 2018) clearly indicate as one of the challenges of leasing business.

Absence of management information system among Districts, Branches and head office for smooth operation of lease financing service. According to the survey and interview results all newly opened Branches of the Bank are offline and they are not connected with network. Moreover, some of old Branches also out of core banking system and they have poor management information system. In addition, the Bank do not have established data base system to easily access data such as suppliers list, proforma, price list and procurement status of each lessee.

Lease financing Policy and procedure of the Bank has not clearly developed to provide lease financing service. According to the survey result and interview result the

Bank has been changed and amended lease financing policy and procedure issues repeatedly.

In adequate and unclear legal and regulatory framework to repossess the leased capital goods in case of default. As indicated in survey result the Bank has been challenged by unclear lease proclamation to repossess its capital goods in case of default happening. For instance, proclamation No 97/98 and 98/98 gave the bank the right to sell asset without the intervention of court if the borrower fails to meet contractual agreement/defaults. Whereas, tax related issue at the time of early settlement and up on final settlement of machinery installment payments and capital goods repossession process are not clearly address in lease proclamation in case of default by the lessee. Moreover, the issue is ascertained by Abera (2016).

Limited number of supplier in local source is the main problem of leasing business in DBE. This can be also challenging to the Bank and it has been procuring a number of capital goods from international source due to limited number of suppliers in local source and the existing suppliers have no adequate capacity to supply capital goods. This issue leads the Bank to suffering in shortage of hard currency. To resolve the issue, the Bank has been working with World Bank. However, to disburse the fund/Hard currency World Bank is requested the Bank to reduce NPLs and also limited to selected business sectors. Moreover, the approved fund is disbursed by World Bank phase by phase after confirming the performance of the Bank. This issue is also confirmed by Abera (2016) and Befkadu (2018).

All leasing players or stakeholders have been not collaborating or working with the Bank to enhance leasing financing service. According to the survey and interview results the concerned stakeholders have been not supported the Bank. At the beginning lease financing service was considered strong support and collaboration from concerned stakeholders in the form of recruiting potential SMEs, construct manufacturing premises and supply power. However, all these things have been challenging for the Bank and obstacle for smooth operation of lease financing service. This issue is also confirmed by Abera (2016) and Befkadu (2018).

Lease arrears has been increasing from time to time which leads to have high NPLs ratio (as indicated in secondary data and information obtained through interview). This can be challenging to the Bank in exhibiting poor performance and the issue is contradicting with its vision and mission.

5.2. CONCLUSIONS

This is the final chapter which presents the conclusion and recommendations part of the study based on analysis and findings of the study. In Ethiopia capital goods financing or lease financing service is a new concept and the riskiness of the product is too much high. Thus, the business has its own opportunities and challenges. The following conclusions have been drawn on the basis of the analysis of the study.

In kind contribution or capital goods financing to SMEs is initiated by the government and additional mission has given to development Bank of Ethiopia to serve SMEs. To this end, the government has also given direction to the concerned stakeholders to work in collaboration with DBE to recruit potential SMEs, to construct and avail shade and infrastructure, to supply power and the like.

Based on secondary data collected and compiled by the researcher lease financing service of the Bank has been beneficiary a number of small and medium enterprise. However, with regard to the opportunities of lease financing serve is concerned different questions were presented and distributed to respondents and majority of them have shown their level of agreement on the issues as strongly agree and agree.

In general, regarding to challenges of lease Financing service of the Bank nine internal and seven external challenges was presented to the respondents and these issues are supported by interview results and the level of agreements on the issues have showed there is strong agreement on the issues and more attention needs the business.

5.3. RECOMMENDATIONS

Leasing business is a new concept for the Bank and the study tried to identify the opportunities and challenges of lease financing in DBE. Further studies have to be expected due to the newness research area of the business. Furthermore, the study touched only the lessor side due to time and budget constraints and it is better to see the

effectiveness of the lessees and lease repayment performance of the lessees and so on. Therefore, the study forwarded the following recommendations based on the findings and analysis of the data:

The Bank ought to reduce lease NPLs ratio to reach 15% and below to be fulfilled NBE requirements. In order to reduce lease NPLs the Bank should undertake periodic monitoring, supervision and follow-up on operational SMEs to identify the problem and to take immediate action.

The Bank ought to revisit the requirements or preconditions of lease financing service. Because there is miss match on the definition of SMEs between the Bank lease financing policy and the country small and medium enterprise strategy policy. It should be reconciling the issue against the country SMEs strategy policy. The Bank had been incurring operational cost on some newly opened and closed Branches due to tight requirements of lease financing service. In fact, the Bank had conducted Branch rationalization study to close, upgrade and reallocate some newly opened Branches. Rather, it is better to make adjustment on lease requirements to be benefited of small and medium enterprise.

So far, shortage of hard currency happened in the country was affect the Bank lease financing activity significantly. The Bank has obtained hard currency from world Bank and it is not adequate. Therefore, the Bank has to be search additional fund owners to resolve shortage of hard currency. In addition, the Bank ought to invite potential manufacturers from local source to submit their offers so as to resolve the issue.

The Bank shall in place adequate management information system in all Districts, and Branches and they should be networked with head office in core banking system for smooth operation of lease financing service. In addition, central data base system is needed to access data such as supplier list, price list and machinery procurement status report and the like.

According to the result of survey and interview result all newly opened Branches of the Bank are offline and they not connected with network. Moreover, some of old Branches also out of core banking system and they have poor management information system. In

addition, the Bank do not have established data base system to easily access data such as suppliers list, proforma, price list and procurement status of each lessee.

The Bank shall review lease financing Policy and procedural manual to create common understanding among lease performers for smooth operation of lease financing service.

The Bank ought to request ministry of trade and industry office to review capital goods proclamation based on the gap observed to make it clear on capital goods repossession and tax related issues.

The Bank shall work in collaboration with concerned stakeholders for smooth operation of lease financing and to be ascertained beneficiaries of small and medium enterprise. The Government of Ethiopia has identified the development of SMEs as a key industrial policy direction for creating employment opportunities for millions of Ethiopians, enhancing industrialization and creating wider manufacturing base. The Government also needs to consider SMEs as one of the major contributing sectors for the transformation of the economy from agriculture led to industry led economy.

5.4. Directions for Further Study

The study examined only the opportunities and challenges of lease financing service of Development Bank of Ethiopia; however, the scope of the study can be further expanded in to country level. Therefore, the study might be used as best references for further researches to be conducted regarding in determinants of lease repayments, lease financing risk and others similar topics. Finally, the study is not limited to these variables and recommended for future research to include other internal and external challenges that affect lease financing service of the Bank.

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Appendix (1)

Addis Ababa University
College of Business and Economics
MBA in Financial Service
Research Questionnaire

Dear Respondent,

This questionnaire is prepared to collect data from Development Bank of Ethiopia especially directly engaged in daily lease financing service operation to undertake this for partial fulfillment of MBA in Banking on the title “The Opportunities and Challenges of Lease Financing Service of Development Bank of Ethiopia”. The information you provide will be used only for analysis of the study which I am conducting as partial fulfillment of the MBA degree in Banking.

I kindly request you to respond freely and honestly as your response has great value in assessing the opportunities and challenges of lease financing service in the Bank’s lease operating units.

Moreover, I assure you that all your responses will be kept strictly confidential and used only for academic purpose.

If you need any clarifications, please contact me through my e-mail address: santazeway@gmail.com or please give me a call at 0911-56-68-54.

Thank you for your valuable time and response in advance.

Yours Sincerely,

Sintayehu Abebe

General instruction:

- ❖ No need to write your name
- ❖ Please make (✓) mark in the box that best describes your response
- ❖ Please write your opinion on the blank space provided and for some items you can use other sheets of paper if the space provided is not sufficient.

1. Age < 20 21-30 31-40 41-50 >50

2. Gender Male Female

3. Educational level Diploma 1st Degree 2nd Degree PHD

4. Years of service in the Bank

Less than 5 years 6 – 10 years 11 – 15 years 16 – 20 years Over 20 years

5. Current position in your organization.....

In the following sections, please kindly indicate (✓) mark to express the extent to which your agreement or disagreement on the given statement from the choices:

- 1) 1= SA=Strongly Agree
- 2) 2= A= Agree
- 3) 3= N = Neutral
- 4) 4= D = Disagree
- 5) 5= SD = Strongly Disagree

Section II: Lease financing in DBE.

Please indicate the extent of your agreement marking (x) sign for all the following questions which are groped in to 5 parts based on the research Question.

1	What are the oppotunities of lease financing service in Development Bank of Ethiopia?	SA	A	N	D	SD
		(1)	(2)	(3)	(4)	(5)
1.1	Lease Financing service providing by the Bank in the Form of Hire-purchase modality is assure owner ship right of the lessee at each installment period.					
1.2	Lease financing has high market potential throughout the country.					
1.3	The government has strong support for the development of leasing business.					
1.4	The areas of leasing business (sectors selected by the Bank) are vital to the					

	growth and development of the leasing business.					
1.5	Lease financing service providing by the Bank have been enhancing SMEs development.					
1.6	Lease financing service of the Bank has great opportunity for employment creation					
1.7	Lease financing service of the Bank has contributing its part for promoting export and import substitution					
1.8	Lease financing service is an alternative source of finance by create new investment opportunities					
1.9	The concerned stakeholders have strong support and commitment for leasing business.					
1.10	Lease financing service providing by the Bank has create opportunities for suppliers and manufactures					
2	What are the challenges of lease financing service in Development Bank of Ethiopia?					
2.1	Internal Factors					
2.1.1	Lack of adequate capital is the main problem in the Bank.					
2.1.2	Lack of adequate hard currency is obstacle for procuring capital goods from abroad					
2.1.3	Lease financing Policy of the Bank has clearly developed to provide lease financing service					
2.1.4	Lease financing procedure and guideline of the Bank are suitable and easily understandable to address lease financing service.					
2.1.5	Management information system is available and strong network in the District and Branches under the District for smooth operation of lease financing service.					
2.1.6	The lease experts have adequate skill about the product and lease related training is given to all lease performers, technical experts and managers to					

	aware of the product.					
2.1.7	Strict onsite periodic follow up is undertaken by the respective Branch to monitor the leased asset					
2.1.8	Lease Financing requirements of the Bank are convenient for SMEs so as to get lease financing service easily and they are considered the potential of SMEs					
2.1.9	Lease financing service cycle time (from application receiving to delivering the machine) is short and satisfied customers.					
2.2.	External Factors					
2.2.1	Limited number of supplier in local source is the main problem of leasing business in DBE.					
2.2.2	There is strong relationship between manufacturers/suppliers and lessors/the Bank.					
2.2.3	Capital goods and its accessories have been delivering at once to the lessee					
2.2.4	There is adequate and clear legal and regulatory framework to repossess the leased capital goods in case of default					
2.2.5	Lack of market is a key problem of operational lease projects (SMEs)					
2.2.6	Leasing laws and regulations has clarity define lease contract, leased assets, responsibilities and rights of both parties.					
2.2.7	All leasing players or stakeholders have been collaborating or working with the Bank to enhance leasing awareness of SMEs.					

Please express your opinion for the following questions in the space provide below and if not sufficient you can write on the back of the paper.

45. In your opinion, what are the opportunities of lease financing service in Development Bank of Ethiopia?

46. In your opinion, what are the major challenges of lease financing service encountered by the Bank?

Interview Questions

Dear Sir/Madam,

1. What does it mean lease financing service in Development Bank of Ethiopia context?
What types of requirements shall be fulfilled by the lessees?
2. What seems lease financing service in general at Bank level?
3. What are the opportunities of lease financing service in Development Bank of Ethiopia?
4. What are the main challenges of lease financing service in the Bank?
5. What are the ways forwarded to tackle those challenges?
6. Do you have available funds/budget/Hard currency to entertain SMEs? If not, what kinds of solutions are taken at time of budget deficit/hard currency?
7. What seems lessor and suppliers/manufactures relationship? Are there available suppliers/manufacturers in local source?
8. Lease financing policy and procedure and others rules and regulations issued by the government are suitable and workable for leasing operation? Have you changed lease policy and procedure? Why?
9. Do you believe that the lease financing requirements, cycle time and other lease related issues are satisfied customers?