



**ST. MARY'S UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**

**THE EFFECT OF LEASE FINANCING ON COMPETITIVENESS OF SMALL AND  
MEDIUM ENTERPRISES IN NIFAS SILK LAFTO SUB CITY**

**ATHESIS SUBMITTED TO ST. MARY'S UNIVERSTY, SCHOOL OF GRADUATE  
STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE  
AWARD OF MASTER OF BUSINESS ADMINISTRATION**

**BY**

**BAWOKE AMAHA**

**FEBRUARY, 2024**  
**ADDIS ABABA, ETHIOPIA**

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## **Declaration**

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Maru Shete (Dr). All sources of material used for the thesis have been dually acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose earning any degree.

Bawoke Amaha  
Name

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Signature

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## **ENDORSEMENT**

This thesis has been submitted to St. University, School of graduate studies for examination with my approval as university advisor.

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## ***Abstract***

*The purpose of this study is to identify the effect of lease financing on competitiveness of small and medium enterprises in Nifas silk lafto sub city. The independent variables lease charge flexibility, loan size, collateral requirement, loan repayment period, tax benefit, leased asset management and lease financing policy and procedure; are regressed against the dependent variable competitiveness of small and medium enterprises. The study employed explanatory research design and multiple regression models to show the effect of the independent variables on the dependent variable. The study used primary data collected from respondents of employees and owners of small and medium enterprises. The respondents were 200 employees and owners of small and medium enterprises in Nifas silk lafto sub city. The data is analyzed by using STATA14. The regression result shows that lease charge flexibility, leased asset management, loan repayment period & loan size are significant determinants of competitiveness of small and medium enterprises while tax benefit and lease financing policy and procedure are not significant determinants of competitiveness of small and medium enterprises. The researcher recommends small and medium enterprises to use lease financing since it improves small and medium enterprises competitiveness.*

**Key words:** *lease financing, explanatory, primary data, competitiveness of SMEs, Nifas silk lafto sub ccity*

**Acronyms:** *SMEs-small and medium enterprises*

*GDP–gross domestic product*

*LDCs- Least Developed Countries*

*IMF-international monetary fund*

*IFC - International Finance Corporation*

*DBE-Development bank of Ethiopia*

*NBE-National Bank of Ethiopia*

*EIF - European investment fund*

*BJET - Branna Journal of Engineering and Technology*

# CHAPTER ONE

## INTRODUCTION

### 1.1, Background of the Study

Lease means the legal contract agreement basis between two parties (lessor and lessee). It deals with the use of capital goods in exchange for series of payments. Lessor means a person who, under a lease agreement provides to a lessee the right to use the capital goods in return for rent for an agreed period of time (European commission 2012).

Leasing a financing in kind for production and service purpose by which a lessor provides specified capital goods on financial lease without requirement of collateral for a specified period of time and collects in return a certain amount of periodical payments over the specified period. European investment fund working paper (2015)

Lease financing is a viable option to many organization and country when it comes to funding projects and delivering crucial services. However, it is important for country governments to understand how cost effective the option is as compared to the traditional methods of procuring funds service (Williamson 1988)

The global leasing performance as indicated in World Leasing Year Book (2014) reported that annual leasing volume in 2013 was USD 868 Billion. According to this report, four countries (US, China, Germany and Japan) represented 60% of world leasing volume but in some developing countries lease financing is not well known comparatively,

According to European investment fund (EIF) working paper, 2012/2015 Leasing is a possibility for SMEs to expand their access to short- and medium-term financing. From an economic perspective, leasing can be defined as “a contract between two parties where one party (the lessor) provides an asset for usage to another party (the lessee) for a specified period of time, in return for specified payments” (Fletcher et. al., 2005). This is also reflected in accounting-related definitions: “a lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time” (European Commission, 2012). Leasing is referred to as asset based

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

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

According to Lewellen, 2017 Lease financing is a concept which is well known in the developed countries but in some developing countries lease financing is not well known comparatively. Basically mostly people know the concept of banks to avail the finances whereas lease financing institutions are not the banks. Many countries have adopted lease financing as their strategy in the recent past and they have attained unexpected useful results by doing so. Not only the developed countries but also the developing countries are adopting the option of lease financing over borrowing or. Kenya, Bangladesh has recently attained benefits from lease financing strategies. Debts or loans are more beneficial to those organizations which are able to use them efficiently and effectively otherwise it is a burden for the organization. If the organizations are earning enough revenues before tax to settle the loan payments than it is useful for the organizations (Lasfer, 1998). It has been observed in

the neither developing countries that they are nor using their loans efficiently which is the major reason for their failure and unsatisfactory financial performance (Johnson, 2003)..

Lease financing companies are providing funds to the small and medium size firms in the city which strengthen the economy of the countries. It has observed that lease financing companies achieved their purpose of prosperity in the developed countries and also doing so far in the developing countries. Financial structure of the organizations is very crucial to capture the growth opportunities in the competitive markets. The performance of the organizations is very much depending on the sources from their assets is attained (Williamson, 1988). The timing of getting funds is also critical for the organizations to get the better results by using those funds. Fortunately lease financing companies are able to give funds to the organizations to succeed in the global competition.

According to Asfaw,2016 Globally, financial access is one of the most widely discussed topics in business (World Bank, 2004 & 2006; CGAP, 2013; IMF, 2013; Nair, 2004; and IFC, 2009).Lack of access to finance is the biggest obstacle affecting SMEs, micro enterprises and new firms in developing countries (IFC, 2009). Thought it is believed that SMEs play a key role in economic development and make an important contribution to employment and GDP (Ayyagari, Beck and Kunt, 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)

Lease finance is not everything, enterprises need finance to invest in new equipment and machinery, reach out to new markets and products, and cope with temporary cash flow shortages as well as to innovate and expand (Fafchamps, 1997). Moreover, a survey of the Central Statistical Agency (2010) indicates that lack of adequate capital is the first major problem of small-scale manufacturing establishments starting operation.

A similar study carried out by the Addis Ababa Micro and Small scale Enterprises (MSEs) Development Centre points out that the problem of access to credit as a key limiting factor for enterprises that want use improved technologies (Asfaw A., 2016). 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). Thus, an effective approach to financing SMEs is by supporting leasing companies and other financial institutions that serve these enterprises (IFC1, 2009).

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. 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 choices (World Bank, 2015).

International Finance Corporation (IFC), the private sector arm of the World Bank, has been active in promoting leasing activity mainly in less developed countries for over 35 years (Global Leasing Report 2012; IFC, 2009).

In the developing countries like Ethiopia not only SMEs but also so many large size organizations are using lease financing strategies and getting desired results. In this study, the researcher analyzed the data of SMEs in Nifas silk lafto sub city on the effect of lease financing on competitiveness of SMEs.

## 1.2, Statement of the Problem

The economic benefits of leasing can be derived from the firm's choice of leasing relative to borrowing & acquiring the asset. The advanced on the effect of leasing on the performance of SMEs as opposed to purchase of assets includes tax differential effects. Miller & Upton (1976)

According to Mehran & Taggart (1999) leasing is the part of financing contract whose aim is to select a financing option that optimize on risk return.in pecking order theory of capital structure leasing has first priority in external financing hence the need to study it. Moyer (1994)

Various studies have pointed out that SMEs in Ethiopia have very limited access to bank credit or other financial services (IMF, 2013; World Bank, 2015). This is due to the fact that SMEs possess insufficient collateral or credit history to access more traditional bank finance. A recent 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-Sahara African (SSA) average of 160%.

The absence of collateral requirements seems to be less important for micro-enterprises than for small or medium-sized firms Owing to the need to bridge this financing gap in particular and stimulate economic development in general, there is no doubt that individual countries, both developed and emerging economies, are trying to develop leasing industries. Developing the leasing industry as a means of delivering finance increases the range of financial products in the marketplace and provides a route for accessing finance to businesses that would otherwise not have it, thus promoting domestic production, economic growth, and job creation (IFC, 2005). Moreover, developing leasing allows smaller scale entrepreneurs to become more economically active by enabling access to finance and subsequently, access to income-producing assets.

Further, in any economy, the development of leasing industry positively contributes to the development of SMEs in particular and the economy in general. However, many countries face structural obstacles in developing a leasing industry: the absence of clearly defined and

predictable laws governing leasing transactions, unclear accounting standards, and lack of an appropriate tax regime, constrained funding abilities, and the absence of an appropriate regulatory and supervisory framework.

Regulations either do not exist or do not take into account the specific characteristics of leasing, or their application and interpretation are uncertain because of a lack of prior experience. Recognizing such weaknesses, governments have turned to IFC for help in laying out the groundwork for leasing development (IFC, 2005 & 2009; GPFI & IFC, 2011).

The Ethiopian leasing industry also faces similar challenges, though it needs to be investigated by such study. In addition, this study needs to identify whether there is a mechanism of easy contract enforcement or non-judicial repossession in leasing transaction in Ethiopia. Studies conducted in different countries of the world (India and Zambia) identified that the leasing industries commonly face challenges such as: resource crunch; lack of proper and integrated accounting standards; lack of appropriate legal and regulatory infrastructures; absence of financial education or financial awareness of the local population; and inadequate supply chain relationships (Brahmaiah, 1992; Aloysius & Lubinda, 2013). Other problems that may adversely affect the leasing industry include: lack of expertise in the management; availability of low cost long-term capital sources; absence of well-functioning asset registries and credit bureaus; inadequate tax benefits (World Bank, 2000; Brahmaiah, 1992).

Enterprise competitiveness is said to refer also to product competitiveness, production efficiency, financial position and organization effectiveness in terms of restructuring and sales and demand stimulation (A. Sergeev, 2008).

The aim of this study is to find out the critical effects of lease financing on competitiveness of SMEs in Nifas silk lafto sub city. The reason for conducting the current study comes from the fact that most studies that are conducted at a global level like Bangladesh, Kenya, Spain, and others to examine the impact of lease finance on performance of SMEs outside Ethiopia; they do not explain the issues in context of Ethiopia case particularly Nifas silk lafto sub city and not focus on the effect of lease finance on competitiveness of SMEs



,instead mostly they have focused on the impacts/challenges of lease finance on the performance of SMES .

Therefore, this study is conducted because of the motivation and drivers of SMES competitiveness that could be different and a theory that works in one country may not work in other country and want to identify the effects of lease financing in the context of Ethiopia particularly Nifas silk lafto sub city. Moreover, there was no sufficient study which conducted in Nifas silk lafto sub city that illustrates the effect of lease financing on the competitiveness of SMES. As a result of the above-mentioned gaps the researcher has motivated to work the current study.

### **1.3. Objective of the study**

#### **1.3.1 General Objective**

The general objective of this study is to identify the effect of Lease financing on the competitiveness of SME'S in Nifas silk lafto sub city.

#### **1.3.2 Specific Objectives**

##### **The specific objectives are:**

- A. To determine the effect of lease financing on the financial performance of SME in Nifas Silk Lafto sub-city ;-
- B. To identify policy measures that could be taken to modify & improve the cash flow of the business for SME in Nifas Silk Lafto sub-city
- C. To ensure that loser & lessees provide relevant information in manner that faithfully represents their transaction of SME in Nifas Silk Lafto sub-city
- D. To identify factors/ variables that determine & their effects lease on financing of SMEs in Nifas silk Lafto sub city
- E. To identify obstacles responsible for lease financing competitiveness of SMEs in Nifas silk lafto sub city.

### **1.4 Research hypothesis**

The researcher developed the following null hypothesis as determinants of SMEs competitiveness and their effect.

H1: Lease Charges flexibility has a significant effect on SMEs competitiveness.

H2: loan size has a significant effect on SMEs competitiveness.

H3: collateral requirement has a significant effect on SMEs competitiveness.

H4: loan repayment period has a significant effect on SMEs competitiveness.

H5: Tax Benefits has a significant effect on SMEs competitiveness.

H6: Leased Asset Management has a significant effect on SMEs competitiveness.

H7: lease financing policy and procedure has a significant effect on SMEs competitiveness.

### **1.5. Significance of the study**

The findings of this study will assist in policy formulation and development a framework for critical competitiveness of SME and to the Governmental Policy Makers. Moreover, the findings of this study will help the policy makers and financial institutions how to encourage the competitiveness of SMEs.

The findings of this study will help for the Academics/Researchers, providing a deeper understanding of the critical impacts of lease financing on the competitiveness of SMEs. The findings of this study also help SMEs within an insight into the benefits of using different impacts studied in this research to predict the effects of lease financing on Small and medium enterprise.

### **1.6. Scope of the Study**

This study investigate how Lease financing affects the competitiveness of SMES in Nifas silk lafto sub city during the financial period 2023. The study only emphasis on Nifas silk lafto sub city because it is difficult to consider all of SMEs that existed all over the Addis Ababa or country due to; time, money, distance and other constraints. It also applied explanatory research design and multiple linear regression model by using seven independent variables and competitiveness of SMEs as a dependent variable.

### **1.7. Limitations of the study**

Most of the time like expert researchers faces some limitations; the research visibly faced some limitations are one major limitation of the study was inability of the researcher to get

earlier studies on the analysis of lease financing in Nifas silk lafto subcity there are likely others dimensions of lease financing effects on SMES competitiveness which is not identified in this particular study. the researcher adopts only closed ended and self-reporting questionnaire to gather data for both the independent and dependent variables which involves a risk of self-report response bias. the study is also delimited to Nifas silk lafto sub city SMEs and it is not possible to generalize about the competitiveness of SMEs which are out of this sub city.

### **1.8. Organization of the study**

The paper is organized in five chapters. The first chapter presents introduction which including background of the study, statement of the Problem, objective of the study, research hypothesis, significance of the study, scope of the study, limitations of the study, and organization of the study. The second chapter focuses on theoretical, empirical and conceptual literature review. The third chapter explain methodology of the research. The fourth chapter presents data presentation, analysis and interpretation. The fifth and final chapter forward the findings, conclusions and recommendations part.

## **CHAPTER TWO**

### **RELATED LITERATURE REVIEW**

#### **A, Theoretical Review**

##### **2.1. The role of financing In Improving Competitiveness SMEs**

The role of finance has been viewed as a critical element for the development of small and medium-sized enterprises. The limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development (Levy, 1993). Typically, smaller enterprises face higher transactions costs than larger enterprises in obtaining credit (Saito and Villanueva, 1981). Insufficient funding has been made available to finance working capital (Peel and Wilson, 1996). Poor management and accounting practices have hampered/embarrass the ability of smaller enterprises to raise finance. Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to smaller enterprises. In spite of these claims however, some studies show a large number of small enterprises fail because of non-financial reasons (Liedholm, MacPherson and Chuta, 1994).

Interest in the role of small and medium-sized enterprises (SMEs) in the development process continues to be in the forefront of policy debates in developing countries. The advantages claimed for SMEs are various, including: the encouragement of entrepreneurship; the greater likelihood that SMEs will utilize labor intensive technologies and thus have an immediate impact on employment generation; they can usually be established rapidly and put into operation to produce quick returns; SME development can encourage the process of both inter- and intra-regional decentralization; and, they may well become a countervailing force against the economic power of larger enterprises. More generally the development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation.

Financial is expected to result in the reallocation of domestic credit towards smaller enterprises, and the substitution of more expensive forms of credit for cheaper ones. Moreover, while nominal and real interest rises are anticipated, real returns are expected to outweigh this burden. It is also argued that the process of transferring from an administrative process of credit allocation to a market-based mechanism will not only improve the access to credit for smaller local enterprises, but will also lower the transactions costs associated with borrowing. Further, in cases where highly subsidized export credit schemes exist for larger enterprises, financial can be expected to remove this bias.

The purpose of this paper is to discuss the focus of previous studies on the relation between finance and small and medium-sized enterprise development and to identify some of the gaps in our knowledge. While a considerable amount is known about the characteristics and behavior of small

and medium-sized enterprises, this knowledge continues to be imperfect and a large number of questions remain unanswered in relation to finance and small enterprise development. This paper discusses some of the issues raised by previous research and points to in Nifas silk lafto sub city that can fruitfully be researched.

Simply examining the way in which the demand or supply of finance changes in response to policy changes may not be enough to indicate what kinds of enterprises will survive and contribute to economic growth. A useful perspective may be adopted by attempting to implant financial elements into an approach adopted by Dawson (1993) in an earlier study of Ghana and Tanzania. In this study an attempt was made to identify a set of characteristics embodied in small enterprises which were either favored or disfavored by the adjustment process. the importance of technical and technological factors in determining the way in which small enterprises are likely to respond to structural adjustment. The relatively more technologically sophisticated enterprises appear to have been more able to upgrade their products and services to a level where they have been able to develop linkages with the faster growing sectors of the economy and overcome scale constraints by finding new so-called niche markets more suited to their economies of flexibility and serving an import-substitution function.

## **2.2. Definition of Leasing**

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

IFC (2009) further elaborated the definition that leasing is a medium-term financial instrument for the procurement of machinery, equipment, vehicles, and/or properties. In this sense, it can be argued that leasing has become a source of financing for medium-term investments able to support the development of various sectors of the national economy at

competitive financing costs. Leasing provides financing of assets - equipment, vehicles - rather than direct capital. Leasing institutions (lessors) includes banks, leasing companies, insurance companies, equipment producers or suppliers, and non-bank financial institutions - purchase the equipment, usually as selected by the lessee, providing the equipment for a set period of time to businesses.

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 instalment in periodical payments over the specified period.

### **2.3 Rationale and Principles of Leasing**

The essence of leasing is the separation of property from ownership (Bruce, 1988). This is further clarified by other authors that the concept of leasing is based on the proposition that income is earned through the use of assets, rather than from their ownership (Fletcher et. al., 2005; IFC, 2009; World Bank, 2000). Leasing focuses on the lessee's ability to generate cash flow from business operations to service the lease payment, rather than on the balance sheet or on past credit history (IFC, 2009). This explains why leasing is particularly advantageous for young companies, as well as small and medium business-es 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 is a rental agreement that extends for a year or beyond, and involves a series of fixed payments. In other words, leasing is defined as a contract between two parties wherein one party (the lessor) provides an asset for use to another party (the lessee) for a specified period of time in return for specified rental payments (IFC 2009). Leasing is, therefore, an alternative to borrowing. In this case, legal ownership and use of an asset are separated. Leasing emerged as an important market for those entrepreneurs who do not have the required funds and lack access to bank finance. Entrepreneurs may also prefer to acquire assets through leasing when this is cheaper than other means of acquiring assets. Leasing is

reported to be of high value to those companies that have been newly established and lack start-up capital (GTZ 2002).

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

Leasing institutions can be banks, leasing companies, insurance companies, equipment producers or suppliers (i.e. captive leasing companies), or nonbank financial institutions. These institutions purchase the equipment that has usually been selected by the lessee, and then allow the lessee the use of these equipment and machineries for a specified period of time.

#### **2.4. Definitions of Small and Medium Enterprises**

There are different ways of defining the term small and micro enterprises in different countries. The base for defining is depending on the number of employees hired, the capital invested and the total balance sheet (asset, liability and capital). Developed countries use small number of employees as a criterion to be a small enterprise. The business type is capital intensive. On the other hand, developing countries base their criterion on capital level as there is excess labor(labor intensive). As to European Union definition small enterprise is an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EURO 10 million (Minilek and Chinnan, 2013).

According to Norlaphoompipat, (2008) cited in Islam, Keawchana and Yusuf (2010), Institute For Small and Medium Enterprises Development enterprises in Thailand have defined based on 3 broad categories taking capital level and number of employees as yardsticks. The first sector is Production and it includes Agriculture Processing (medium size not exceeding 200 million baht and 200 employees and for small size not exceeding 50 million baht and 50 employees), manufacturing and Mining. The second sector is trade and it includes Wholesale and Retail (medium size not exceeding 60 million and 50 employees, and small size not exceeding 30 million and 15 employees).The third sector is service (medium

size not exceeding 200 million baht and 200 employees, and small size not exceeding 50 million baht and 50 employees), where one US dollar is 32.26 of Thailand baht.

In Zambia, according to the definition of small enterprises of (JUDAI, 2002, p. 13) cited in ILO (2004) is “Any business whose total investment, excluding land and buildings, does not exceed US\$ 50,000 for manufacturing and US\$ 10,000 for trading and services, where the annual turnover does not exceed US\$ 80,000, employs up to 30 people, registered with the Ministry of Commerce, Trade and Industry”.

The national definition of SMES in Nigeria as adopted at the National Council on Industry (NCI) in 1996 and as cited by Ehinomen and Adeleke (2012) is to classify small scale enterprises as those with total cost, including working capital but excluding cost of land above N1.0 million, but not exceeding N 40.0 million with a labour size of between 11 and 35 workers. Medium Scale Enterprises are defined as those with total cost, Businesses (enterprises) are called small if they are independently owned, operated, and financed, their employees number is less than 100 and have little impacts on their industries (Hatten, 2012).

The new Small & Micro Enterprises Development Strategy of Ethiopia (published 2011) due to global inflation the government has improved the definition as “Micro-enterprise is the business enterprise found in all sectors of the Ethiopian economy hiring up to five man power and 100,000 birr capital for industry and up to five man power and capital of 50,000 birr for service sector and small scale enterprise category, the industry sector includes 6-30 man power and maximum of 1.5 million birr capital and the service sector involves 6-30 man power and capital of 500,000 birr. Under the industry sector there are Manufacturing, Construction, and Mining and under the service includes Retail, Transport, Hotel and Tourism, Recreation, Information Technology and Maintenance are included”.

In general, the definition for micro, small and medium enterprises is different in different countries. In developed countries, where businesses are capital intensive, the level of capital increases with a limited number of employees. On the other hand, in developing countries, where there is excess manpower, businesses are labour intensive and the capital level is limited.



## **2.5, Roles of Small and medium Enterprises to the Development of Ethiopia**

As Gubey aniley refer Ministry of Urban Development and Construction of Ethiopia (2013), tackling issues of unemployment through the support and promotion of large scale manufacturing industries has repeatedly failed. Large-scale enterprises are characterized by larger demand for heavy machineries with relatively advanced technologies, high investment and working capital, and more skilled manpower, which are all in limited supply in developing countries.

In particular, a survey conducted by the Central Statistical Authority (CSA) in May 1997 in 48 major towns showed that there are 584,913 informal sector activity operators and 2,731 small- scale manufacturing industries that give employment to 739,898 in the labor force. Currently, when the sector is being given a great attention in many aspects, job opportunities created are by far greater than the aforementioned.

The Ethiopian government has long recognized the important contribution that small and micro enterprises can make in poverty reduction, employment creation and private sector development. Micro and small enterprises offer both a safety valve for the survival of workers that is available to find steady wage employment and opportunity for the poor entrepreneurs to raise their capital and income. .

As Gubey Aniley refers the survey of MoTI (1997) over 89% of the informal sector operators are concentrated in manufacturing, trade, hotel and restaurant activities. Of the small scale manufacturing industries 85% are engaged in the manufacture of food, fabricated metal furniture and wearing apparels.

The survey also revealed that the number of people earning their livelihood from the informal sector activities and small scale manufacturing industries is eight times larger than those engaged in the medium and large scale industrial establishments. From the above reviewed literatures one can easily understand that small enterprises are crucial to the growth and development of any nation. In developing nations, in which the number of huge industries is very limited, their contribution becomes paramount.

In the developing countries like Ethiopia in general Nifas silk lafto sub city in particular not only SMEs but also so many large size organizations are using lease financing strategies and

getting desired results .In this study, the researcher analyzed the data of industrial sector companies in Nifas silk lafto sub city in attempt to see the effect of lease financing on competitiveness of SME.

## **2.6. Enterprise competitiveness**

According to Bruning E, and Lock shin L., 2000 et al The theory of competitiveness has its origin in the 1980s and complements the ideas held by the founding fathers of the classical economics Adam Smith, David Ricardo, Weber, Schumpeter, Sloan, Peter Drucker, Solow and others.

The main factors, identified on the grounds of the above analysis, with a critical impact upon the enterprise competitiveness, can be summarized in the following areas: Access to finance; innovation activities; intellectual property-related activities; internationalization and Implementation of best practices. The existing situation in the SME sector and its ability to overcome the difficulties caused by the global financial crisis are examined through the prism of five key factors for sustainable development and competitiveness— access to finance, innovation activities, intellectual property-related activities, internationalization and implementation of best practices.

## **B. Empirical Review**

### **2.7, Empirical Evidence on Lease Financing and SMEs**

Various studies have pointed out that SMEs in Ethiopia have very limited access to bank credit or other financial services (IMF, 2013; World Bank, 2015). This is due to the fact that SMEs possess insufficient collateral or credit history to access more traditional bank finance.

According to recent survey results (Oxford Economics, 2011), SMEs on average have a variety of reasons for their decision to lease an asset. However, the main reason seems to be price considerations (price of leasing relative to other financing forms). The importance of different reasons for using leasing becomes clearer when looking at different SME size classes. For example, medium-sized enterprises seem to lease due to price considerations, better cash flow management and the absence of the need to provide collateral.

Developing the leasing industry as a means of delivering finance increases the range of financial products in the marketplace and provides a route for accessing finance to businesses

that would otherwise not have it, thus promoting domestic production, economic growth, and job creation (IFC, 2005). Moreover, developing leasing allows smaller scale entrepreneurs to become more economically active by enabling access to finance and subsequently, access to income-producing assets. Further, in any economy, the development of leasing industry positively contributes to the development of SMEs in particular and the economy in general.

However, many countries face structural obstacles in developing a leasing industry: the absence of clearly defined and predictable laws governing leasing transactions, unclear accounting standards, and lack of an appropriate tax regime(principle), constrained funding abilities, and the absence of an appropriate regulatory and supervisory framework.

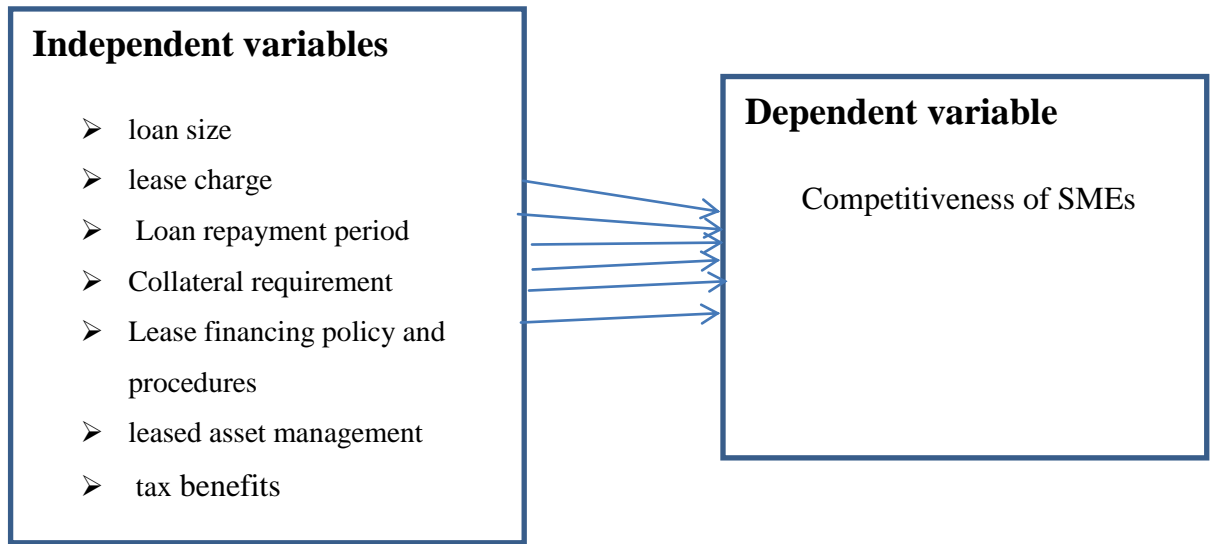
Regulations either do not exist or do not take into account the specific characteristics of leasing, or their application and interpretation are uncertain because of a lack of prior experience. Recognizing such weaknesses, governments have turned to IFC for help in laying out the groundwork for leasing development (IFC, 2005 & 2009; GPFI & IFC, 2011).

The development of leasing industry is not as envisaged in the first proclamation and still at its very infant stages of development due to various reasons.

Few local studies (Kemal, 2012) blame that existence of lack of clarity in tax, legal and accounting aspects of leasing; unavailability of skilled leasing professionals in the market; lack of public awareness and interest in leasing have contributed to the underdevelopment of leasing, however, this local study was conducted before the establishment of lease finance companies in the country or even before the enactment(started) of capital goods leasing business (amendment) proclamation No. 807/2013 and hence, practical challenges were not adequately identified. Thus, this study assesses the current state of lease financing in the country and investigates the challenges or impediments of the sector.

- The key areas of assessment include: adequacy and appropriateness of legal and regulatory framework, level of leasing awareness of lessees/SMEs, availability of sustainable funding, and ownership and governance structure and its impact on the performance of the leasing companies.

- Focused on the relationship b/n independent variables & the dependent variables through conceptual frame work is described here under.



**Source:** prepared depending on reviewed literature leasing development (IFC, 2005 & 2009; GPFI & IFC, 2011). & the author's personal assumption.

## **CHAPTER THREE**

### **RESEARCH DESIGN & METHODOLOGY**

#### **3.1 Research Design**

According to Ranjit (2011), the research design is the conceptual structure within which research is conducted; it constitutes the blue print for the collection, measurement and analysis of data. The study used explanatory research design because the aim of this study is to identify the effect of lease financing on competitiveness of SMEs in Nifas silk lafto sub city

#### **3.2 Research Approach**

In terms of approach a research can be quantitative. findings in terms of statistical summary., Quantitative research is the systematic and scientific investigation of quantitative properties of phenomena and relationships .What constitutes a quantitative research method involves a numeric or statistical approach to research design.

The objective of quantitative research is to develop and employ mathematical models, theories and hypotheses pertaining to natural phenomena. It usually starts with a theory or a general statement proposing a general relationship between variables. As stated (Ranjit-kumar, 2011) quantitative study designs are specific, well structured, have been tested for their validity and reliability,.

This research examines the effects of Lease financing on competitiveness of SMES by adopting mixed research approach (for descriptive statistics and Quantitative for regression analysis).

#### **3.3 Target Population**

Sekaran (2001) defines a population as “the entire group of people, events, or thing of interest that the researcher wishes to investigate”. The population of the study is SMES's Employees in Nifas silk lafto sub city. The total population is 200 among this the study used all employees and owners of the SMES as a source of data.

Description	Population distribution
Members of Small enterprise	130
Members of Medium enterprise	70
Total	<u>200</u>

Table 3.1, Target Population

### 3.4 Sampling techniques

Considering the fact that it will be cumbersome(difficult) to study the entire population due to cost, time and accessibility. Therefore, sample size is being chosen so as to represent the whole population. Sample is viewed not as a whole in itself but as an approximation of the whole. This technique is preferred because it is used to assist in minimizing bias/reducing error when dealing with the population. But this study used census survey since the population size is small.

### 3.5, Source of Data and Data gathering instrument

Primary data on a wide variety of variables were used to meet the objective of this study, Primary data is used to obtain the data for the research leasing offers several advantages over other kind of financing the primary data was collected using instruments such as adopted and close ended questionnaires which mainly employ 5-point Likert scale in Nifas silk lafto sub city. Gm. Sullivan (2013) cited by developed to measure attitude Likert scale one of the most commonly used interval scale questions is arranged on 5-point Likert scale.

### 3.6 Method of Data Analysis

The collected data is analyzed using descriptive and inferential statistics i.e. descriptive which includes means, frequencies and standard deviation to describe the profile of respondents and inferential statistics which includes Regression analysis used to determine the effect of the independent variables on competitiveness of SMES by using STATA14.

For the purpose of this study the following multiple regression equation will be used:

$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + \dots + \mu t$$

Where Y is dependent variable (competitiveness of SMEs)

B<sub>0</sub>= Is intercept (the constant)

X<sub>5</sub>= leased asset management

X<sub>1</sub>=lease charge flexibility

X<sub>6</sub>= lease financing policy and procedure

X<sub>2</sub>=loan size

X<sub>7</sub>=tax benefits

X<sub>3</sub>= collateral requirement

μt=random error term

X<sub>4</sub>= loan repayment period

B<sub>1</sub>, B<sub>2</sub>, B<sub>3</sub>..... & B<sub>7</sub>= Regression coefficient

### **3.7 Reliability and Validity**

Reliability is the extent to which measurements are repeatable when different persons perform the measurements, on different occasions, under different conditions, with supposedly alternative instruments which measure the same thing. In sum, reliability is consistency of measurement (Bollen, 1989)

In order to achieve Cronbach's alpha, the study conducted smaller sample. Therefore, the initial questionnaire was delivered to & collected from 10 the effect of lease financing on competitiveness of SME in order to obtain some assessment to the question reliability & validity have been taken on the questionnaires.

The test result showed that Cronbach's alpha values are greater than 0.7 which confirms the fact that constructs have adequate reliability (Ghauri, Pervez & Gronhaug, Kjell, 2005). Validity basically means "measure what is intended to be measured" (Field, 2005)

### **3.8 Ethical Consideration**

The study gave due consideration to ethical issues such as confidentiality and anonymity. Therefore, the participants were informed as to the purpose and significance of the study and that their responses will be used only for academic purpose and kept confidential. They were also assured that their name and their identity would remain anonymous.

## CHAPTER FOUR

### DATA PRESENTATION ANALYSIS AND INTERPRETATION

#### 4.1 Descriptive Data Analysis

In this study chapter represents the result & findings of the study based on the research objectives the study sought to determine the relation between the effects of lease financing & competitiveness SMEs in Nifas silk lafto subcity. The result is presented in form of summery table regression analysis are used to analysis the data answer the research objective As we can observe from the table (1) below, the two most important statistical measures used to summarize this research data are a measure of central tendency and measure of dispersion. The measure of central tendency includes mean, median, and mode, whereas a measure of dispersion includes maximum, minimum, and standard deviation and the overall number of observations covered in the study.

Variable	Obs	Mean	Std. Dev.	Min	Max
Cmp	200	2.51025	.754861	1.2	4.823529
Lch	200	2.7505	.8500959	1	5
TB	200	2.85	3.46	1.25	5
LRp	200	2.796786	.8192249	1	4.857143
LS	200	3.0569	.9574277	1	5
CR	200	2.28	.9633876	1	5
LAM	200	2.94625	.9507606	1.2	5
LPP	200	2.702321	.9949191	1	5

Throughout all the data collected via the questionnaires used, competitiveness of SMEs measured by a five point likert scale, respondents answer varied from a minimum of 1.2 to a maximum of 4.82 and the average value of competitiveness of SMEs for the case area in the study period is 2.5. Competitiveness of SMEs varied by 0.755 from the mean in the case area. The response given by the respondents on lease charge and collected via questionnaire



has a minimum value of 1 and a maximum value of 5 representing “strongly dis agree” and “strongly agree” respectively. This indicates that respondents highly agreed up on the issues raised regarding lease charge and also disagree about its effect on competitiveness of SMEs in case area. The mean value is 2.75 and the standard deviation which shows the dispersion of the minimum and maximum value from the mean is 0.85.

The minimum and maximum value of tax benefits as it is observable from the descriptive statistics is 1 and 5 showing that respondents reply ranges from “strongly dis agree” to “strongly agree”. The mean value of response towards the questions raised on tax benefits is 2.85 showing that most of the respondents answered neutral that collateral factors might affect competitiveness of SMEs in case area.

Loan size to SMEs as it could be observed from the summary descriptive statistics persuades (convince) respondents highly that it could affect competitiveness of SMEs in the case area. Because the minimum and maximum values are 1 and 5 representing the answers of respondents with mean value is 3.05 and the standard deviation showing the dispersion of out layers from the average is 0.957.

Respondents answers regarding loan repayment period ranges from minimum value of 1 to a maximum of 4.857. The mean value is 2.8 which show that respondents are neutral that the questions raised might impact competitiveness of SMEs. The standard deviation indicates that the minimum and maximum values deviate from the mean value by 0.8.

The minimum and maximum value of collateral requirement as it is observable from the descriptive statistics is 1 and 5 showing that respondents reply ranges from “strongly dis agree” to “strongly agree”. The mean value of response towards the questions raised on collateral requirement is 2.28 showing that most of the respondents answered neutral that collateral factors might affect competitiveness of SMEs in case area.

The response given to the questions raised regarding leased asset management ranges from “strongly dis agree” to “strongly agree” since the minimum and maximum values are 1 and 5 respectively. The mean value which represents most of the respondent’s answers is 2.94 which could approximately represent neutral and the standard deviation showing the dispersion of out layers from the mean value is 0.95. The minimum and maximum value of answers given to lease financing policy and procedure are 1 and 5 representing “strongly dis agree” to “strongly agree” respectively. While the mean value which shows the mostly

answered choice is 2.7 representing neutral. The minimum and maximum values also deviate by 0.994 from the mean value.

## 4.2 Econometrics assumption test results

### Multi-collinearity test

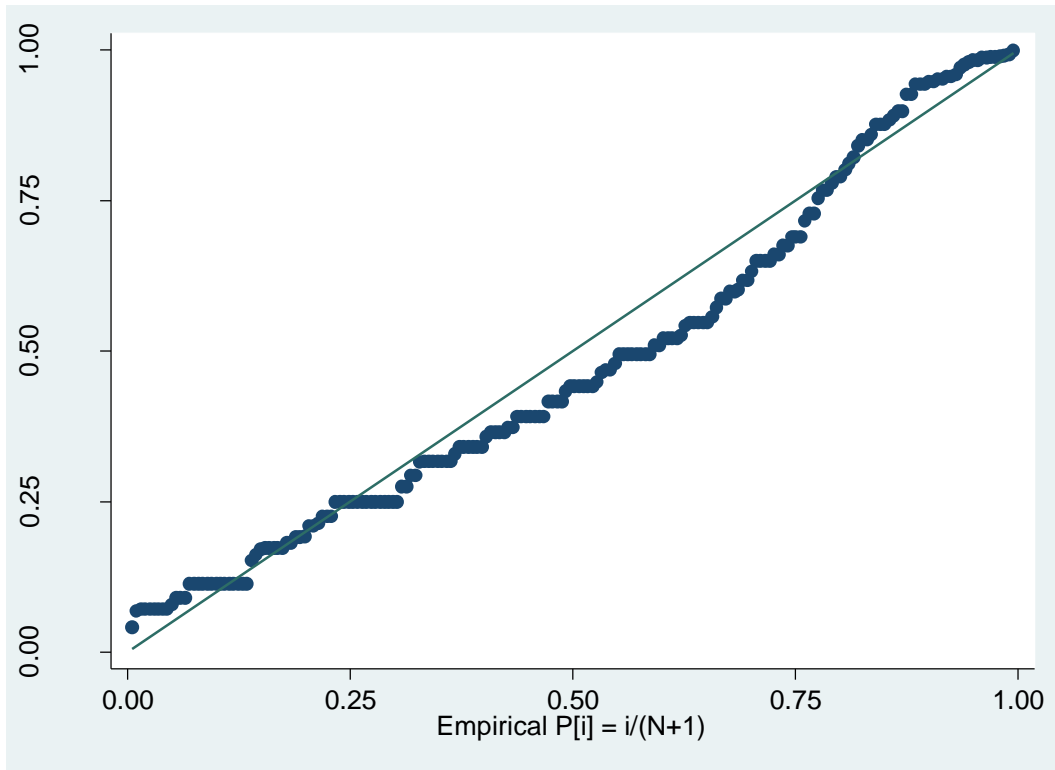
Multi-collinearity is the other test applied for the study. Multi-collinearity refers to the situation where there is either an exact or approximately exact linear relationship among the explanatory variables (Kirubel, 2015). As per Gujarati (2004), for the variables to be valid, the variance inflation factor (VIF) should be less than 10. The test result for correlation among independent variables of the study is as presented below.

#### estate vif

Variable	VIF	1/VIF
LAM	1.87	0.533653
Lch	1.53	0.655059
LS	1.50	0.666063
LRp	1.20	0.835840
TB	1.14	0.875990
CR	1.08	0.928651
LPP	1.04	0.963086
Mean	VIF	1.34

### Normality test

The assumption of normality can be tested in different ways such like histogram, k density (kernel density estimate), normal p-plot, Q-plot, skewness and kurtosis. But, P-plots are more exacting methods to spot deviations from normality, and are relatively easy to interpret as departures from a straight line (Keith, 2006). Therefore; the researcher was checked normality of residuals by normal P-plots and as indicated from the following figure the data is normally distributed.



### Omitted variable Test

The researcher conducted a test to identify the presence of significant omitted variable in the multiple linear regression model. The result shows that there is no omitted variable under the ordinary least square regression (OLS) model applied in this study since the probability result of Ramsey RESET test is greater than 0.05.

### Ov test

Ramsey RESET test using powers of the fitted values of Cmp

Ho: model has no omitted variables

$$F(3, 189) = 2.22$$

$$\text{Prob} > F = 0.0873$$

### 4.3 Multiple linear regression analysis

Linear regression Number of obs = 200

F = 30.42

P = 0.0000

R-squared = 0.5975

MSE = .48755

Robust

Cmp	Coef.	Std. Err.	T	Sig	95% Conf.	Interval
Lch	.3951727	.0607327	6.51	0.000	.2753837	.5149617
TB	7.83	8.89	0.88	0.379	-9.70	2.54
LRp	.104212	.0527424	1.98	0.050	.000183	.208241
LS	.1683662	.0489037	3.44	0.001	.0719088	.2648237
CR	.1049955	.0557693	1.88	0.061	-.0050037	.2149948
LAM	.1387771	.0480726	2.89	0.004	.0439588	.2335954
LPP	.0291298	.0379463	0.77	0.444	-.0457154	.1039749
_cons	-.1192095	.1909002	-0.62	0.533	-.4957404	.2573213

### Stability & Diagnostics Test result of the Model

As it is presented in the above regression output the model fitness test which is the R-squared is 59.75% which implies that the model used to identify the effect of lease financing on competitiveness of SMEs in Nifas silk lafto sub city is almost 60% reliable. Which represents 59.75% change in competitiveness of SMEs is caused due to a change happening in the independent variables included in the regression model or the independent variables included in this study affect competitiveness of SMEs in Nifas silk lafto sub city by 59.75% from the total 100% change happened.

The OLS regression result shows that four independent variables namely lease charge, leased asset management, loan size and loan repayment period significantly affect competitiveness of SMES. P-value of all these variables is less than 0.05 which implies that they are

significant variables affecting the competitiveness of SMEs in Nifas silk lafto sub city On the other hand, three variables, tax benefits, lease financing policy and procedure and collateral requirement are not significant factors at five percent significance level.

variable	expected effect	actual effect	significant@5%	significant@10%
lease charge	Positive	Positive	significant	Significant
loan size	Positive	Positive	significant	Significant
loan repayment period	Positive	Positive	significant	Significant
lease policy and procedure	Positive	Positive	not significant	not significant
collateral requirement	Positive	Positive	not significant	Significant
tax benefits	Positive	Positive	not significant	not significant
Leased Asset Management	Positive	Positive	Significant	Significant

In the previous chapters the researcher has developed a research hypothesis showing the effect of lease financing on competitiveness of SMEs in Nifas silk lafto sub city To prove whether the hypothesis developed are appropriate the researcher collected data and analyzed it through multiple linear regression model and find the above OLS regression result. Therefore, in this section the researcher has tested all the seven hypothesis developed and discussed in brief the outcome of the OLS regression.

**H<sub>1</sub>: Lease Charges flexibility has a significant effect on SMEs competitiveness.**

One of the major factors determining competitiveness of SMEs in Nifas silk lafto sub city is Lease Charges flexibility. In this regard the researcher has developed a hypothesis telling that Lease Charges may significantly affect competitiveness of SMEs. To prove this the researcher collected data from employees and owners of SMEs in Nifas silk lafto sub city and analyzed it through OLS multiple linear regression model in combination with other variables. The result shows that Lease Charges flexibility significantly affects competitiveness of SMEs at 5 percent significance level. Therefore, the researcher failed to reject the null hypothesis. This may indicate that lower Lease Charges contributes positively towards competitiveness of SMEs.

A 0.395 unit increase in competitiveness of SMEs is caused due to Lease Charges flexibility that has a 1 units change while other factors remaining unchanged.

**H<sub>2</sub>: loan size has a significant effect on SMEs competitiveness.**

Loan size disbursed (repay) to SMEs in Nifas silk lafto sub city is one among the independent variables used in this study in the assumption that it affects the competitiveness of SMEs. The actual regression result shows that loan size affect competitiveness of SMEs significantly at 5 percent significant level. The positive sign of loan size coefficient implies that disbursing higher loan size contributes positively towards the competitiveness of SMEs.

The regression coefficient shows that there will be 0.168 unit increase in competitiveness of SMEs because of 1 unit increase in loan size which maximizes competitiveness of SMEs other variables holding constant.

Therefore, the research hypothesis which states loan size affects competitiveness of SMEs is not rejected.

***H<sub>3</sub>: loan repayment period has a significant effect on competitiveness of SMEs.***

The researcher has reached at a positive outcome after conducting OLS regression about the effect of loan repayment period on competitiveness of SMEs. It is known that when loan repayment period increases competitiveness of SMEs will increase and for this study the outcome resulted sound. Therefore, the researcher is forced not to reject the null hypothesis which says loan repayment period significantly affects competitiveness of SMEs. Because the coefficient of loan repayment period in the OLS regression result is positive showing that as loan repayment period is longer the competitiveness of SMEs increase. There will be an increase in competitiveness of SMEs by 0.104 unit due to a 1 unit change in loan repayment period as it could be observed from the multiple linear regression result.

***H<sub>4</sub>: collateral requirement has a significant effect on competitiveness of SMEs.***

The fourth hypothesis developed by the researcher that might show the effect of lease financing on competitiveness of SMEs is collateral requirement affects competitiveness of SMEs. The regression result shows that collateral requirement significantly affects competitiveness of SMEs positively. An increase in 1% of collateral requirement affects competitiveness of SMEs positively at 0.105 rate. This implies that lower collateral

requirement will help to increase competitiveness of SMEs. The regression result shows as the null hypothesis should be rejected at 5 percent significant level. However it is significant determinant at 10 percent significance level since its p-value is 0.061.

**H<sub>5</sub>: Leased Asset Management has a significant effect on SMEs competitiveness.**

The other hypothesis that the researcher has developed as a determinant of competitiveness of SMEs is concerning about Leased Asset Management. Therefore, the researcher collected data on Leased Asset Management from all 200 respondents and included it in the OLS regression. The regression result shows that Leased Asset Management significantly affect competitiveness of SMEs at five percent significance level since the P-value is 0.004.

***H<sub>6</sub>: lease financing policy and procedure has a significant effect on competitiveness of SMEs.***

The OLS regression for this hypothesis has resulted in an outcome, showing that lease financing policy and procedure did not significantly affect competitiveness of SMEs both at 5 percent and 10 percent significance level. The multiple regression result also tells an increase in loan policy and procedure will result in 0.029 change on competitiveness of SMEs. Therefore the study is forced to reject the null hypothesis developed for this variable.

**H<sub>7</sub>: Tax Benefits has a significant effect on SMEs competitiveness.**

The regression result found for this hypothesis forced the researcher to reject the null and accept the alternative hypothesis. Since the p-value for this hypothesis found after the regression is greater than 5 percent the alternate hypothesis stating that tax benefits are not significant determinants of competitiveness of SMEs is accepted.

The regression coefficient of tax benefits to competitiveness is 7.83 which is the slope that indicates by how much the dependent variable competitiveness of SMEs will be changed due to a 1 unit change in the independent variable which is the tax benefits arising from lease financing.

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary of findings**

The determinants assumed at the initial of this paper to affect competitiveness of SMEs in case of Nifas silk lafto sub city were lease charge, loan size, collateral requirement, leased asset management, tax benefits, loan repayment period and lease financing policy and procedure. Based on the data collected and the analysis made the researcher identified that lease charge, loan repayment period, leased asset management and loan size significantly and positively affect competitiveness of SMEs in case of Nifas silk lafto sub city at 5 percent significance level. While the remaining variables, collateral requirement, tax benefits and lease financing policy and procedure are not significant factors as proposed since their p-value is above 5 percent significance level.

Lease charge is the significant determinant of competitiveness of SMEs in case of Nifas silk lafto sub city with a p-value of 0.000 as observed from OLS regression result of the study. From this the researcher concluded lease charge rate is the one among the significant determinants of competitiveness of SMEs which affects competitiveness positively.

Loan size is also found the significant determinant of competitiveness of SMEs in case of Nifas silk lafto sub city with a p-value of 0.001 and it affects competitiveness of SMEs positively.

Loan repayment period is another significant variable determining competitiveness of SMEs with a positive coefficient that tells as it contributes to increase the competitiveness of SMEs at 5 percent significance level with 0.005 p-value resulted from OLS regression result.

Leased asset management positively and significantly affects competitiveness of SMEs in Nifas silk lafto sub city with a p-value of 0.004.

The remaining three variables assumed to be factors of competitiveness of SMEs are tax benefits, collateral requirement and lease financing policy and procedures which resulted in a p-value of 0.379, 0.061 and 0.444 respectively showing that they are not significant factors of competitiveness of SMEs in case of Nifas silk lafto sub city



## 5.2, Conclusion

The researcher has achieved in the following conclusions based on the research analysis done and the result of the econometric models.

The manufacturing sectors of SMEs have been given special attention in order to reduce poverty & create more jobs, however the SMEs in Nifas silk lafto subcity are faced with many binding constraints that hinder their core contribution. In this study bindings constraints to SMEs pertinent to access lease financing are identified. The findings show that low awareness of lease financing among SMEs, poor access to lease financing, low for manufacturing, poor vertical & horizontal linkage & condition & poor integration are binding constraints on lease financing faced by SMs in Nifas silk lafto subcity.

## 5.3, Recommendations

Based on the research findings the study recommends the following ideas as possible solutions that might help SMES in Nifas silk lafto sub city to improve their competitiveness.

- SMEs should use the advantage of lease charge flexibility accessible since it positively contributes to the competitiveness of SMEs. Therefore, the researcher recommends to SMEs management to go on it because their strategy which is in action is significantly and positively contributing to increase competitiveness of SMEs.
- Management and owners of SMEs should use lease financing because the loan repayment period is significantly and positively affecting competitiveness of SMEs.
- Loan size is significantly improving competitiveness of SMEs because it affects competitiveness positively and SMEs should use lease financing since Loan size delivered for SMEs is high and it will in turn improve SMEs competitiveness.
- Leased asset management contributes positively towards competitiveness of SMEs implying that better leased asset management practice from lease financing increase competitiveness of SMEs. Therefore the researcher recommends the SMEs to apply and use lease financing.
- To solve the power supply lease financing gap or problem the government should accord priority to the provision of lease financing power both small & medium enterprise might borrow to upgrade equipment, invest new technology & improve their production line

which the basic & necessary facilities to increase & to utilize their capacity of the competitiveness. of SMEs.

- More emphasis should be given to research & development in lease financing area to come up well improved system the competitiveness. of SMEs
- The study also recommends that the lease association of in Ethiopia, needs to be proactive in marketing & provide information on leasing. This could be updates on leasing incentive that encourage leasing uptake & costs involved in use of lease. This will go a long way to increase the use of both operate & financing lease which might improve the significance level lease financing within SMEs in Nifas silk lafto subcity.
- **Generally**, to overcome the obstacles related to accessible & available lease financing infrastructure on competitiveness the government rule & regulation should be fully enforce laws & regulation based on the quality standard's about lease financing on competitiveness of SMEs firms by CSA. These tasks should involve regulatory bodies for law enforcement.

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## **Appendix I**

**St. Marry University**

**Master of business administration department of management:**

**Research Questionnaire**

**Name of Researcher: Bawoke Amaha**

**Phone +251 910986009**

Dear Sir/Madam,

This questionnaire is designed to conduct academic research on “the effect of Lease Financing on the competitiveness of SMES in Nifas silk lafto sub city.” as part of the fulfillment of Master’s Degree in business administration at St. Marry University.

The main objective of the study is to identify the effects of lease financing on the competitiveness of SMES in Nifas silk lafto sub city.

The data you provide in response to the questionnaires will be only used for academic purpose in accomplishment of the study. Thus, respondents are encouraged to provide their opinions objectively, independently and free from any bias. Your responses are strictly kept confidential and they are used exclusively for this research. Your input is highly valuable for completion of this study. To indicate your choices, please put “X” mark on your selected choice. Should you have any enquiries or clarifications, kindly please contact me in person through my phone address.

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

All regards!

**Bawoke Amaha.**

Section I: Respondent Profile

1. Gender:

Male  Female

2. Age:

Less than 25  26 – 35  36 – 45   
46 – 55  Above 56

3. Educational Qualification

Master's Degree and above  First-Degree  Diploma

Technical/Vocational certificate  other (please specify) .....

4. Working Experience

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

5. Current position in your organization\_\_\_\_\_

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

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

## 1. Matters Related to independent Variable (Lease finance)

### 1.1 Matters related to Interest rate

N O.	Please indicate the extent of your agreement on the following statements in relation to interest rate:	S D (1)	D (2)	N (3)	A (4)	S A (5)
1	interest rate affects the growth plans of companies					
2	Low interest rate environment is great for borrowers which reduce monthly repayment					
3	interest rate affects the borrowing capacity of SMES					
4	High interest rate reduces the income available of the business					
5	Interest rate of financial sectors is low					

### 1.2 Matters related to Loan size

N O.	Please indicate the extent of your agreement on the following statements in relation to loan size:	S D (1)	D (2)	N (3)	A (4)	S A (5)
1	Lease financing institutions provide sufficient amount of loan for SMES					
2	loan size of lending institutions financing for SMES affects the size of enterprise					
3	Size of loan affects the competitiveness of the SMES					
4	Loan size effects on the production capacity and service quality of the enterprise					
5	Loan size affects the marketing power of SMES					

### 1.3 Matters related to Length of Loan repayment period

N O.	Please indicate the extent of your agreement on the following statements in relation to loan repayment:	S D (1)	D (2)	N (3)	A (4)	S A (5)
1	Lease finance institutions allowed Short repayment period for SMES					
2	Short loan repayment period influences the cash flow of the enterprise					
3	Repayment period affects the working capital of the enterprise					
4	Short term loan repayment affects the payment capacity of the enterprise					
5	Short Loan repayment period pushes the enterprise to penalty					

### 1.4 Matters related to Collateral requirement

N O.	Please indicate the extent of your agreement on the following statements in relation to collateral:	S D (1)	D (2)	N (3)	A (4)	S A (5)
1	Additional Collateral requirement affects the borrowing					

	capabilities of the enterprise					
2	Lease financing institutions finances the SMES without additional collateral requirement					
3	Lease financing modality avoids the collateral problem of middle level income borrowers					
4	Non collateral requirement attracts SMES to the business					
5	Non-Collateral requirement increases borrowing capacity					

### 1.5 Matters related to quality service

N O.	Please indicate the extent of your agreement on the following statements in relation to quality service and technical support:	S D (1)	D (2)	N (3)	A (4)	S A (5)
1	Lease financing institutions provides quality service for SMES as per their expectation					
2	Lease financing institutions provides quality service on specified time for SMES					
3	Lease financing institutions financed an advanced Machineries for SMES					
4	Lease financing institutions open supply chain system of capital goods between supplier and enterprise					
5	Lease financing institutions supports the SMES for the properly selection and purchasing of advanced machineries					
6	Lease financing institutions provides training for SMES					

### 1.6 Matters related to Lease financing policy and procedures

N O.	Please indicate the extent of your agreement on the following statements in relation to lease financing policy and procedures:	S D (1)	D (2)	N (3)	A (4)	S A (5)
1	lease financing policy and procedures of Lease financing institutions are not standard					
2	Lease finance requirements to obtain loan in the lease policy is bureaucratic and very wide					
3	The lease financing policy restricts the types of financed products for SMES					
4	Lease financing policy of lease financing institutions obliged SMES to deposit large amount of capital to obtain loan					

## 2 Matters Related to Dependent Variable (Competitiveness)

### 2.1 Matters related to Management

N O.	Please indicate the extent of your agreement on the following statements in relation to Management:	S D (1)	D (2)	N (3)	A (4)	S A (5)
1	Lease financing companies guides and recommends SMEs for their best implementation of Managerial functions					
2	planning capabilities affects the achievement of organizational goals					
3	Good Managerial control is essential to efficient management of the company					
4	Good leadership competencies and work motivation improves the competitiveness of the company					

### 2.2 Matters related to company size

N O.	Please indicate to what extent the following factor affect the competitiveness of SMES:	S D (1)	D (2)	N (3)	A (4)	S A (5)
1.	Company size affects competitiveness of SME					
2.	Large firms have an advantage over small firms in their economies of scale					
3.	Large firms are strong than small firms regard to marketing					
4.	Large firm is highly competitive in man power, capital and technology					
5.	Large firms are competitive in product quality and diversification					

### 2.3 Matters related to product identity (quality, product design) of SMES

N O.	Please indicate the extent of your agreement on the following statements in relation to product identity:	S D (1)	D (2)	N (3)	A (4)	S A (5)
1	Good product design affects the competitiveness of SMES					
2	Good product design and quality increases profitability					
3	Good Product quality affects the competitiveness of SMES					
4	Good product design minimizes the cost of SMES					
5	Product diversification can develop the market					

### 2.4 Matters related to Marketing practice of SMES

N O.	: Please indicate the extent of your agreement on the following statements in relation to Marketing practice	S D (1)	D (2)	N (3)	A (4)	S A (5)
1	Good marketing strategy affects competitiveness of SMES					
2	High Marketing linkage develops competitiveness of the enterprise					
3	High market share puts companies at competitive advantage					
4	Selecting appropriate marketing place increases competitiveness					
5	Knowing Customer preference enables companies profitable					

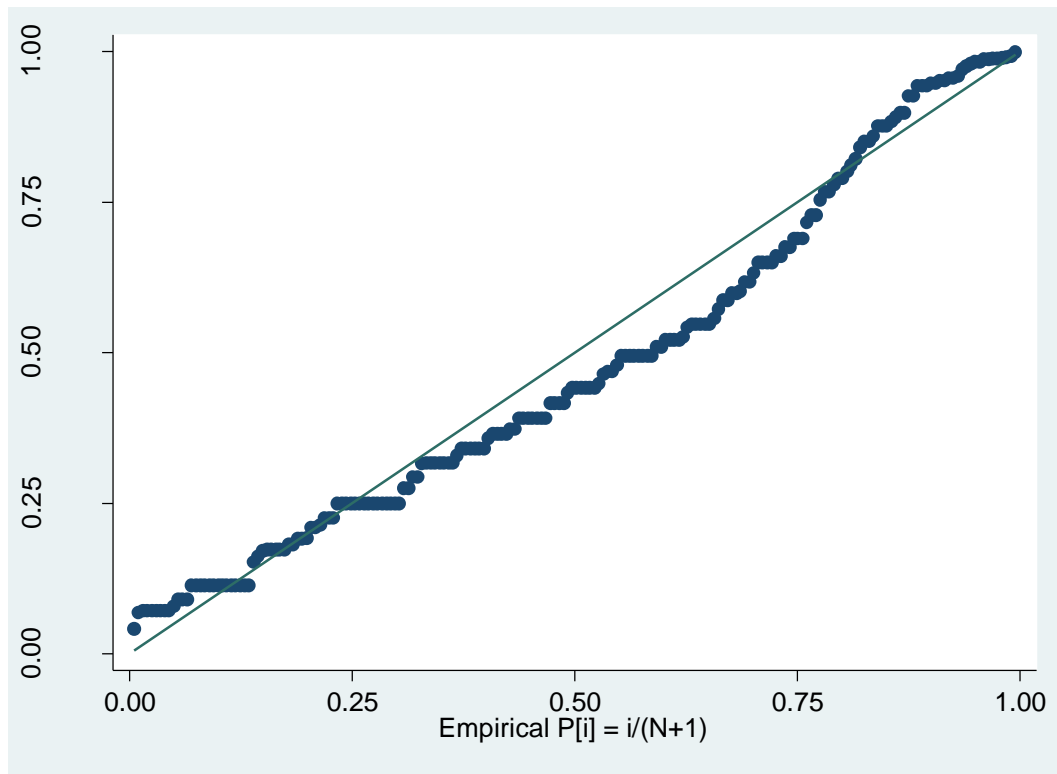


## 2.5 Matters related to technology of SMES

N O .	: Please indicate the extent of your agreement on the following statements in relation to technology:	S D (1)	D (2)	N (3)	A (4)	S A (5)
1	An advanced technology increases efficiency and productivity of the enterprise					
2	An advanced technology decreases the chance for human error					
3	An advanced technology Simplifies setting and meeting goals					
4	Advanced technology enables more strategic planning and time management					

## Appendix II

Variable	VIF	1/VIF
LAM	1.87	0.533653
Lch	1.53	0.655059
LS	1.50	0.666063
LRp	1.20	0.835840
TB	1.14	0.875990
CR	1.08	0.928651
LPP	1.04	0.963086
Mean VIF	1.34	



```

. ovtest

Ramsey RESET test using powers of the fitted values of Cmp
Ho: model has no omitted variables
      F(3, 189) =      2.22
      Prob > F =      0.0873

. alpha Cmp Lch LRp LS CR LAM LPP, asis detail item label std

Test scale = mean(standardized items)


```

Item	Obs	Sign	item-test corr.	item-rest corr.	interitem corr.	alpha	Label
Cmp	200	+	0.8275	0.7262	0.2047	0.6070	Cmp
Lch	200	+	0.7379	0.5980	0.2302	0.6421	Lch
LRp	200	+	0.5513	0.3552	0.2833	0.7034	LRp
LS	200	+	0.7166	0.5686	0.2363	0.6499	LS
CR	200	+	0.4726	0.2609	0.3057	0.7254	CR
LAM	200	+	0.7182	0.5709	0.2358	0.6493	LAM
LPP	200	+	0.2423	0.0082	0.3712	0.7798	LPP
Test scale					0.2667	0.7180	mean(standardized items)