Lease Financing for Competitiveness and Expansion of SMEs in Tigrai: Challenges and Strategic Solutions

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Abstract
A competitive private enterprise is widely recognized as a principal source of economic growth and a significant contributor to job creation and poverty reduction. Small and medium enterprises (SMEs) play a critical role in economic transformation and job creation process at all levels of business engagements. However, they are faced with many challenges that hinder their expected contributions. Access to finance is among the top list of the major constraints to SMEs' development. Hence, this paper identifies the binding challenges on access to lease finance for manufacturing SMEs operating in Tigrai and recommends strategic solutions. Purposive sampling was applied to select two Sectoral associations that have 300 and 100 SMEs as members respectively and further select 20 focus group discussants. The firms for the survey were selected from owners/managers of the SMEs engaged in metalwork, woodwork, textile and garment, and construction materials manufacturing. Besides key informant interviews were carried out with 15 representatives from consultants, lease financing institutions, and relevant offices. The data collected were analyzed based on excel and SPSS. The findings showed that low awareness of lease financing among the manufacturing SMEs, poor access to lease finance for SMEs, low focus for manufacturing SMEs by lease financing institutions, ineffectiveness of the lease financing, inadequate lease regulatory and legal framework, poor linkages, low performance of lease financing, and weak integration are the challenges faced by SMEs in Tigrai. The strategic solutions are provided to mitigate the challenges and improve the competitiveness and expansion of the manufacturing SMEs.

Keywords: Competitiveness, lease financing, manufacturing, SMEs, Tigrai.
1. Introduction

Ethiopia has set a number of strategic goals oriented towards the growth and structural transformation to be achieved by 2025: Changing Ethiopia to lower-middle-income status; increasing the contribution of the manufacturing sector from 5% to 17%, and making Ethiopia a leading manufacturing hub; diversifying and doubling the country’s export capacity; creating decent jobs and a dynamic private sector are among the top list in the strategic goals [1]. Besides, the manufacturing sub-sector is expected to play a central role in attaining economic growth and transformation. These strategic goals are articulated sequentially in the national Growth and Transformation Plans (GTP-I &II) issues in 2010 and 2015 respectively. The contribution of the manufacturing sector is expected to bring visible changes in both GTPs’. Nevertheless, the performance of the sector in both GTPs’ is far lower than the plans. The manufacturing sector in the Tigrai region grew by an average of 9.18% against the national growth of 16.2% and contributed less than 5% to GDP. The performance of the sector in the GTP II is also below the GTP-I period [2].

In this regard, a competitive private enterprise is widely recognized as a principal source of economic growth and a significant contributor to poverty reduction. Although large and multinational enterprises have a higher public profile, the majority of businesses are small and medium-sized enterprises (SMEs). They are estimated to be responsible for over 50 percent of the new jobs created globally and employing more people than do large enterprises [3]. They are also key players in the economic development of developing countries. Studies indicate that SMEs contribute more 45% of employment and above 33% GDP in developing economies [4]. Considering their contribution to poverty reduction and job creation, SMEs are given due attention in Tigrai [2]. However, they are faced with many challenges that hinder their operational performances and the expected contributions. Access to finance is among the top list of the major constraints to SMEs' development in the developing economies [5],[6].

Ethiopia in general and Tigrai, in particular, has shown sustained economic growth with the double-digit growth rate over the previous decade and half period [7]. The growth was mainly contributed by the significant growth observed in agricultural production and productivity; industrial growth explained by the expansion of mining, trade, construction, and transport sectors; rapid expansion of the infrastructures, and proliferation of the financial sector [7].
The private sector in the regional state is expected to leapfrog in sustaining the economic development that has been registered over the years and to create more employment opportunities for the unemployed youth. However, it has become a discouraging task for the business community to engage in contributing to the economic growth in the face of limited supply and access to lease finance. The small & medium manufacturing enterprises are more victimized by these challenges. Therefore, identifying the binding constraints and preparing an effective strategic plan that facilitates the development of SMEs is an urgent issue in Tigrai Regional state. Hence, this paper identified the challenges faced by manufacturing SMEs on lease financing and recommended strategic solutions that can mitigate the key challenges and facilitate the development of the sector. A Public-private dialogue (PPD) was also conducted to further refine the challenges and consolidate the strategic solutions identified with the key stakeholders (industry representatives, policymakers, government officials, and scholars).

1.1. SMEs and Financial Access

SMEs cover more than 95 percent of all firms in Sub-Saharan Africa. These firms play a pivotal role in sustaining the growth, industrial development, and restructuring [8]. Hence, supporting SMEs to flourish is instrumental to reduce poverty in developing countries. However, their potential contributions to economic activities are highly constrained by various challenges that affect their competitiveness [8]. Access to sources of finance or capital has been underlined as top constraint affecting the development of SMEs in Africa [9], [10]. Moreover, the lease financing as a source of finance for SMEs is less developed in developing countries and aggravated by immature financial, capital markets, and macroeconomic policy environments [5].

SMEs often depend on informal sources of funding in their early stages of development and external sources when they start expanding [4]. Hence, access to finance is important to start up and expand businesses through the development or investment in a new product, production process, and human capital [4], [8]. It also determines decisively the growth trajectory of SMEs [8], [11], [12].

Access to credit from financial institutions in Ethiopia is challenging for SMEs due to the limited capital and high-value collateral (more than 120%) requirements[13]. Hence, the development of leasing as an alternative financial source in Ethiopia is critical. Yet, Lack of clarity and
uncertainty surrounding leasing modalities and operations make the development of the leasing sector in Ethiopia slow[14].

1.2. Lease Financing

Leasing is a means of delivering finance through a contract where the lessor provides an asset to the lessee to use for a specified period of time with specified payments. Leasing, in effect, separates the legal ownership of an asset from the economic use of that asset[5]. The modern leasing emerged in the 1950s as a specialized financial service industry and showed remarkable growth over the past 50 years [5]. It was started in the United States and expanded to Europe and Japan in the 1960s and has been spreading to developing countries since the mid of 1970s [15]. According to [16], in developed countries up to one-third of private investment is financed through leasing. Remarkable growth of leasing industries in some African countries has been achieved through the various interventions in the leasing legislative reforms since [17].

There are three types of leases; finance lease, operational lease, and hire purchase lease[18]. Generally, all enhance the cash flow with lower payments but with variations in ownership rights, control of asset rights, payment modality, and responsibility for maintenance, damage, and insurance. Under a finance lease, also called capital or full payout 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. The lessee benefits from the economic life of an asset in a similar way to a legal owner and takes on related risks associated with maintenance and insurance responsibilities. The contract length of the lease is close to the useful economic life of the asset and 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 [18].

Financial leases are typically used by firms to finance long-lived assets, instead of resorting to long-term borrowing for acquiring these assets [16]. The operating lease is a rental contract for the temporary use of an asset. 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 [18], [19]. Under this arrangement, the lessor takes all related risks associated with service, repair, maintenance damage, and insurance. The hire-purchase lease is similar to a finance lease in terms of risk-taking. It is with a well-defined purchase option for the customer, who agrees to pay the cost of the asset over time which includes interest for the period the asset is used and principal amount
In this arrangement, partial ownership is transferred to the lessee with each payment and the last installment payment will result in full ownership. In Ethiopia, as per the Capital Goods Leasing Proclamation No. 103/1998, leasing is described as financing in kind for production and service purposes by which a lessor provides lessee specified capital goods on financial or operating lease or hire-purchase agreement basis. The capital good is provided without collateral requirement, for a specified period of time and lessor collects, in turn, a certain amount of payments periodically.

The SMEs are challenged to get access to finance. The lease financing option is an important opportunity for SMEs' financing which in turn nurtures economic development and job creation [5]. Furthermore, absence or very few collateral requirements, simple and quick processing, 100% of the equipment value financing, tax incentive benefits, and low risk of fund diversion; leasing offers an important window for SMEs in countries with weak business environments [16]. Lease financing is often reported to provide a number of benefits to an economy including as a means to deliver increased domestic investment, deepen the activities of the financial sector by introducing new products and/or stakeholders, leveraging an initial cash deposit for SMEs, scale-up active involvement of SMEs in the economy, access to income-producing assets [5].

1.3. **Empirical Evidence on Lease Financing and SMEs**

An empirical study on challenges and opportunities of leasing for SME in Egypt showed that there is good potential for lease market development, but the regulatory and legal deficiencies, lack of funding and absence of guarantees still are challenging the development of the leasing market both at the leasing institutions and SMEs levels [20]. A study by [21] addressed the problem of leasing from the legal point of view and the importance of leasing law in Jordan. The researcher found that there is a lack of standard leasing law that addresses the problems related to leasing contracts in Jordan. A similar study by [17] assessed the development, legal, and regulatory framework and challenges of the leasing industry in Zambia. The findings discovered that the performance of the sector is unsatisfactory, the regulatory system is still fragmented and operating in an environment with insufficient legislation, and the lease financing is also not well promoted in the market. Another study conducted to assess the trend of Banks in financing SMEs and challenges in Colombia show that there is a significant growth of interest in Banks in financing SMEs. It is becoming a strategic segment for Colombian credit institutions and SME
financing contributing to market growth [22]. In Pakistan, the lease financing is characterized by high funding constraints, non-availability of the leveled playing field, lack of innovative products, and tax binding challenges [23]. On the contrary, some countries have made great progress and model in solving the financial problems of SMEs. The lease financing played a significant role in the development of SMEs and achieving comprehensive growth throughout Japan [24]. In Japan, there are specialized private banks for SME financing, called “Shinkin banks.” These banks are deposit-taking cooperative banks that specialize in financing SMEs within a region. They provide mainly to member SMEs who capitalize on the banks. Shinkin banks are regional financial institutions in the sense that they can provide loans only to SMEs that operate within the same region [24]. Sri-Lanka is one of the developing economies with long years of lease financing experience. The business was introduced since 1980 mainly to solve the transportation sector problems with the primary purpose of supporting SMEs [25]. The demand for leasing as a source of finance is significantly increasing due to the economic development of the country. The lease products are provided mainly through finance companies and specialized lease companies [25]. Ghana also has experienced significant growth in the leasing industry, largely driven by bank lessors. The country adjusted to the banking regulations and allowed to be engaged in lease financing without a need for a special license. This modification increased in the number of banks with lease financing operations [25]. The financial industry in Ethiopian has shown remarkable progress in the past two decades on the types of service available and effort to attend the changing and growing needs of the customers [14]. However, there were challenges to be addressed in diversifying and improving service accessibility and quality [25]. In this regard, the government made changes and endorsed proclamations (proclamation no. 103/1998 and 807/2013) on Capital Goods Leasing Business to provide firms including SMEs with alternative sources of finance and solve the acute financial problems [26]. However, the leasing sector in Ethiopia is not yet adequate and the sector is not satisfying the financial requirements of the firms [14], [25].
2. Research Methodology

2.1. Description of the Study Area

This study was conducted in Mekelle, the capital city of Tigrai regional state, where most of the SMEs operate. Tigrai is found in the Northern part of Ethiopia and is bordered by the State of Afar in the East, the State of Amhara in the south and southwest, Eritrea in the north, and the Republic of Sudan in the west. In this study, the SMEs operating in metalwork, woodwork, textile and garment, leather and construction materials manufacturing were considered.

2.2. Research Design

Based on the research objectives and nature of the study both explanatory research and descriptive designs were applied. The explanatory research designed was applied to describe new insights about leasing financing and related issues in manufacturing SMEs. The descriptive research design was used to describe the characteristics of manufacturing SMEs, financing, and supporting institutions with regard to access to the lease finance and other alternatives. Besides, both qualitative and quantitative data related to the challenges and prospects of the lease finance in the manufacturing SMEs were collected and investigated. The data collection tools were mainly based on focus group discussion (FGD), key informant interviews (KII), and reports from relevant offices.

2.3. Data Collection and Instruments

The primary and secondary data were the main sources of data used in this paper. The firms for the survey were purposively selected from owners/managers of the manufacturing SMEs to fit the research problems. The firms considered for the study include metalwork, woodwork, textile and garment, and construction enterprises. The firms for this study are organized under the Sectoral associations. In consultation with the Tigray Small and medium manufacturing development agency, purposive sampling was applied to select two Sectoral associations from different districts. The two Sectoral associations selected have 300 and 100 respectively SMEs as members. Hence the selected groups represent more than 400 SMEs. The two Sectoral associations were selected because they have more members with different performance levels (best to lowest), experiences, and challenges (from simple to the worst). Hence, they are
genuinely selected to represent the characteristics of manufacturing SMEs in Mekelle in particular and Tigray in general.

The primary data were collected through focus group discussions (FGD) with the representatives of the Sectoral association. Four FGD sessions with a group of five SME owners were conducted. Besides key informant interviews (KII) were carried out with consultants, lease financing institution representatives, and relevant offices. Six KII sessions were conducted with 15 official representatives. The secondary data were collected from reports and files of relevant offices, agencies, and review of available literature. A Series of brainstorming and consultative meetings were also held with relevant stakeholders to consolidate the data collected, solutions identified, and recommended. Finally, a public-private dialogue (PPD) with the key stakeholders including SME owner representatives, policymakers, government officials, and scholars was also conducted. More than 60 representatives participated in the PPD. The challenges and strategic solutions were further refined based on the feedback from the PPD.

2.4. Data Analysis

The primary and secondary data collected were summarized, rearranged, and edited for further analyses. Then, they were organized into descriptions, tables, figures, and percentages. Finally, the data interpretation, description, and report were done. Microsoft Excel and SPSS were used to process and analyze the data collected.

3. Results and Discussions

The results and discussions are mainly based on data collected through focused group discussion, key informant interviews, and reports from related offices and publications. Accordingly, results and discussion parts are described and presented below and alternative solutions are recommended at the end.

3.1. Binding Constraints on Access to Lease Financing for Manufacturing SMEs

The main focus of this part is to identify the binding constraints on access to lease finance for manufacturing SMEs. Access to income-producing assets is critical to scale up the active involvement of SMEs in the economy and enhance their growth[5]. While lease financing is an important alternative source of finance for SMEs to get machines and equipment, the sector is
faced with key constraints. Based on the data collected through FGD, KII, and reports the following binding constraints were identified. While identifying the binding constraints, first all potential problems were listed based on the FGD and KII. Then related problems were grouped into one and named. The binding constraints were further crosschecked and refined based on the relevant reports collected and PPD.

- Lack of awareness of manufacturing SMEs about lease financing
- Poor access to lease finance for SMEs
- Lack of the focus of lease financing for manufacturing SMEs
- Ineffectiveness of the lease finance in manufacturing SMEs
- Poor performance of lease financing in Tigrai
- Inadequate lease regulatory and legal framework
- Poor vertical and horizontal linkage and connections
- Poor Integration

3.2. Lack of Awareness of Manufacturing SMEs about Lease Financing

Although there are institutions that provide lease financing for SMEs, as per the focused group discussion 90% of the firm owners as shown in Figure 1 below said they are not aware. They do not have the knowledge of how to approach, the requirement that should be fulfilled, the interest rate, amount, the machine type they can get, the duration of payment, and how they can process it and get it. Only about 10% of the owners specifically the leaders of the Sectoral association stated that they are aware of the lease financing. These individuals know the process and they are using the opportunity.
Figure 1: Level of awareness among SMEs

The KII with the two leasing institutions also supports the claim from the majority of the SME owners. The representatives from the leasing institutions stated that awareness creations and promotions about lease financing were done at the beginning. However, there is a limitation to finance and satisfied the demand. Hence, awareness creation and promotion activities are not made as expected, and creating knowledge and awareness gap.

3.3. Poor Access to Lease Finance for SMEs

The lease financing service is not well matured in Tigrai and it was not well studied strategically to give full-fledged solutions to manufacturing SMEs in terms of access and package. There are two lease financing institutions in Tigray. 100% of the FGD and KII stated that one of the leasing institutions does not provide working capital and SMEs are asked for collateral to get a loan for working capital. SMEs cannot provide collateral and hence they cannot get access to the lease finance. The FGD also rose that they not clear about the evaluation mechanism for selecting lessees, the process is difficult and lengthy, they have a knowledge gap in lease financing, hence, the lease finance is not clear and accessible to them. Moreover, as the SMEs do not have full know-how about the process they face specification problems and the delay in delivery. The SMEs owners also stated that while they are expected to be supported the interest rate is high (14%); the prices of the machines are inflated. These factors discourage the SMEs from approaching the lease financing Institutions.

The leasing Institutions acknowledged the claim for different reasons. One of the leasing institutions stated that although it is not promoted to every individual, some have full knowledge come with full requirements to get the service fast. However, when the same machine is required by many firms, the latecomers do not get the same machine to make sure the first lessee gets enough market and capability to repay back the payments. The working capital is not also part of the lease finance package in one of the leases financing firms. Thus, the SMEs are forced to get a loan from other financial institution that requires the collateral. The interest rate is relatively lower than the other private financial interest rates but still higher. The prices of the machines are determined based on the international bid which included the importing transportation cost and foreign currency exchange and associated costs which lead to inflated machine prices. On the other hand, the second leasing firm stated that the process is centrally done at the national level.
Hence, the request for lease finance is first studied at the branch level. The available infrastructures, business plans, and the performance of the firms requesting for lease finance are also evaluated at the branch level. Then the selected and approved machines are sent to headquarter and centrally purchased based on the bid. This takes a long time and delayed the whole process for getting the machine to the customers. Besides, most of the machines are imported and they are relatively costly considering the international bid, transport, and associated costs.

Apart from the limited access to lease financing, the market is dominated by two institutions. The lessees do not have more alternative options to choose out of these institutions. The competition in the leasing market is weak. Hence, on one hand, there are no other suppliers than these two institutions; the customers are forced to get the service at the Marcy of the suppliers and sometimes lengthy, bureaucratic. On the other hand, the service package does not have flexibility, integration, and variations in the service packages to accommodate customers' demand.

3.4. Lack of Focus to Manufacturing SMEs by the Lease Financing

It is well known and articulated in the strategic plans that the manufacturing sector and specifically SMEs are on the top list of the government focuses as a means of creating jobs, economic growth, export-oriented products/services, and import substitutions. However, the direction and strategy are not properly implemented and taken at the service providers of SMEs. Lease financing was introduced to solve the acute shortage of finance for SMEs and they were made to be on the top priority for getting the lease financing. Nevertheless, the focuses of the lease financing organizations are still not SMEs. SMEs do not have special favor and are equality treated with micro and large organizations. They rather lose the benefit they could get from microfinance reserved for microenterprises and could not compete with large organizations on collateral bases. Thus, finance is not reaching them in an effective way.

The above facts were reflected in the FGD. More than 95% of the discussant stated that they do not access microfinance as they are promoted to a small or medium level. They do not also have the capacity to take a loan from banks based on collateral. Hence they are not the focuses of the financial institutions. This was also reflected in the national level report [27]. Based on the five Micro Finance Institutions (MFIs) survey, it was found that MFIs provide only 8% of their
annual lending to SMEs and the rest goes to microenterprises. The amount from the commercial bank of Ethiopia (CBE) was 6% to SMEs and rest to large enterprises (see Figure 2.). The absence of specialized lending institutions to SMEs in Ethiopia in general and in Tigray, in particular, makes it worse.

![Figure 2: Loan from MFIs and CBE (sources [27])](image)

Moreover, 100% of the FGD stated that the interest rate provided by the bank and leasing institutions is beyond their capacity and lacks support package. Once, the SME owner got the machine, they forced to search for other loans which in fact need high-value collateral. Besides, the collateral amount is very high relative to the loan required[28]. In Ethiopia, the proportion of collateral to the loan amount required goes up to 249.3% for small and 253.5% for medium enterprises which was higher than the Sub Sahara Africa (SSA) average of 160% [27]. More than 90 of the SMEs owners stated that they are not familiar with machine specifications, but they are requested to bring the machine specifications. They stated this was a big challenge for them and sometimes leading them to buy incompatible or unintended machines: a total loss.

Moreover, 95% of the FGD claimed that the services are fragmented and bureaucratic. They stated that they are not linked to an appropriate and sustainable market. Some of them get working sheds and do not have regular selling and exhibition areas. They have to wait for the exhibition events to promote, introduce, and sell their products/services. The claim was further supported by the KII and financial institutions.
3.5. Ineffectiveness of the Lease Finance in Manufacturing SMEs

Very few manufacturing SMEs get machinery through lease financing. As per the discussion from the FGD and KII, about 50% of the firms are working well and successfully. About 15% stated that are not functional and even unable to pay their loans. About 35% of them stated that they are working but under harsh conditions. In line with this 90% of the FGD agreed that the main reason or challenges for their failure are lack of market for the end product, lack of working capital to run the business, poor machine and accessory specifications, market change due to delayed machine delivery, poor marketing linkage, poor infrastructure (power), lack of working places and land, lack of end to end support and monitoring mechanisms.

In addition, some financial donations/supports are not properly used for the intended purpose. For example, the World Bank supported about 270 million USD and transferred to private banks to support the manufacturing SMEs through lease financing in Tigray. This amount was intended to be provided as a loan without collateral to the SMEs as working capital when they get the machine from the leasing institutions. However, the allocated budget or support is not properly utilized to support SMEs. The poor or low performance of the lease financing is also attributed to the low repayment rate of the arrears. If the loan given is not paid on time, it hinders the reuse of the finance allocated for lease.

3.6. Poor Performance of Lease Financing in Tigrai

There are two lease financing institutions operating in Tigrai. The three years (from 2019 to 2011 E.C) Performance of these lease financing institutions with regard to the manufacturing SMEs is discussed below in Table 1. The data were collected from the institutions’ office and from Tigrai Small and Medium manufacturing Enterprise Development agency report. As shown in Table 1 below, unlike the huge demand from the manufacturing SMEs, the planned amount decreases yearly from 2010 to 2011. The performance against the plan is generally low but shows an increment from year to year. The low performance is because of procurement-related problems and the unavailability of hard currency.
The three years of the progress of the lease financing institutions were also assessed in terms of the number of firms served. Basically, the amount of money used is related to the number of customers served. Accordingly, as shown in Table 2: Plan and actual performance (Firms) the actual number of firms served is in line with financial reports; it decreases from year to year.

### Table 2: Plan and actual performance (Firms)

<table>
<thead>
<tr>
<th>Year</th>
<th>Firm 1 Plan (million Birr)</th>
<th>Actual (million Birr)</th>
<th>Firm 2 Plan (million Birr)</th>
<th>Actual (million Birr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>124</td>
<td>129</td>
<td>200</td>
<td>8</td>
</tr>
<tr>
<td>2010</td>
<td>200</td>
<td>57</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>120</td>
<td>40</td>
<td>67</td>
<td>31</td>
</tr>
</tbody>
</table>

Source: Tigrai Manufacturing SMEs Development agency (2012 E.C)

3.7. **Inadequate Lease Regulatory and Legal Framework**

Key informant interview (KII) was conducted with representatives with the lease financing Institutions and consultants of the SMEs on the regulatory and legal clarity and adequacy related issues. The representatives explained that even if improvements and amendments were made previously the sector lacks adequate regulatory and legal framework. The legal and regulatory system is not well defined in terms of operations, ownership, taxation, leasable assets, selection of suppliers and lessees, evaluation of customers, supervision systems, accounting policy. The
consultants also consolidated the above claims. Having undeveloped regulatory and legal frameworks makes the service provided to the customer fragmented, uncertain, and lengthy. The leasing institutions including the regulatory bank are not clear and face many problems that make the lease financing operation challenging.

3.8. Poor Vertical and Horizontal Linkage and Connections

Effective vertical linkages among firms at different levels of the value chain play an important role in upgrading the capacity and competitiveness of the chain. The linkage could be used as sources of finance for SMEs. In many cases, the large firm (the lead) provides in-kind credit, training, technical assistance to assure the quality standard. For example, when agricultural producers have a secure, established relationship with their buyers, buyers may be willing to assist with long-term investments such as irrigation equipment, post-harvest handling facilities. On the other hand, horizontal linkages with firms at the same level, promotes efficiencies, reduce costs, open markets, and spur beneficial competition. The linkages could also be used to create a market, technology transfer, and avoid redundant machine requirements. However, as verified from the FGD (90%), KII (95%), and offices the linkages are not yet properly designed and developed. SMEs are not well connected with the micro and large firms, suppliers, market, and training or supporting institutions. In line with this, more than 95% of the FGD stated that they are getting the benefits that could be gained from both linkages.

3.9. Poor Integration

Integration among service providers and other business processes is globally considered as a pillar to realize quality, effectiveness, and productivity. The same is true for SME related businesses. Being particular to this study intra-financial service and between financial services and work premises integrations are considered.

As discussed above the manufacturing SMEs face different problems to get the lease financing and make their business functional. The financial institutions expected to provide the lease financing and the working capital are not well integrated. At this point, 100% of the FGD stated that they are provided fragmented services that make their life challenging and discouraging. Moreover, the financial institutions expected to provide working capital are not well organized and active. The organizations providing leasing finance, working capital, and supporting agents
and offices need to be coordinated and well-aligned. They have to work together to solve the challenges related to the financial requirement of the manufacturing SMEs and achieve the strategy set in the manufacturing sector. However, as per the FGD and KII, the service providers and supporting institutions do not read each other. Similarly, the business process is not integrated among the beneficiaries, workspace, and land administrators. The performance of the authorities is measured from their own perspective or one-sided only. Both the FGD and KII expressed that land or workspace provider is less likely to check whether the land is serviced well or used for the intended purpose. Similarly, the lease finance service providers do not check whether the machine lent to the beneficiary is functioning properly. The authorities do not check whether the SMEs are developing the land, using the machines or suffering from working capital and market connections.

4. Conclusion and Recommended Strategic Solutions

4.1. Conclusions

The manufacturing sector is the central focus of economic growth and transformation. Specifically, manufacturing SMEs have been given special attention in order to reduce poverty and create more jobs. However, the SMEs in Tigray are faced with many binding constraints that hinder their core contributions. In this study, the binding constraints to SMEs' access to lease financing are identified and discussed. The findings show that low awareness of lease financing among the manufacturing SMEs, poor access to lease finance for SMEs, low focus for manufacturing SMEs by lease financing institutions, ineffectiveness of the lease financing, poor performance of SMEs, inadequate lease regulatory and legal framework, poor vertical and horizontal linkage and connections, and poor integration are the binding constraints on lease financing faced by manufacturing SMEs in Tigrai.

4.2. Recommended Strategic Solutions

This study focuses on access to lease finance and the strategic solutions/options are provided to minimize the challenges and improve the performance, expansion, growth, and contribution of the manufacturing SMEs with regard to lease financing. The recommended strategic solutions are proposed based on the analysis and discussions made through FGD, KII. The findings of the
analysis of data collected from the related agencies, offices, the strategic development of manufacturing SMEs were taken into considerations.

- The findings show that there is a lack of awareness among the business community about leases financing for SMEs. Hence, the lease finance stakeholders should work together to promote and raise the awareness about lease financing to the public as well as SMEs. Awareness creation will help customers to know the opportunity, how to approach, the requirement that should be fulfilled, the interest rate, amount, the machine type they can get, duration of payment, and how they can process to get the services. It will also enhance the sector.

- The service provided to SMEs is segmented and lengthy. The price of the machine is inflated prices, unclear evaluation process. A system should be developed to avoid the mentioned constraints and improve the efficiency and effectiveness of the leases finance service. Hence, the process should be designed to provide full-fledged, transparent, and seamless services.

- There is poor competition among the service providers in the lease financing industry. The service and sector, in general, are stagnant and not fast-growing. The lease financing market in Tigrai (Ethiopia) is dominated by limited institutions owned by government sectors and regional MFIs. However, limited institutions with very limited competition could not build a comprehensive lease system. Hence, private and foreign investors or their joint ventures need to be involved to introduce new technology and financing opportunities and increase the competition and enhance the lease service packages. Experience from Bangladesh shows that lease financing changed the national economy in a short period of time through the establishment of a competitive lease financing sector.

- There is a huge problem with the source of finance and human skill in the sector. The capacity of the leasing companies is limited in finance and manpower. Hence, due emphasis needs to be made to create sustainable funding and specialized skills through searching alternative financing sources and knowledge exchange, short and long-term training respectively.

- A clear and adequate legal and regulatory framework is very critical to smoothly manage the lease financing operations. Moreover, specific lease financing legal and regulatory framework for SMEs is necessary. This, in turn, requires policy measures to create a better
business environment that provides better regulations on registration of lease assets, selection criteria, and the establishment of the supervisory authority, tax treatment, and related issues. Therefore, all stakeholders should revise the legal and administrative framework of lease financing for SMEs and develop adequate and supporting legal and regulatory frameworks.

- Although the lease financing was introduced to solve the acute shortage of finance for SMEs, they are not well served. SMEs do not have special favor and are equally treated with micro and large organizations. They rather lose the benefit they could get from micro finances reserved for microenterprises and could not compete with large organizations on collateral bases. Hence, to solve the problem of SMEs and improve their capacity and growth, establishing SMEs' dedicated financial institutions or introducing special lease financing policies for SMEs is timely. The Shinkin specialized private banks for SMEs financing from Japan; the Industrial Bank of Korea (IBK) established as the SME bank of Korea are excellent experiences.

- The lease financing is more oriented on importers or suppliers from abroad. This demotivates the local manufacturers. The supply chain system is not well integrated and adjusted to fit the national wealth and capabilities. Strengthening local manufacturers strategically in the lease financing plays an important role in the growth of the country and solves the hard currency requirement and long procurement process. Even though priority is given for local products and suppliers, very limited products are used from local production. The leased asset manufacturing potential is significant for the development of the sector specifically and the growth of the country at large. Hence, leased asset manufacturing must be developed in Tigray.

- The vertical and horizontal linkage and the connection could be utilized as an important source of investment and working capital for SMEs. This could be in terms of getting in-kind support of raw material, working capital, machine, marketing, and even land and sheds. Hence, it is important to design and develop a clustered oriented both vertical and horizontal linkages. It should be also designed taking into consideration the key binding constraints of the manufacturing SMEs and embedded solutions.

- There is poor integration with and among the lease financing, work premises, and supporting institutions. By its nature lease financing operation involves many stakeholders.
including the lessor, lessee, machine/equipment supplier, and supporting offices. It needs a strong integration of the different stakeholders. In order to improve the sector and services, the integration within the financial service provider and between work premises and financial service provider need to be integrated. The integration needs to be designed to address challenges like lack of market for the end product, lack of working capital to run the business, poor machine and accessory specifications, delayed machine delivery, poor marketing linkage, poor infrastructure mainly power supply, lack of working places and land, lack of end to end support and monitoring mechanisms. This will, in turn, provide end to end service to the manufacturing SMEs.

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