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Research Article

Factors Affecting Capital Lease Financing Companies Financial Performance in Ethiopia

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Abstract

The main aim of the study is to investigate factors affecting capital lease financing company's financial performance in Ethiopia. Explanatory research design was employed since the study has cause and effect relationship with quantitative research approach. The target population of the present study was five formally registered and overseen by National Bank of Ethiopia these financing companies currently functional. Because of the lease financing companies in Ethiopia are five in number it is manageable to include all in the sample of the study, so census sampling method was employed as a sampling technique. Both primary and secondary data collection methods were used for the present study, primary data was collected from the managers and accountants of each lease financing companies, whereas, secondary data was collected from lease financing financial report for the period of 2014-2023 obtained from National Bank of Ethiopia. This study investigates the factors influencing financial performance, with a particular focus on Access to Funding (AF), regulatory framework (RFW), Business Size (BS), Asset type (AT), and Tax incentives (TI). a multiple linear regression and correlation analysis were conducted to assess the individual and collective impacts of these variables and also SPSS software used to manipulate the raw date in to meaningful insight. The result of the study shows there is a negative relationship between business size and financial performance of lease financing companies, asset type and financial performance has negatively correlated, tax incentive is positively associated with financial performance of lease financing companies, & access to funding also negatively correlated with financial performance of lease financing companies in Ethiopia. Suggestions forwarded by the researcher are; the lease companies and its management is good to adequately manage its machineries and maximize profit from its leasing with due care to obsolesces, as it has a positive and statistically significant impact on their financial performance in short or long run. & tax incentives provided by the government does have a positive and statistically significant impact on the financial performance of the company, therefore, the management of the companies should use this opportunity as one of its profit maximization strategy.

Keywords

Financial Performance, Regulatory Framework, Business Size Asset Type, Tax Incentives, Access to Funding

1. Introduction

Financial statement analysis is the practice of examining reported financial data, particularly yearly and quarterly reports, in order to determine a company's risk and profitability. Additionally, Bruce Mackenzie (2012) asserts that it is a crucial instrument for comprehending the financial performance of any business. This enables the assessment of a

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company's present standing about its commercial advantages (such as its clientele) and disadvantages (such as fluctuating expenses). Brigham and Huston (2013) suggest that analyzing financial statements has a number of benefits. First-hand significance includes giving investors a sense of which company to invest in, ensuring that regulatory bodies (such as the IASB) are aware that the company is adhering to the necessary accounting standards, assisting government agencies in assessing the taxes due to the company, and, most importantly, enabling the company to assess its own performance over a given time period. However, financial statement analysis is a very effective tool for a range of financial statement readers, each with a distinct goal in mind: to understand the entity's financial situation [7].

Various financial statements highlight distinct aspects of financial performance. A financial analysis, also known as accounting analysis or financial statement analysis, is an evaluation of the feasibility, stability, and profitability of a project, business, or sub-enterprise [20]. The first is the financial situation, which is the main issue for its creditors and investors. Investors and creditors, who supply cash, depend on a company's financial health to ensure the security and profitability of their investments. In particular, creditors and investors must be aware of the whereabouts of their funds [6, 11]. By offering comprehensive details about the business's investment assets, the balance sheet's financial statement resolves these problems [11]. In order to help debt and equity investors better understand their respective roles in a company's capital mix, it also provides the outstanding debt and equity components of the business. A company’s financial statements provide various important information that investors and creditors use to evaluate a company’s financial performance. Similarly, financial statements are also believed to be important to a company’s managers, as they are producing financial statements in order to communicate with interested inside and outside parties of the company. With insiders, they share financial performance information about its accomplishment towards running the company, while with outsiders, they give a clear picture of where the company is going [6].

Users of financial statement analysis include government agencies, regulatory bodies, creditors, investors, and/or shareholders, among others. For example, creditors anyone who has given money to a business and is concerned about its capacity to repay the amount they oweare closely monitoring the cash flow metrics of that business. On the other hand, depending on their investment philosophies and strategies, internal and external investors critically review the financial statements to gain insight into a company's capacity to continue paying dividends, generate additional cash flow, or grow the business at its historical rate [17]. The second focus of financial statements is on the performance of operating results, which are shown in the balance sheet of a company’s assets, liabilities, and equity at the end of a financial reporting period, as they don’t reveal what happened during the period from operations that may have caused changes in any of the financial conditions. Therefore, operating results during the period also concern investors in this particular perspective [6, 11].

There are various broad categories of ratios, each aimed at assessing a distinct aspect of a company's performance. The commonly utilized groups of ratios for analyzing financial performance include liquidity ratios, leverage ratios, profitability ratios, efficiency ratios, and market value ratios. For example, liquidity ratios are regarded as the most crucial and extensively used set of ratios, as they evaluate a company's capacity to manage short-term obligations to continue operating in the business. Conversely, leverage ratios indicate the degree to which a company depends on debt to finance its operations, reflecting its capacity to meet both short-term and long-term obligations. Meanwhile, profitability ratios are key metrics that assess a company's efficiency in generating profit while managing its expenses & the second focus of financial statement is on the performance of operating results which are shown in the balance sheet of a company’s assets, liabilities and equity at the end of a financial reporting period, as they don’t reveal what happened during the period from operation that they may have caused changes in any of financial conditions. Therefore, operating results during the period also concerns investor in this particular perspective [18].

Moreover, operating outcomes including sales, expenses, and the company's profit or loss are reported in the income statement's financial statement. The use of income statement data is justified by the fact that it allows investors to assess the unpredictability of a company's future cash flows as well as its historical income performance. Thirdly, by calculating accounting income and probably some non-cash components that don't directly reveal a company's cash exchange during the reporting period, financial analysts concentrate on how a company's cash flow performance is presented in both the income statement and the balance sheet over the designated time period [18].

As a result, it is essential to evaluate the listed lease financing and capital business businesses' financial performance using their financial statements from the beginning. In order to give a clear picture of how the business uses its financial assets, the researcher will do this by using the three main financial statement documents the cash flow, income statement, and balance sheet to compute ratio analysis in the areas of liquidity, leverage, profitability, and efficiency. Leasing firms are crucial to the financing of small and medium-sized enterprises, which require capital to grow but frequently lack the collateral or credit history needed to obtain credit from traditional finance sources.

In the literature, leasing has been defined in a variety of ways. Bruce (1988) defined equipment leasing as a contract in which the lessor, who owns the equipment, agrees to allow the lessee to use the equipment in exchange for regular rental payments. According to IAS 17, a lease is defined as a transaction in which the lessor grants the lessee the right to use an asset for a predetermined amount of time in exchange for a payment or series of payments. According to [15], a leasing organization must draw in matching funds to fund the leasing program. Leasing companies that offer leases with maturities of two or three years require medium-term financial resources on the liabilities side of their balance sheet. Leasing firms typically rely on capital markets for debt and equity rather than accepting deposits. The medium-term loan required to fund the leasing plan can be hard to find in developing nations. Ethiopia has legislation tailored to the leasing industry. proclamation No. 103/1998, the first leasing proclamation, was published in 1998 and provides a comprehensive legislative framework for the leasing sector. However, it may be argued that, in addition to operating leasing, this remark hasn't really accomplished its goal because financing leasing and hire-purchase haven't actually existed for the last sixteen years or so. Microfinance institutions are allowed to provide financial leasing services under the micro-financing business proclamation No. 626/2009; however, due to a lack of leasing competence, this product has not been offered in a meaningful and professional manner Leasing is a very versatile financing option with a number of benefits. The fact that the leased asset serves as the primary security in a lease agreement is among the most significant benefits of leasing. Leasing is a method used by businesses worldwide to finance automobiles, machinery, and equipment.

Up to one-third of private investment in industrialized (OECD) nations is financed through leasing, according to [15]. Since leasing enables SMEs to develop and modernize their operations, it boosts productivity, reduces transaction costs, creates more job opportunities, increases business profitability, encourages creativity and innovation, and expands product options (World Bank, 2015).

While leasing can be traced back thousands of years, the leasing industry has evolved significantly over the past 50 years [15]. Modern leasing emerged in the 1950s as a specialized financial service industry in the United States and expanded to Europe and Japan in the 1960s and has been spreading through developing countries since the mid-1970s (Todd, Mulder & Nair, 2004). The global leasing performance, as indicated in the World Leasing Yearbook 2014, reported that annual leasing volume in 2013 was USD 868 billion.

The US, China, Germany, and Japan accounted for 60% of global leasing volume, according to this data. With over 30% of the global leasing market, the US is the leading player in the sector, according to the White [21]. According to the Equipment Leasing and Finance Association, the entire equipment-leasing market in the US is worth $650 billion, or around 5.9% of the real GDP in 2008 [27]. However, the African leasing market is still very young, accounting for only 1% of global leasing volume in 2012. In 2013, the Ethiopian government issued the Capital Goods Leasing Business (Amendment) Proclamation No. 807/2013, which clarified the functions of the National Bank of Ethiopia (NBE) and the Ministry of Trade, in response to a number of issues. The Ministry of Trade was entrusted with licensing and overseeing operating lease businesses, while NBE was given the duty of licensing, regulating, and overseeing capital goods finance companies, including finance lease and hire-purchase activities, under Capital Goods Leasing Business Proclamation No. 807/2013. A more favorable legal and regulatory environment for lease firms was established as a result of this distinct separation of powers. Five capital goods finance business companies, mostly owned and backed by regional governments, have been licensed by the NBE since the beginning of 2014. Since then, several businesses have begun providing leasing services in various localities. Ethiopia now has six capital goods finance companies: Addis Capital Share Companies, Waliya, Oromia, Kaza, Debub, and Ethio-Lease Ethiopian Capital Goods Finance Business Share Company. Nevertheless, Ethio-Lease has shut down, leaving five businesses in operation. These companies' financial statements will be examined using secondary data from the NBE for the 2014–2024 timeframe (NBE, 2024; NBE Quarterly Bulletin Vol. 39(4): 2022/23, 4th Quarter).

1.1. Statement of the Problem

In order to conduct its operations and accomplish its goals or objectives, each firm, regardless of size, requires financial performance insights to sustain stability. A company's finances are thought to be its lifeblood. One of the fundamental pillars of all corporate operations in the contemporary economy is finance [14]. The main purpose of financial statements is to aid in decision-making by both inside and outside of a corporation. In order to operate smoothly, raise money from the least expensive and riskiest sources, and/or make the best use of its financial resources, every firm requires finance and its information. The importance of evaluating the financial performance of businesses at any level has been established by many literatures pertaining to the financial performance of various industry sectors. For example, a notable study by [2] measured the liquidity, profitability, and stability of two public sector drug and pharmaceutical companies listed on the Bombay Stock Exchange (BSE) and found that both companies provide sufficient returns to shareholders to sustain at least their market value.

However, a study on City Union Bank's financial performance by [9] revealed that the bank was able to meet all of its capital expenditure and working capital commitment requirements with a higher volume of operations and operating cash flows. In a similar vein, [15] examined Ashok Leyland Company Ltd.'s financial performance and recommended that the company boost sales volume and gross profit. [23] examined the various ratios influencing profitability and made the strong recommendation that the company focus on its selling, operating, and administrative costs while cutting them. According to this international literature, evaluating the financial performance of businesses in any sector or industry is significant since it provides crucial financial measures that are necessary to understand the company's position. Furthermore, the world leasing industry saw a remarkable 9.3% increase in 2021 as equipment investment recovered and global economies emerged from lockdown [30]. In 2021, the top 50 nations reported a new volume of USD 1,463.19 billion, up from USD 1,338.19 billion in 2020. The data also reveals that the worldwide leasing business has increased by 84% over the previous many years.

North America, Europe, and Asia make up 96% of the global leasing volume, whereas South America saw a very amazing 74% increase, Australia and New Zealand saw a 1.1% increase, and, most significantly, Africa saw a 9.3% increase. This demonstrates the fast rise in the volume of leasing activity worldwide, which urgently necessitates in-depth investigation and evaluation of the capital goods finance industry in Sub-Saharan Africa, including Ethiopia. SMEs in Ethiopia have very limited access to bank credit and other financial services, such as capital goods lease financing companies, according to a number of studies [15]. This is because SMEs lack the collateral and credit history necessary to obtain the majority of traditional bank financing. According to World Bank research on SMEs financing in Ethiopia in 2015, only 3% of small businesses and 23% of medium-sized businesses have a loan facility or line of credit. This is primarily because the collateral required for loans is extremely high, accounting for 249.3% and 253.5% of small and medium-sized business loans, respectively, compared to the average of 160% for Sub-Saharan Africa (SSA). However, despite evaluating these organizations' stability in relation to their financial resource allocation, their financial performances have garnered notice.

The expansion of the leasing sector as a financing delivery method broadens the market's selection of financial products and is therefore seen as a means of giving businesses that would not otherwise have access to financing a way to do so, thereby fostering domestic production, economic expansion, and job creation (IFC, 2005). By determining their stability in granting access to financing and, in turn, income-producing assets, leasing finance development also enables smaller-scale enterprises to become more economically active. Additionally, in any economy, SMEs in particular and the economy as a whole benefit from the growth of the leasing sector if their financial performance is carefully examined. Unfortunately, the lack of well-defined and reliable regulatory frameworks governing leasing industry transactions causes structural and leverage issues in many developing nations. According to [25], it is also clear that the absence of appropriate legal frameworks led to unclear accounting standards, inadequate tax regimes, limited funding capabilities, and unclear application and interpretation due to a lack of prior experience. According to [13], the industry lacks clarity in tax, legal, and accounting elements, particularly in leasing. The underdevelopment of the sector was also attributed to a lack of public awareness, a shortage of qualified professionals in the market, and the burden of high interest rates.

Therefore, the purpose of this study is to analyze financial statement data from the National Bank of Ethiopia and primary data from samples of five lease financing companies in order to investigate the factors that influence the financial performance of the nation's capital goods finance business for the period spanning from 2014 to 2023.

1.2. Research Hypothesis

Ha1: There is positive & significant relationship between regulatory environment & financial performance of lease financing companies.

Ha2: There is a positive and significant association between business size & the financial performance of lease financing companies.

Ha3: There is positive and significant relationship between asset type and lease finance companies' financial performance are related.

Ha4: There is positive and significant relationship between tax breaks &lease financing companies' financial performance.

Ha5: Fund accessibility has positive and significant relation with lease financing company’s financial performance.

1.3. Objective of the Study

This study's main goal is to investigate the variables influencing the financial performance of particular Ethiopian lease financing firms. The specific objectives of the study are to:

1) examine the impact of the regulatory environment on the financial performance of lease financing companies
2) investigate how business size affects the financial performance of lease financing companies
3) investigate how asset type and lease finance companies' financial performance are related
4) find out how tax breaks impact lease financing companies' financial performance
5) ascertain and analyze the impact of fund accessibility on lease financing organizations' financial performance.

2. Review of Related Literature

2.1. Theoretical Literature Review

Financial performance has been a concern for investors and stakeholders, which has led to study attempts to find out what elements influence leasing firms' financial success. For any economy to expand and develop, its financial performance is essential. Strong competitiveness, a high return on investment for shareholders, the creation of jobs, and a rise in an economy's gross domestic product (GDP) are thus the outcomes of a company's financial performance. The industry's competitiveness, economic stability, and the rewards to important stakeholders can all be negatively impacted by a protracted crisis that is brought on by subpar financial performance [29]. Therefore, managers must balance the interests of all groups in order to maximize the interest of all agencies. This will reduce the potential negative impacts and the repercussions of divergent reactions on financial performance [5]. Among other things, one of the most basic realities about businesses is that their financial performance determines their financial structure and whether they have the liquidity they need to meet their financial responsibilities. Stated differently, a company's financial performance is the monetary outcome of its activities and policies. The way businesses employ their limited resources to accomplish their stated aims is reflected in their financial performance. It is crucial to remember that there is no one ideal way for a company to gauge performance. It follows that choosing the optimal course of action depends heavily on the organization's goals and nature. Crucially, the investment firm, lessors, lessees, and all investors depend on the firm's performance. For example, because they are interested in the market price of their investments, investors focus on both the present returns and the possibility of future earnings [24]. In particular, financial performance is a measure of an industry's revenue or profit that demonstrates how the overall value of the firm has increased as a result of the recognition of a company's merit.

Studies on the financial performance of various industries [5] assessed the liquidity, stability, and profitability of two public drug and pharmaceutical companies listed on the BSE and made sure that both businesses provided sufficient returns to shareholders to preserve at least their market value. With a higher volume of activities and operational cash flows, City Union Bank was able to meet all of its criteria for capital expenditures and a higher level of working capital commitment [29]. According to [34], leasing is one of the more efficient ways to support the Ethiopian economy by giving SMEs long-term financing. Supporting leasing firms and other financial institutions that cater to SMEs is therefore a successful strategy for funding them (IFC, 2009). Small and medium-sized enterprises, which require capital to grow but frequently lack the credit history or collateral necessary for loans from traditional financing sources, are largely financed by leasing companies.

Leasing is a very versatile financing option with a number of benefits. The fact that the leased asset serves as the primary security in a lease agreement is among the most significant benefits of leasing. Leasing is a method used by businesses worldwide to finance automobiles, machinery, and equipment. Up to one-third of private investment in industrialized (OECD) nations is financed through leasing, according to the ILO (2003). Since leasing enables SMEs to develop and modernize their operations, it boosts productivity, reduces transaction costs, creates more job opportunities, increases business profitability, encourages creativity and innovation, and expands product options (World Bank, 2015).

According to [33], modern leasing began as a specialized financial service industry in the United States in the 1950s and moved to Europe and Japan in the 1960s. Since the mid-1970s, it has also been expanding throughout emerging nations. According to the World Leasing Year Book (2014), the global leasing performance showed that the annual leasing volume in 2013 was USD 868 billion. The United States, China, Germany, and Japan accounted for 60% of global leasing volume, according to this data. According to the White (Clarke Global Leasing Report 2012), the United States holds a prominent position in the leasing business, accounting for over 30% of the global market.

The US equipment leasing business is valued at $650 billion, or around 5.9% of the nation's real GDP in 2008, according to the Equipment Leasing and Finance Association [27]. However, given that Africa only made up 1% of the world's leasing volume in 2012, the continent's leasing business is still in its infancy. White Clarke Global Leasing Report (2013). According to [16], leasing enterprises depend heavily on capital. In contrast to bank-owned leasing companies that have access to bank finance, stand-alone leasing companies lack a parent from which to obtain guaranteed capital. Therefore, independent leasing businesses without safe financing may find that their funding sources completely vanish, and even if they do, their cost of money will unavoidably increase, which will impact not only their profitability but also their capacity to on-lend at a fair rate. [16] recommended that leasing businesses be permitted to mobilize term deposits, but not demand deposits, in order to achieve this goal.

2.2. Empirical Literature Review

There are a number of important aspects that influence how well lease companies perform; they include the following:

2.2.1. Regulatory Framework for Leasing

Since lessors are typically not permitted to draw deposits, their prudential rules are typically less stringent than those of banks. Nevertheless, minimal prudential rules are beneficial to both lessees and shareholders. This contributes to the leasing industry's continued stability and vibrancy [32]. Typically, a nation's Ministry of Finance or Central Bank is in charge of regulating and overseeing lessors. Typically, a nation's Ministry of Finance or Central Bank is in charge of regulating and overseeing lessors. All leasing firms will be subject to specific administrative and financial standards set forth by the governing body. The ILO (2003) states that the most prevalent of these are:

1) Minimum capital requirements: Banks and other financial institutions must possess a certain level of capital. Leasing companies typically have lower capital requirements than banks.
2) Maximum debt to equity ratio: This ratio contrasts the amount of capital invested by shareholders with the amount borrowed by the lessor. This should not be more than 10:1, which means that for every unit invested by the shareholder, no more than 10 units of capital should be borrowed. After many years of experience in leasing enterprises around the world, the International Finance Corporation advised a maximum ratio of 10:1 [15].

2.2.2. Business Size

A proxy for firm scale is used to quantify a company's size in order to reflect potential cost advantages related to economies of scale. There are conflicting results in the literature on the connection between profitability and size. Compared to smaller businesses, larger ones may profit from more investment diversity. There appears to be a positive correlation between company size and profitability, as this diversification lowers risk and economies of scale can improve operational efficiency by reducing expenses [1]. For example, growing branch networks could result in increased operating costs, which could have a detrimental effect on profitability. Therefore, it is impossible to make a firm theoretical prediction about how company size would affect profitability [10].

2.2.3. Tax Incentives

The tax structure in many nations encourages leasing agreements. Since the lessor owns the equipment, they record the whole lease payment- principal and interest- as income. However, they also have the ability to deduct the asset's depreciation, frequently at a faster rate. The lease payments can be subtracted from the lessee's taxable income in the interim. Because the lease period is usually shorter than the equipment's useful life, the lessee can depreciate the asset more quickly than they could have if they had purchased it out ight [8]. Consequently, the entire tax liability related to the lease is decreased, benefiting both parties with expedited tax relief [16]. The cost of capital after taxes is impacted by leasing's impact on cash flows. Additionally, the leasing process permits the impact of the tax shield to be transferred to the best possible firm in the event that the lessor and the leaseholder have different taxation rates [28]. It is occasionally possible to reach an agreement on terms that benefit the lessor and the leaseholder by using leasing tax regulations.

2.2.4. Access to Funding

The opportunities that entrepreneurs can recognize are greatly influenced by the resources that are available to them. Increased resources allow for more thorough testing, which increases the likelihood of innovation (Paladino, 2007). Resource limitations, on the other hand, can spur innovation by encouraging businesses with little money to look into every alternative, including lease finance [26].

However, a lack of qualified managers can impede sound financial decision-making, and financial constraints can impede creativity and overall effectiveness. Accessing professional guidance on financing possibilities is another challenge for small enterprises with limited resources [22]. Furthermore, a major obstacle for small and medium-sized manufacturing companies is limited access to credit or capital, which restricts their financing options [19]. Businesses frequently turn to informal loans or internal savings in these situations [4].

2.2.5. Availability of Facilities

Though the relationship may not be direct, there may be a correlation between the availability of water and electrical facilities to businesses and their degree of lease finance involvement. Here are some ways that these elements may affect involvement. For businesses to run effectively, access to dependable water and electrical supplies is essential. Businesses need a reliable power source to run their machinery, equipment, and other assets efficiently. Likewise, water facilities are necessary for a number of industrial procedures. Businesses are more likely to use lease financing to purchase assets that need water and electricity for operations when these services are easily accessible. In terms of operational needs, productivity and efficiency, industry-specific requirements, and cost concerns, the availability of water and power for businesses can also have a favorable impact on their lease finance practices [3].

3. Materials & Methods

3.1. Research Design

In order to explain why something occurs or how and why variables are related, this study used an explanatory research design. It is frequently employed to test hypotheses and demonstrate causality. This particular research strategy was chosen because it measures the cause-and-effect relationship between variables of interest and uses statistical tools to evaluate numerical data in order to find trends and patterns.

3.2. Research Approach

This study was used a quantitative research approach to completely analyze the financial performance of the sample population (leasing finance companies) in order to explain the research findings.

3.3. Target Population of the Study

Five approved and fully functional capital goods finance companies that are formally registered and overseen by the National Bank of Ethiopia were the subject of the current study. This covers all businesses in the capital goods finance industry that have completed the lease process and received official regulatory authority recognition. The research sought to give a focused and thorough review of the financial performance of five leasing companies within the Ethiopian financial environment by limiting its coverage to this particular community.

3.4. Sampling Method

Since there aren't many lease finance companies in Ethiopia, it is possible to analyze the complete population, which would give a thorough understanding of the factors influencing the financial success of these companies. For this reason, the census approach was used in this study.

3.5. Sources & Methods of Data Collection

The study used both primary & secondary data of the lease financing in Ethiopia for the period of 2014-2023, i.e., for ten consecutive years. Primary data was collected using survey questionnaires whereas, secondary data was collected from National Bank of Ethiopia.

3.6. Model Specification

FP = F (BS, TI, AT, AF). The model is adopted from the work of [31].

$$FP = \alpha + \beta_1 (BS) + \beta_2 (TI) + \beta_3 (AT) + \beta_4 (AF) + e \quad (1)$$

Where FP = Financial performance for the firms in the industry,

α = an intercepts, β = Coefficient of the model-variable, BS = Business size, TI = Tax incentives, AT = Asset Type, AF = Access to funding, and e = error term.

4. Data Analysis and Presentation

Based on the result of Table 1 below, Addis Ababa lease finance company shows strong upward trend in income from 2014 (loss) to a peak in 2022 (ETB 45,450 million), with a slight decline in 2023, which indicates consistent growth and potentially effective operations and market positioning, whereas Debub Capital Goods Business Finance incurred persistent losses throughout the entire period; negative income each year, with the worst in 2020 (ETB -16,419 million). The trend shows financial instability or operational inefficiencies, whereas, Kaza Capital Goods Business Finance initially loss-making (2014–2016), brief positive point in 2017 (ETB 3,364 million), but data missing for 2019–2023. This result suggests unstable or incomplete operations or data availability due to political in stability in the Tigray region, while Oromia Capital Goods Business Finance indicates mixed results: strong growth until 2018, then sharp losses in 2019 to 2020, followed by recovery (from 2021 to 2023). This indicates volatile performance possibly due to external shocks and maybe some economic fluctuation. Fortunately, the overall was positive and increasing trend from 2017 onwards, peaking at ETB 23,805 million in 2023. This reflects stable performance and potential operational improvements post 2016.

Table 1. *Income Trend of Lease financing companies.*

Company	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
AACGB	-574	6,789	12,440	15,082	20,883	36,745	38,394	40,632	45,450	41,275
DCGB	-	507	(8,732)	(2,619)	(12,304)	(16,419)	(2,657)	(10,418)	(6,841)	(5,006)
KCGB	(8)	(1,065)	(4,792)	3,364	(6,267)					
OCGB	-	7,656	6,745	12,401	14,483	(7,871)	(21,570)	6,535	10,955	12,544
WCGB	2,791	1,989	(4,277)	15,214	(5,069)	16,151	15,993	14,340	15,416	23,805

Source: Software output

As per the Table 2 below it reveals that, Addis Ababa Capital Goods Business Finance consistent and strong asset growth, from ETB 303,959 million in 2014 to over ETB 1.66 billion in 2023 which demonstrates robust financial growth and increasing capital capacity, whereas Debub Capital Goods Business Finance asset values fluctuated slightly but are relatively stable with no strong growth. This aligns with its consistent losses, suggesting limited reinvestment or expansion, yet also, Kaza Capital Goods Business Finance shows a sharp growth from 2014 to 2017, but no data from 2018 onward. The early growth may be tied to initial capital investment, but the lack of data raises concerns about data transparency or continuity of operations. Similarly, Oromia Capital Goods Business Finance assets grew until 2018, then dropped dramatically in 2021 (ETB 233,968 million) before rebounding in 2023. This suggests a major downsizing or restructuring followed by partial recovery. On the other hand, Walia Capital Goods Finance asset trend demonstrates steady and healthy asset growth, from ETB 205,121 million in 2014 to ETB 1.35 billion in 2023, which indicates consistent investment and operational expansion.

Table 2. *Asset trends of lease financing companies.*

Company	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
AACGB	303,959	448,559	469,443	505,066	704,782	753,710	759,925	1,039,423	1,261,633	1,662,693
DCGB	-	321,452	324,063	414,035	411,980	393,396	299,417	291,588	292,684	402,671
KCGB	205,986	295,294	441,944	556,523	554,067					
OCGB	-	355,016	576,360	566,311	587,144	583,890	566,639	233,968	259,713	775,208
WCGB	205,121	449,184	610,275	647,179	602,225	676,906	725,632	848,079	1,104,641	1,349,516

Source: National Bank of Ethiopia (NBE)

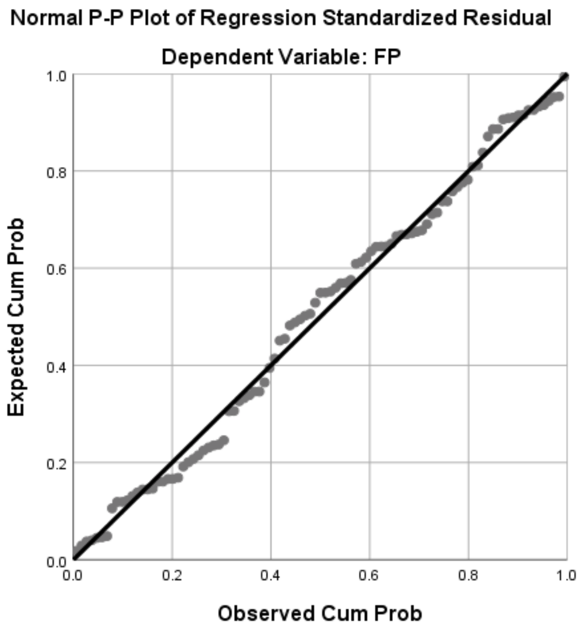

Figure 1. *Normality test.*

As it can be seen Figure 1 above the expected and observed cumulative probabilities, while not matching perfectly, are fairly similar. This suggests that the residuals are approximately normally distributed.

5. Discussion of Regression Result

5.1. Regulatory Framework

According to the regression result of regulatory framework has a positive relationship with financial performance of lease finance companies in Ethiopia by a coefficient estimate of 0.073. This means regulatory framework is associated with a 0.073 unit increase in financial performance and has no significant effect on financial performance that is p- value 0.260 above significance level p value 0.05. As it is clearly discussed in the chapter two, in accordance to (ILO, 2003), prudential requirements for lessors are generally less strict than those for banks, because lessors are not usually allowed to attract deposits. Nevertheless, it is in the interest of shareholders as well as lessees that there are minimum prudential requirements. This helps to maintain a stable and vibrant leasing industry (ILO, 2003). The regulating authority will spell out certain financial and administrative requirements for all leasing companies, this maybe the cause why the legal framework would have no significant effect on the financial performance these companies.

5.2. Business Size

According to regression result, the business size has negative relationship with financial performance of lease finance companies in Ethiopia implying that a unit increase in business size is associated with a -0.036 unit decrease in financial performance and has no significant effect on financial performance that is p- value 0.379 above significance level p value 0.05. When compared to other empirical evidences, the size of a company is measured by a proxy for company scale to capture potential cost advantages associated with economies of scale. Existing literature presents mixed findings regarding the relationship between size and profitability. Larger companies may benefit from greater investment diversification compared to smaller ones. This diversification helps reduce risk, and economies of scale can enhance operational efficiency by lowering costs, suggesting a positive relationship between company size and profitability [28]. Nevertheless, expanding branch networks, for instance, may lead to higher operational expenses, potentially causing size to have a negative impact on profitability [12]. Consequently, the impact of company size on profitability cannot be predicted with certainty based on theoretical grounds [34]. Thus, the current result is very consistent with other empirical evidences discussed above, by showing a negative impact on the financial performance of these lease companies.

5.3. Asset Type

According to regression result of asset type has negative relationship with financial performance of lease finance companies in Ethiopia by a coefficient of -0.152; indicating that a unit increase in asset type is associated with a 1.5% unit decrease in financial performance and has significant effect on financial performance that is p- value 0.003 less than significance level p value 0.05.

5.4. Tax Incentives

According to the regression result of tax incentive has a positive relationship with financial performance of lease finance companies in Ethiopia by a coefficient of 0.167 or 16.70%, implying that a unit increase in tax incentive is associated with a 16.70% unit increase in financial performance and has a significant effect on financial performance that is p - value 0.000 at 5% significance level. In comparison to empirical results, researchers argue that in many countries, the tax system favors leasing arrangements. The lessor, being the owner of the equipment, records the entire lease payment (both principal and interest) as income but can also deduct the asset's depreciation often at an accelerated rate. Meanwhile, the lessee can deduct the lease payments from their taxable income (ILO, 2003). Other scholars typically stress, when the lease duration is shorter than the equipment's useful life, allowing the lessee to effectively depreciate the asset faster than if they had bought it outright. As a result, both parties benefit from accelerated tax relief, leading to a reduction in the total tax liability associated with the lease (ILO, 2003). Therefore, this current study is also consistent with the theoretical and empirical evidences discussed in the previous chapter of this paper, stressing, tax incentive in case of Ethiopia has a positive and significant impact on the financial performance of the lease companies in terms of their net income a performance measurement proxy variable.

5.5. Access to Funding

According to regression result, access to funding has negative relationship with financial performance of lease finance companies in Ethiopia by a coefficient of -0.203, implying that any enhancement in access to funding is associated with a 20.30% leads to decrease in financial performance and has statistically significant effect on financial performance with a p - value 0.000 at 5% level of significance. As other sources of research findings confirmed, the availability of resources significantly influences the opportunities entrepreneurs can identify (Hoegl, Gibbert, & Mazursky, 2008). More resources enable extensive testing, boosting innovation chances (Paladino, 2007). Conversely, resource constraints can drive creativity, pushing organizations with limited funds to explore all possible options, including lease financing [30]. Financial limitations, however, can hinder innovation and overall performance, while a lack of skilled managers can impair effective financial decision-making [7]. Small businesses with limited resources also struggle to access expert advice on financing options (Nyachienga, 2012). Additionally, restricted access to funding or credit poses a significant challenge for small and medium-sized manufacturing firms, limiting their financing options [18]. In such cases, businesses often rely on internal savings or informal loans [4]. Therefore, the result of this research is very consistent with the theories and empirical evidences discusses, showing the lease financing companies in Ethiopia were negatively and significantly affected maybe in two reasons (1) maybe because of lack of adequate resources of funds or financing options (2) reliance on internal savings or informal loans they might acquire from other sources with huge repayments for the loans they owed. Most importantly, among the factors or variables assumed, access to funding (AF) is the only variable with a marginally significant negative effect on financial performance (p = 0.000) yet statistically significant, indicating that difficulties in accessing funding may be linked to poorer financial outcomes.

6. Suggestion

The main aim of this research was to examine the factors affecting financial performance of lease companies for the period covering from 2014 to 2023. Thus, the following recommendations are forwarded to the management and stakeholders of lease financing business companies in Ethiopia.

1) The management of the companies better to have a timely and current awareness of the legal requirements and should also adhere to the requirements of supervisory organ NBE. However, only focusing on meeting regulatory requirements doesn't have any significant influence over their financial performance. Therefore, it is better for them to mitigate regulatory risks while strictly looking into its external operational efficiencies and effectiveness.
2) The management and stakeholders of the lease companies should not extend extra fund for expansion branches, despite its market share goals. The expenses incurred for the sake of markets share should be minimized and be at optimal level.
3) The lease companies and its management is good to adequately manage its machineries and maximize profit from its leasing with due care to obsolesces, as it has a positive and statistically significant impact on their financial performance in short or long run.
4) Tax incentives provided by the government does have a positive and statistically significant impact on the financial performance of the company, therefore, the management of the companies should use this opportunity as one of its profit maximization strategy.
5) Finally and most importantly, the management of the companies should set strategies in expansion of access to funds, as their current status shows they didn't have

adequate access to fund, which has negatively and significantly affected their financial performance over the past 9 years in this specific industry.

Abbreviations

AF	Access to Fund
AT	Asset Type
BS	Business Size
ILO	International Labor Organization
RFW	Regulatory Framework
TI	Tax Inclusive

Author Contributions

Addisu Gemeda Edeti is the sole author. The author read and approved the final manuscript.

Conflicts of Interest

The author declares no conflicts of interest.

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