



**W.A.D. Faayinaansii Meeshaalee Kaappitaalaa Oromiyaa**

**የኦሮሚያ ካፒታል ዕቃዎች ፋይናንስ ንግድ ሥራ አ.ማ.**

**Oromia Capital Goods Finance Business S.C.**

**CAPITAL GOODS LEASING OPERATIONAL  
MANUAL REVISED**

**March 2020**

## Table of Contents

	Page
Preamble .....	4
Part I .....	5
1 Introduction.....	5
1.1 Background .....	5
1.2 The purpose of revising capital goods lease policy and Procedural Manual .....	6
1.3 Capital goods lease Policy Revised Manual objectives .....	6
1.4 Scope and Limitations Operational Policy .....	6
1.5 Definition of Terms .....	7
Part II.....	10
2. Vision, Mission, Objectives, Values and Principles of the Oromia Capital Goods Finance	
Business Share Company .....	10
2.1 Vision.....	10
2.2 Mission .....	10
2.3 Values .....	10
2.4 Objectives of the Company .....	10
2.5 Principles of the Company .....	11
Part III .....	12
3. Capital Goods Finance Policy and Procedures .....	12
3.1 Lease Financing Service .....	12
3.2 Objectives of Lease Financing Policy .....	12
3.3 Types of leasing .....	12
3.4 Capital Good Financing.....	13
3.5 Pre Financing Activities .....	13
3.6 Target groups.....	13
3.7 Eligibility Criteria for Capital Goods Finance.....	14
3.8 Priority criteria .....	16
3.9 Lease Financing.....	16
4 Business Plan Application, Screening and evaluation procedure .....	17
4.1 Business Plan .....	17
4.2 Application Procedure.....	17
4.3 Evaluation of the Business Plan and Criteria for screening of potential customers.....	18
4.4 Checking of Application .....	21
5 Capital Goods Finance, Appraisal and Approval Authority Limits .....	21
5.1 Business Plan Appraisal .....	21
5.2 Approval Authority Limit.....	21
5.3 Branch Offices .....	22
5.4 Capital Goods lease Size .....	22
6 LEASE CONDITIONS.....	23
6.1 Down payments /Equity Contribution .....	23
6.2 Lease Service charge.....	24

6.3	Installment Collection/ Lease Payment Period.....	24
6.4	Grace Period.....	24
6.5	Lease Agreement.....	25
6.6	Capital Goods procurement and identification and confirmation of Supplier .....	25
6.7	Capital Goods Procurement Procedure.....	27
6.8	Hand over the Capital Goods.....	28
6.9	Transportation of equipment.....	29
6.10	Capital Goods Repair &Maintenance.....	29
6.11	Capital Goods Insurance.....	30
6.12	Supervision and Follow-up.....	31
6.13	Registration of Capital Goods.....	32
6.14	Collateral and Capital Goods Finance Guaranty Fund .....	33
6.15	Arrears Management, penalty and Repossession .....	33
6.16	Safety and environmental issues.....	34
6.17	Payment rescheduling procedure .....	34
6.18	Write-off Procedure.....	36
6.19	Terms and Conditions for repossession .....	36
7	Record Keeping and Reporting .....	37
8	Loan provision and classification .....	37
9	Depreciation allowance and income tax.....	38
10	Transferring Capital Goods Ownership Title .....	38
11	Appeals by Customers .....	38
<b>Part IV .....</b>		<b>39</b>
12	<b>Duties and Responsibilities of Stakeholders and Performing Entities .....</b>	<b>39</b>
12.1	Oromia Capital Goods Finance and Business Share Company .....	39
12.2	Oromia Enterprises Development and Industry Bureau .....	39
12.3	Bureau of Technical and vocational education training.....	40
12.4	Women, Children and Youths Affair Office.....	41
12.5	Beneficiaries of capital goods finance.....	41
13.	Amendment .....	42
14.	Issuing authority and effective date .....	42

## **Preamble**

**Whereas** Oromia Capital Goods Financing Business S.C hereafter refer to as OCGFB S.C.

**Whereas** existing Capital Goods Leasing Operational Manual was approved in 2014 G.C that have been used for long years;

**Whereas**, there is a need to set up, promote and develop strong and viable capital goods finance Business in Ethiopia so as to contribute for economic growth;

**Whereas**, the existing Capital Goods Leasing Operational Manual concerning capital goods operation manual are found incomplete

Whereas there is a need to update the policy in order to fully comply with the requirements of National Bank Directives and other pertinent laws and regulations; now, therefore, it is required to review and update the existing Capital Goods Leasing Operational Manual of the OCGFB S.C. in the manner incorporated herein.

The document shall stipulate the broader policy statement which shall be required for the proper analyzing, Approving, implementing, repossessing, rehiring, maintaining and proper handling of the lease process. This Policy manual may be referred to as “Capital Goods Leasing Operational Manual Policy Manual”

## **Part I**

### **1 Introduction**

#### **1.1 Background**

This lease financing policy of the Oromia Capital Goods Finance Business Share Company (OCGFBSCo) is the policy instrument which guides and governs lease financing operation of the company. The Company has revised this lease financing Policy, which is designed to be consistent with sound and prudent lease financing practices in the world.

The purpose of this policy is to provide all personnel with a comprehensive understanding of how lease financing activity is to be undertaken by the OCGFBSCo, to manage risks associated with lease financing and to facilitate the uniform application of the service or product throughout the Company. The policy has been revised from existing operational policy as well as external sources. This policy and subsequent updates issued by the company will help further define the Company's lease financing service and serve as a primary reference source for all lease financing related issues.

The policies outlined herein are intended to be general in nature and will be supplemented by Procedure Manual for lease financing, which will contain implementing details. Furthermore, they are supplementary to requirements outlined in various National Company of Ethiopia Directives and other internal policy and procedure documents.

The policy document value lies in the fact that it communicates to all staff involved in lease financing activities and insures that all staff has current and consistent guidance.

This Policy is issued by Board of Management of the Company based on the duties and authorities vested in it by capital goods financing Policy Manual based on legal frame of capital goods leasing business proclamation No.103/1998 and its amendments proclamation 807/2013, registration and supervision of capital goods and capital goods leasing agreement Councils of Ministers Regulation No.309/2014 and Ministers of Trade capital lease directive No.001/2007.

## **1.2 The purpose of revising capital goods lease policy and Procedural Manual**

The lease financing policy helps to define the Company's lease financing facility to Lessees and serves the Company's staff to guide them in all lease financing related activities based on the following purposes:-

- a. To comply and cope up with existing proclamation, regulation and directives,
- b. To improve and update the existing operational manual drawback and obtain competitive advantage,
- c. To serve as a reference and binding policy for company's staff to deal with clients and stakeholders and provide a clear guide line and procedure of delivering different lease financing,
- d. To standardize the service in all operational activities at all levels,

## **1.3 Capital goods lease Policy Revised Manual objectives**

The general objective of this manual is to insure company's success by achieving maximum customers and stakeholders' satisfaction and this lease Policy Manual is in answer to the need of providing a reference material for all potential target users which may be used under the following specific objectives:

- a. To launch fast, client oriented and cost effective lease delivery system that can effectively address clients and stakeholders need.
- b. To create and put in place short, clear and all inclusive lease policy and procedures and make these procedures transparent
- c. To deliver capital goods services targeting micro matured, small and medium enterprise based lessee or customer efficiently, effectively and increase lease performance in order to respond the lessee demand in the company's operational area.

## **1.4 Scope and Limitations Operational Policy**

This manual/policy is done based on applicable proclamation, rules and regulations, National Bank of Ethiopia Directives, and internally issued policies of the Board of Directors (BOD) and the Management. This policy is applicable on target groups which are defined on this manual to finance Capital Goods throughout Ethiopia.

## 1.5 Definition of Terms

- 1.5.1 “Acceptance Certificate”** means a document signed by the lessee to confirm that the asset has been delivered to the lessee by the lessor in good working condition and as per the lessee’s order.
- 1.5.2 “Applicant or customer”** here shall mean the lessee.
- 1.5.3 “Branch”** shall mean all branches of the Company.
- 1.5.4 “BOD”** shall mean the Board of Director of the Oromia Capital Goods Finance Business Share Company.
- 1.5.5 “CEO”** shall mean the Chief Executive Officer of the company.
- 1.5.6 “Capital goods finance”** includes financial lease and hire-purchase.
- 1.5.7 “Capital goods”** means any equipment or machine that may be used to produce products or to provide services and includes accessories.
- 1.5.8 “Company”** means **Oromia** Capital Goods Finance Business Share Company (OCGFBSCo) or the here shall mean the lessor.
- 1.5.9 “Economic life”** of an asset means the maximum period over which the asset can usually be depreciated.
- 1.5.10 “Family”** means
- 1.5.11 “Financial lease”** means a type of leasing by which a lessor provides a lessee against payment of mutually agreed installments over a specified period with the use of specified capital goods which is:
- (a) Either already acquired by the lessor; or
  - (b) purchased by the lessor from a third party, known as the manufacturer or supplier, chosen and specified by the lessee; and under which the lessor shall retain full ownership right on the capital goods during the period of the lease agreement, and, subject to agreement between the two parties, the lessee may have an option to purchase the capital goods outright after the termination of the lease period at an agreed price. The price shall be determined based on agreement between the two parties (i.e. not more than 1% of the original cost of the capital goods) and included in the lease contract.
- 1.5.12 “Grace Period”** shall mean the period during which a lessee is not required to make principal repayments.

- 1.5.13 "Hire-purchase"** means a type of leasing by which a lessor provides a lessee with the use of a specified capital goods, against payment of mutually agreed installments over a specified period under which, with each lease payment, an equal percentage of the ownership is transferred to the lessee and, upon effecting of the last payment, the ownership of the capital goods shall automatically be transferred to the lessee.
- 1.5.14 "Lease"** means the legal contract between lessor and lessee. It deals with the use of capital goods in exchange for a payment or series of payments.
- 1.5.15 "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.
- 1.5.16 "Lessee"** means a person who, under a lease agreement, obtains capital goods from a lessor and has the right to use the capital goods, against payment of rent for an agreed period of time.
- 1.5.17 "Leasing"** means a financing in kind for production and service purpose by which a lessor provides specified capital goods on financial lease or hire purchase agreement basis to a lessee, without requirement of collateral, for a specified period of time and collects in return a certain amount of periodical payments over the specified period.
- 1.5.18 "Lease Payment"** means the amount paid per period by the lessee to the lessor in return for the use of the capital goods.
- 1.5.19 "Lease financing"** in the DBE context shall mean capital goods financing service availed by the Company to SMEs under "hire purchase" modality.
- 1.5.20 "Local Manufactures"** means those have long time experience by manufacturing of machinery and local technology multiply enterprises like TVETs, Lessees whose manufactured machine is approved by concerned government body.
- 1.5.21 "Manufacturer or supplier"** means a person, other than the lessor or the lessee, who is in the business of manufacturing or selling capital goods.
- 1.5.22 "Micro Enterprise"** means a business Enterprise that established in the form of PLC or share company or sole proprietorship or partnership that can employ up to 5 individuals including the enterprise owner and the family with a capital up to birr 50,000 for service sectors and up to birr 100,000 for industry sectors. The capital amount does not include the value of an enterprises' building if any.
- 1.5.23 "Payment Rescheduling"** shall mean the rearrangement or resetting of the payment schedule of the lease due to acceptable reasons.
- 1.5.24 "Person"** means any natural or juridical person.



- 1.5.25 “Registration Organ”** means the Ministry of Trade in the case of capital goods to be used in more than one regional state, or the competent regional organ in the case of capital goods to be used in only within one regional state.
- 1.5.26 “Small Enterprise”** shall mean a business Enterprise in the form of PLC, or Share Company or sole proprietorship or partnership that can employ 6-30 individuals including the enterprise owner and the family with a capital from 50,001-500,000 for service sector and birr 100,001-1,500,000 for industry sector. The capital amount does not include the value of an enterprises’ building if any.
- 1.5.27 “Supplier”** shall mean legally registered Capital Goods Supplier
- 1.5.28 “Small and Medium Enterprises”** (SMEs) means an enterprise that operates with six(6) to one hundred (100) employees including the owner, his/her family members and others employees and has a total capital ranging from Birr 500 thousand (Birr Five hundred thousand) to Birr 20 million (Birr twenty million)
- 1.5.29 “LATR”** shall mean Lease Appraisal Team(s) at Head office and/or Branches.
- 1.5.30 “LAT”** shall mean Lease Approval Team(s) at Head office.
- 1.5.31 “New Business”** shall mean a business which is under Formation and not involved in production.
- 1.5.32 “Expansion Business”** shall mean:
- a) An existing (operational) business/enterprise graduated from micro and small enterprise.
  - b) An existing SMEs customer of company who obtained lease financing service from company and requests for business expansion through lease financing.
- 1.5.33 “Total Capital”** means the sum of paid up of capital, retained earnings, donated equity, legal reserve and permanent free reserve acceptable to National Bank held by company
- 1.5.34 “Target:-**

## Part II

### 2. Vision, Mission, Objectives, Values and Principles of the Oromia Capital Goods Finance Business Share Company

#### 2.1 Vision

To ensure sustainable and reliable capital goods leasing services that contribute to economic growth of the country through the development of manufacturing sector and to become the best capital goods leasing institution.

#### 2.2 Mission

Providing affordable and cost efficient Capital Goods Finance Services to Micro matured Small and Medium Enterprises so as to improve their product quality and productivity through contribution of the transformation process of the manufacturing, service, Construction and agriculture sector.

#### 2.3 Values

- a. Continuous Improvement
- b. Commitment to serve and satisfy the client
- c. Enhancing women participation
- d. Honesty
- e. Loyalty
- f. Transparency
- g. Accountability
- h. Fairness

#### 2.4 Objectives of the Company

The main *objectives* for which the Company was established are:-

- a. To provide Capital Goods Finance service for micro, small and medium enterprises who are engaged in feasible manufacturing and trading businesses;
- b. Provide Capital Goods Finance service for other large companies who have better performance and wants to expand their existing businesses;
- c. To mobilize effectively and efficiently the capital necessary for the provision of Capital Goods Lease Service and other investment works:

- d. To perform any other income generating activities for the Capital Goods lease service;
- e. To perform any other relevant activities to achieve its objectives and would help for its success;
- f. Perform the objectives may be given by the regulation and directives of National Bank of Ethiopian

## **2.5 Principles of the Company**

- a. Capital Goods Finance service shall be given to the priority sectors that are identified here in this manual
- b. Through providing Capital Goods Finance services, reducing collateral problems of Lessees.
- c. Following transparent systems to make Lessees the owner of the Capital Goods after completing their liability.
- d. Priority of the Capital Goods Finance is given to Lessees with trilateral market linkage, and to those who need special attention (women and disabilities).
- e. Provide technical and business development consultancy service for any customers.
- f. The Capital Goods finance services is majorly concerned with micro maturity, small and medium enterprises and priority is given for manufacturing and construction sectors. The service might be provided for other sectors as well according to the necessity of applying the service for such additional sectors.
- g. The capital goods finance scheme shall be implemented in a manner that it reduces the financial burden of the enterprises.
- h. The capital goods procurement shall ensure the participation of micro maturity level, small and medium enterprises.
- i. The capital goods finance service follows a procedure whereby to enterprise shall be the full owner of the goods after a fulfilling all the necessary obligations
- j. University graduate, woman, special need parts of the society shall be prioritized if there is a demand from such part the community to engage in manufacturing sector if the government guaranty will be obtainable.

## **Part III**

### **3. Capital Goods Finance Policy and Procedures**

#### **3.1 Lease Financing Service**

Capital Goods Finance under this manual shall be conducted through Leasing. Leasing is a contract through which someone uses Capital Goods owned by somebody else. In this manual the Lessees (the lessee) pays specific regular amounts to the owner Oromia Capital Goods Finance Business Share Company (OCGFBSO). The important feature of leasing is that the user of the Capital Goods is separated from its ownership.

#### **3.2 Objectives of Lease Financing Policy**

**3.2.1** The purpose of lease financing is to provide financial assistance to the government priority area projects in which SMEs are engaged in support of the country's economic growth and development.

**3.2.2** The Company's Lease Financing scheme shall:

- a. Support structural transformation objective;
- b. Promote import substitution;
- c. Create employment opportunity;
- d. Promote export promotion objective of the country and support foreign exchange earnings; and
- e. Create access to finance for SMEs particularly the missing middle.

#### **3.3 Types of leasing**

**3.3.1** According to the proclamation number 807/2005 and the direction of NBE, in this manual OCGFBSCO shall provide:

- a. Financial Leasing and
- b. Hire Purchase leasing

**3.3.2** Financial lease is a way of financing the purchase of Capital Goods in which the lessee pays agreed rent for agreed period of time to use the Capital Good and the ownership can be transferred to the lessee based on the agreement that will be made at the beginning of the lease term with pre agreed amount

**3.3.3** Hire purchase lease is a way to finance the purchase of Capital Goods in which the part of the ownership is transferred to the lessee with equivalent amount of each

payment. Upon payment of the last installment, the lessee becomes the full owner of the capital goods.

- 3.3.4 The amount of lease includes all costs until commissioning, i.e., cost of capital goods and expenses associated with it such as pre-production service charge, transport and installation.

### **3.4 Capital Good Financing**

- 3.4.1 The company shall finance new capital goods depending on the customers' request,
- 3.4.2 The company shall not finance to micro start up and growth level, however the company may finance, to those who have direct professional background and have sufficient working capital
- 3.4.3 The company shall not provide working capital,
- 3.4.4 The company shall refinance additional capital goods for existing customers those who cover the previous lease outstanding balance above 75% with those who have good credit history.

### **3.5 Pre Financing Activities**

- 3.5.1 General awareness creation on Capital Goods Financing service should be conducted in collaboration with stakeholders.
- 3.5.2 Awareness that should be created by OCGFBSCO:-
- a. The importance of financing capital goods
  - b. How the service is provided
  - c. The advance payment and related issues
  - d. The capital Goods Financing size and options of collateral.
  - e. The issues of lease term, service charge and installment payment facts
  - f. The issues of insurance and maintenance
  - g. Terms of lease payments and general Capital Goods Financing Policy of the company.

### **3.6 Target groups**

- 3.6.1 The targets for Capital Goods Finance shall be Micro Enterprises with Maturity Level, Small and medium Enterprises.

- 3.6.2 Each Capital Goods Finance Service requesting enterprise is required to present evidences that clearly state whether the enterprise is start up, growing and matured in both Micro and Small Categories or whether it is Medium Enterprise or not.
- 3.6.3 Notwithstanding the above article 3.6.2, the customers those who cannot present the evidence of their status the company shall refer their assets.
- 3.6.4 The company shall finance capital goods or equipment for internal employees who served for more than two years (husband, children and wife) without down payment and by 4 % less than normal financing service rate without any collateral,

### **3.7 Eligibility Criteria for Capital Goods Finance**

- 3.7.1 The targets for the Lease service shall be Micro matured, Small and Medium Enterprises.
- 3.7.2 The Micro matured and small enterprise should present certificate of evidence that confirms its status.
- 3.7.3 The Medium Enterprises should present certificate of evidence that confirms its graduation from small to Medium Enterprise and present investment license from the concerned office when requesting for Capital Goods Finance
- 3.7.4 The user's age should be above 18
- 3.7.5 Renewed identity card of each Member in the Lessees
- 3.7.6 Evidence of marital status (marriage or not married) for sole proprietorship enterprise
- 3.7.7 The business license and registration are in one of :-
- a. Private Limited Company,
  - b. Share Company.
  - c. Partnership,
  - d. Sole proprietorship and
  - e. cooperative those who fulfill the company's criteria's
- 3.7.8 The Micro matured and small (Growing-Medium and Matured enterprise should present certificate of evidence that confirms its status.
- 3.7.9 The Medium Enterprises should present certificate of evidence that confirms its graduation from small to Medium Enterprise and present investment license from the concerned office when requesting for Capital Goods Finance

- 3.7.10 Certificate of evidence for appropriate knowledge and skill in using the machine/Capital Goods or the skill to involve in the business anticipated. Otherwise the lessee shall be hire skilled man power on the specific requested capital goods.
- 3.7.11 Appropriate working premises for installing the capital goods and evidence of ownership of the working premises. The premises can be owned by the enterprises or production center provided by the town administration or premises rented. And if the working premise obtained by inherit from family or relation person.
- 3.7.12 Evidences for sufficient electrical and water supply as well road facilities for the working premises.
- 3.7.13 The Business Plan should be feasible business plan that clearly indicates the profitability of the business and ability to pay each installment.
- 3.7.14 The business plan should at least indicates, full information and profile about the lease requested , Projected Balance sheet, Income statement and Cash flow statement, Production process and Status of the Enterprise, Number of members/share holders , Evidences of the members or employee to show the capacity in the machine operation, Function of the machine and evidences of having appropriate places where the machine is going to be installed, Evidences of technical capacity and work experience of the employee/shareholders or the enterprises.
- 3.7.15 The lessee shall present audited financial statement for existing enterprises, for the purpose of business expansion the lessee present from previous business activities and if not the lessee couldn't present audit report for obvious reason the company consider the total asset of lessee.
- 3.7.16 Down payments the lessee Pre leasing deposits of 15% or 20% of the total lease value of the machine depending on the types of MSEs i.e. if the lease requesting Enterprise is an enterprise working on import substitute or export oriented business the deposit requirement shall be 15% of the lease value, otherwise the deposit shall be 20% of the lease value.
- 3.7.17 The lessee shall be willing to present insure capital goods in case of transportation from suppliers to working premises.

### **3.8 Priority criteria**

**3.8.1** The company shall give Priority Targets for:-

- a. Enterprises working on import substitute or export oriented Businesses.
- b. Model Enterprises grouped under clusters that's one's finished product can be used as raw material for the other enterprises within the cluster.
- c. The Women and part of society that needs special attention.
- d. The Graduates from higher education and TVET institutes those with in business.
- e. Enterprises with all/partial members trained and succeed/passed in Competence evaluation.

### **3.9 Lease Financing**

**3.9.1** The Company shall finance new capital goods from the priority areas of the Government for LESSEE's only for the purchase of capital goods for customers Business used.

**3.9.2** The company shall finance capital goods from the priority areas of the Government given manufacturing sectors. Priority areas of manufacturing sub sectors are:

- i. Textile and Garment
- ii. Leather and Leather Products
- iii. Metal and Engineering
- iv. Wood work
- v. Hand crafts and
- vi. Soap, Detergent and Chemicals
- vii. Plastics and fiber glass production
- viii. Others related industry

**3.9.3** The company shall be finance capital goods on the following addition sectors.

- a. Agro-processing industries; such as** Bread, Milk processing, Oil, honey, Grain mill, Flour mill, Candy, Juice beverage and relative business activities
- b. Construction industries; namely** block production, Terrazzo, stone crusher, mixer, vibrators, dozer, excavator, Loaders and dampers.
- c. Mining and quarries.**
- d. Agricultural and mechanization equipment such as** Tractor, Harvester, Water pump, Incubators, Baler, Harvester (combiner)



**e. Service sectors namely** Printing, Photo printing, Duplicator, Computers, Fridge and generators, GYM equipment, medical equipment and generators

**f. Transportation and Truism purpose** (vehicle) like, mid bus, Minibus, Isuzu, FSR, dump track vehicles pickup, fishing and recreational boats, forklift

3.9.4 The company shall not finance to micro start up and growth level.

3.9.5 The company shall be refinance additional capital goods for existing customers those who cover the previous lease outstanding balance above 60% with good manner

3.9.6 The company shall finance new capital goods and reconditioned capital depends on the lessees' request.

## **4 Business Plan Application, Screeching and evaluation procedure**

### **4.1 Business Plan**

Feasible business plan shall be prepared by lessee and that clearly indicates the profitability of the business and ability to pay each installment. The business plan should at least contain:-

- a. Full information and profile about the lease requesting Enterprises
- b. Projected Balance sheet, Income statement and Cash flow statement
- c. Production process and Status of the Enterprise
- d. Number of members/share holders
- e. Evidences of the members or employee to show the capacity in the machine operation
- f. Function of the machine and evidences of having appropriate places where the machine is going to be installed
- g. Evidences of technical capacity and work experience of the employee/shareholders or the enterprises
- h. Audited financial statement for existing enterprises

### **4.2 Application Procedure**

4.2.1 An application for the Capital Goods Finance shall be made at OCGFBSCO branch office.

4.2.2 Applicants who have sufficient information about the Capital Goods Specification shall be present to company.

4.2.3 The Capital Goods requesting enterprise shall present application that at least contains the following information:

- a. Signed and stamped business plan with Application letter with,
- b. Specification and detail information of the Capital Goods,
- c. Supplier of the Capital Goods, Accessories and spare parts required of the Capital Goods if any,
- d. Information about the delivery time and transporting the Capital Goods,
- e. Installing and Commissioning the Capital Goods,
- f. Training on how to operate the requested Capital Goods,
- g. Warranty and Guarantee information about the Capital Goods,
- h. Post procurement service and maintenance issues.

4.2.4 The lessee should be present legal document like renew trade license, recent working premise contract, and appropriate electric power that run the requested capital goods, owner ship of working premise or gift from family.

### **4.3 Evaluation of the Business Plan and Criteria for screening of potential customers**

4.3.1 The purpose of screening and evaluating of Business Plan is to screen potential customers, show the lease terms, to identify visibility of business of the lease and minimizing risk for both parties.

4.3.2 **Screening and evaluating of potential customers** will be implemented immediately after pre-financing activity is conducted.

4.3.3 OCGFBSCO branch offices evaluate the application based on the eligibility criteria and other requirements and approve, recommend, suspend and revise or reject the application.

4.3.4 The company's responsible staffs shall apply the four **C's** (Capacity, Condition, Capital and Character) of the lease criteria which are the basic components of lease analysis to identify, screen and evaluates the potential customers.

**4.3.5 The Screening team should know the four C's** of the lease analysis criteria:-

- a. The **Character** of lessee that is the most important assessment like honesty, integrity, sense of responsibility, trustworthiness, business experience, background of lessee or family status (family members collaboration, harmony with family members, etc.), social acceptance in his/her community, credit history and previous business history

- b. The current **conditions** of the business (will continue, improve or deteriorate), whether the lessee are new or existing, willingness to accept OCGF's policies and procedures.
- c. the **capacity** of lessee that reflect the ability of the lessee to generate sufficient revenues that could enable them to repay the lease installment, economically active and productive, physically fit to the intended business and able to make market contractual agreement.
- d. The **Capital** of the lessee considered as an asset owned by the lessee like farm land and Property (movable and/or immovable).

#### **4.3.6 Evaluation criteria of the Business Plan**

**4.3.6.1** The company shall use the following evaluation criteria like the projected cash flows and financial feasibility, the technical feasibility from customer perspective and equipment productive capacity, the market value of the Capital Goods. The detail evaluation techniques are:-

##### **A. The Projected cash flows and financial feasibility:-**

- a. The projected cash flows generated through the use of the Capital Goods are more important than the asset structure or credit history of the lessee. Evaluation techniques based upon the estimated inflows and outflows of cash in the enterprise are essential here. These cash flows determine the MSE's ability to pay the installments.
- b. Working capital constraints; Leasing can only finance the purchase of fixed assets. It cannot directly fulfill a lessee's needs for working capital. OCGFBSCO needs to be aware, however, that lack of working capital could jeopardize their lessee's/MSEs capacity to generate extra cash flows through the leased Capital Goods, and therefore their ability to keep up with lease payments. Thus,
  1. OCGFBSCO should first evaluate the MSE's ability of financing their working capital needs before deciding on purchases of the capital goods.
  2. If the lessee is able to finance the working capital needs, OCGFBSCO should critically assess the sources of the working capital because, if the source of the working capital is from borrowing, it could create additional burden on the repayment capacity of the Lessees.

3. OCGFBSCO gives leasing priority for Lessees who are able to finance the working capital needs by their own capital.
4. Whereas, MSEs can borrow for their working capital requirement from OCSSCO or other lending institute and OCGFBSCO shall not oppose the working capital borrowing as long as the double loan does not hamper the lease payments.

**B. The technical feasibility from costumer perspective and equipment productive capacity**

1. The productive capacity of the Capital Goods and the capacity of the Lessees to optimize its use are assessed include is it the right type of Capital Goods, will it be used in the right way and in the right place? And to what extent will it increase production, save costs, improve quality or open the way for new products or services
2. In addition the company shall be evaluate existence of Capital Goods market, the issues of the Technical support, after-sales services, MSEs financial capacity in financing their working capital needs, Availability of spare parts and maintenance services for the capital goods, availability of and raw materials for the production Viability of the business and environment related issues (impacts of the Capital goods on environment while producing)
3. Technical support and after-sales services: One of the major challenges for OCGFBSCO shall be the maintenance of Capital Goods. The availability of efficient workshops and access to spare parts is essential. Technical analysis is very important in the choice of appropriate technology and suitable Capital Goods. Besides developing in house capacity is important for OCGFBSCO and establishing links with institutions that can provide technical assistance and recommendations.

**C. The market value of the Capital Goods**

- i. The company shall be evaluate the market value of the Capital Goods is important. If the LESSEE defaults, the Company has to recover its investment by taking back the Capital Goods and selling it or re-leasing it. **At all stages of the lease period,**

the market value of the Capital Goods should be higher than the total of outstanding lease payments.

- ii. Existence of Capital Goods market: Leasing needs reliable Capital Goods suppliers whose value the alliance with the company as part of their own marketing strategy.

#### **4.4 Checking of Application**

- 4.4.1 The company shall not entertain request for refinancing for already purchased capital goods.
- 4.4.2 The company shall not finance second hand capital goods.

### **5 Capital Goods Finance, Appraisal and Approval Authority Limits**

#### **5.1 Business Plan Appraisal**

- 5.1.1 Business plan appraisal shall focus on assessing the technical, market, financial and managerial viabilities as well as socio-economic benefits of the business.
- 5.1.2 The standard Business plan appraisal format will be used by the branch and/or Lease Appraisal Team to properly determine the financial profitability and soundness, economic benefits and social desirability of the business.

#### **5.2 Approval Authority Limit**

As per the lease policy of the OCGFBSCo, the CEO delegates his/her lease financing sanctioning authorities as follows:

- 5.2.1 Head office capital goods appraisal team shall evaluate business plan that is the value of capital goods is above Birr 500,000 and performed by the team of established by the company.
- 5.2.2 Deputy Managing Director s authorized to approve the capital goods whose value birr 500,000.00 up to 3,000,000.00.
- 5.2.3 Head office Capital Goods Finance lease approving Committee is authorized to approve Capital Goods Finance of Birr 3,000,001 to 5,000,000.00 and it consists the following members:
  - Managing Director..... Chairperson
  - Deputy Managing Director ..... Member

- Director of Capital Goods Financing Monitoring Directorate... .....Member and secretary
- Director of Finance and HRM Directorate..... Member
- Legal head service head/officer ..... Member
- Others Directorate Directors /team leader/ senior officer..... Member

**5.2.4** The BoD for all capital Goods Finance above 5,000,001. The chair person shall lead the committee and the managing director of OCGFBSCO is a secretary without vote. The management team of the company should recommended or suggest the loan request of above birr 5 million before submitting to the board of directors.

**5.3 Branch Offices**

**5.3.1** Branch offices are authorized to appraise and approve Lessees lease financing up to Birr 500,000.00.

**5.3.2** All site visite activities shall be conducted by branches officers. However, whenever it is necessary the head offices may reviste the site of the business.

**5.3.3** The branch is authorized to appraise or reject and approve capital goods finance of birr to birr 500,000 and it consists the following members:

- Branch managers----- Chairperson
- Branch lease officer (technical person)-----member and secretary
- Accountant -----member
- Cashier -----member

**5.3.4** The business plan appraised by branch whose amount less than or equal to 500,000.00 approved by Director of Capital Goods Financing Monitoring Directorate.

**5.4 Capital Goods lease Size**

**5.4.1** The aggregate sum of capital goods guaranteed to and outstanding at any one time to any single lessee shall not exceed 2.5% (two and half percentage) of the total capital of company.

**5.4.2** The minimum loan to a single lessee resulting from extension of one or more Lessees lease financing shall not be less than Birr 50,000.00 (fifty thousand Birr)

- 5.4.3** A minimum of sixty percent (60%) of the outstanding capital goods finance portfolio of the company shall constitute at any time a capital goods finance provided to Small and Medium Enterprises
- 5.4.4** Micro Enterprises with maturity level shall be eligible for Capital Goods Finance up to birr 500,000.00
- 5.4.5** The company may finance to micro enterprises with direct professional background up to **10%** of its annual portfolio if and only if they are supported by any guarantee fund.

## **6 LEASE CONDITIONS**

### **6.1 Down payments /Equity Contribution**

- 6.1.1** Down payments the lessee Pre leasing deposits of 15% or 20% of the total lease value of the machine depending on the types of MSEs i.e. if the lease requesting Enterprise is an enterprise working on import substitute or export oriented business, Women Entrepreneurs and people with disabilities the deposit requirement shall be 15% of the lease value, otherwise the deposit shall be 20% of the lease value.
- 6.1.2** The company may increase its down payment rate depending on the risk of financing the machine.
- 6.1.3** The lessees are required to deposit in advance pre-leasing down payment at Company account.
- 6.1.4** The lessee is required to pay the down payment upon or before lease contract signing.
- 6.1.5** After the payment of down payment, lessees are required to bring deposit slip to company and the company is required to provide official cash receipt voucher to the lessees.
- 6.1.6** If the lessee cancels the agreement after depositing the down payment lessee shall be penalized to **pay 5%** of the total price of the Capital Good and the refund of the down payment shall be made to the lessee after deducting the penalty amount.
- 6.1.7** The lessee shall not claim the service charge for the down payment deposited in the company account.

## **6.2 Lease Service charge**

- 6.2.1** The company shall charge 15% service charge declining on the Capital Goods financed less the down payment made by the client.
- 6.2.2** The Service charge rate is subject to changes that might occur from an adjustment of service charge rate made by National Bank of Ethiopia or the company itself.
- 6.2.3** The service charge on lease financing shall be applied starting from the date of signing of contract agreement with lessees.
- 6.2.4** Service charge amount accrued on the lease shall be paid within a maximum of one month.
- 6.2.5** The Service charge on those capital goods procured through orders, the company shall calculate service charge on the difference between advances payment to supplier including local manufacturers and down payment that the lessee paid.
- 6.2.6** The service charge shall be paid with the principal installment amount throughout the lease term

## **6.3 Installment Collection/ Lease Payment Period**

- 6.3.1** The capital goods finance lease installments should be timely collected as per the agreement of both parties.
- 6.3.2** The lease Installment shall be made on monthly, quarterly, semiannually, balloon payment, and step up, step down and on skipped payment basis depending on the nature of the Capital Goods and the cash flow of the business. Thus, the capital Goods Finance branches shall critically look into the cash flow of the business and set the lease installment frequency.
- 6.3.3** The installment payment shall be made at the company account.
- 6.3.4** The payment period of the lease term shall be determined based on the cash flow of each leases and the economic life of the capital goods. However, the leasing period shall not be greater than 6 years.

## **6.4 Grace Period**

- 6.4.1** The maximum Grace period may be offered depending on the nature of the Capital Goods Financed and nature and status of business.



- a. The company shall give the maximum of 4 months grace period for service sectors.
- b. The company shall give the maximum of 6 months grace period for manufacturing sectors.

## 6.5 Lease Agreement

- 6.5.1 After evaluating the business plan and approving the Capital Goods request, the lease agreement shall be signed between the lessee and lessor. The lease agreement shall be annexed here with this manual.
- 6.5.2 Financial lease agreement shall be a full pay-out and non-cancellable agreement.
- 6.5.3 The lease agreement shall be in line with proclamation no. 103/1998 (an amendment to proclamation no. 807/2013) and council of minister's regulation no. 309/2014, Ministry of Trade capital goods leases business registration and supervision Directives no. 001/2007 and NBE directives.
- 6.5.4 Either of both parties (lessee or lessor) wants to change their mind, i.e. if the lessor unable to provide the capital Goods as per the agreement made, and also if the lessees become unwilling to receive the agreed capital goods, the party/s that fail to comply with the agreement shall be penalized 5% of the capital goods ordered value to the side of disfavored.

## 6.6 Capital Goods procurement and identification and confirmation of Supplier

- 6.6.1 The company shall procure capital goods through open bid, restrict bid, direct procurement, and price quotation based on the nature of capital goods value.
  - a. The company can purchase capital goods by **open bidding** when a single price of Capital Goods above 5,000,000 Birr.
  - b. The company can purchase capital goods by **restricted bidding** when a single price of Capital Goods birr 3,500,001 up to birr 5,000,000.
  - c. The company can purchase capital goods **directly** from sole suppliers where the suppliers are Government affiliated companies or the suppliers are certified and known as sole suppliers for the Capital Goods that to be procured
  - d. The company can purchase capital goods by **price quotation** (Proforma) when a single price of Capital Goods birr 50,000.00 up to birr 3,500,000.

- 6.6.2** The lessee is expected to provide the specification of the capital goods it requires to be supplied. However, if the lessee is unable to provide specification of the capital goods required the company may consult.
- 6.6.3** Lessee is required to submit at least three Proforma invoices if applicable from legitimate suppliers or manufacturers.
- a. For the procurement of Birr 50,000.00 up to birr 3,500,000 (From birr Fifty Thousand up to birr Two Million and Five Hundred Thousand),the Capital Goods requesting MSMEs to identify suppliers
  - b. For the procurement between birr 50,000-3.5 million the Proforma should be provided by the lessee, however, if the cost of machine is thought to be exaggerated then the company may confirm the price submitted by the lessee through established committee.
- 6.6.4** Import of all capital goods should comply with the company policy/ manuals.
- 6.6.5** The suppliers can be local manufacturers, importers, retailer or international suppliers.
- 6.6.6** If the Capital Goods are not locally manufactured and when it is confirmed that the capital goods is not supplied by the local importers, the company shall procure from international suppliers as per its procurement policy and procedure.
- 6.6.7** A quotation that to be provided from the Capital Goods supplier is a document stating that the supplier will sell the Capital Goods to company, and giving the agreed terms of the sale. The quotation should be issued on the letter head of the supplier, and addressed to lessee. A quotation should contain;-
- a. The detail specification of capital goods to be procured (a description of the Capital Goods, including technical characteristics and accessories)
  - b. the price and method of payment
  - c. an expiry date that allows for the time involved in processing the lease application
  - d. a description of how the Capital Goods will be delivered, and how long this will take
  - e. the warranty
  - f. the after-sales services and maintenance contract during the warranty period

**g.** The quotation may also include technical information in the form of brochures, catalogues or other printed material.

**h.** VAT exclusion information

**6.6.8** The company shall identify potential suppliers based on their performance history of manufacture or suppliers, availability of appropriate workshop that support after sales services, outlet and area of specialty on the requested capital goods.

## **6.7 Capital Goods Procurement Procedure**

**6.7.1** The capital goods would be purchased as per the requirement /specification/ and choice of the lessee. Also, the company shall advise the lessee on his/her choice, the final responsibility as regards any shortcomings and defects to the asset to be purchased and leased falls on the lessee.

**6.7.2** The supplier shall deliver detail specification and features of the capital goods so that the company's concerned directorate confirms whether the capital goods are as per specification before the final payment.

**6.7.3** Proforma invoices of the Capital Good selected shall include terms and conditions, warranty, installation issues, post sales maintenance and etc.

**6.7.4** Evaluation of the Capital Goods specifications and appropriateness through the company's concerned directorate before further processing the procurement activities.

**6.7.5** Check the purchases processes is based on the purchase policy of the company

**6.7.6** Confirm whether the suppliers directly transport the capital goods to the premises of the lessee or the lessee shall transport by her/himself depending on the agreement to be made after all requirements are fulfilled.

**6.7.7** The company shall sign an agreement with manufacturer or supplier based on the selected Proforma presented by the lessee.

**6.7.8** The company shall disburse/pay to the manufacturer or supplier based on the agreement.

**6.7.9** The company shall receive the capital goods from manufacturer or supplier, as per the suppliers' agreement.

**6.7.10** The manufacturer or supplier shall provide title deed of the asset and delivery document to the company.

- i. Local machinery and related equipment producers will be the primary suppliers of the leased machinery through a tripartite agreement with the lessee and lessor.
- ii. If the machinery/equipment in the lease agreement could not be found through the aforementioned sources, company may look for other possible option.

**6.7.11** If necessary, the company may pay advance payment to the producer not exceeding 30% of the value of the capital goods against advance payment guarantee from financial institutions.

## **6.8 Hand over the Capital Goods**

**6.8.1** handing over the equipment should be noted:

- a. Verifying whether the capital equipment satisfies the specification
- b. Accuracy of the identification number (serial number)
- c. Availability of accessories and spare parts

**6.8.2** The capital Goods installation shall be made by supplier or the lessee based on the purchase agreement made.

**6.8.3** It is the responsibility of the lessee to check and confirm whether the machine supplied is as per the specification provided and working properly.

**6.8.4** Company considers the contract agreement is in place and binding ones the procurement payment is made regardless of the transportation, installation or functioning of the machine that is to be leased

**6.8.5** It is up to the lessee to conduct and execute performance test and report in writing within ten (10) calendar days to the supplier and the leasing company indicating any defect if any on the machine. if he/she shall not notify within the sated days after commissioning and performance testing.

**6.8.6** The lessee needs to issue confirmation letter to the company specifying the effectiveness of the machine.

## **6.9 Transportation of equipment**

**6.9.1** The delivery of the imported equipment shall at the site of the lessee's work premises as much as possible and the supplier shall transport the equipment at the company's cost. However, if the site of the lessee is still under preparation and if the lessee and the lessor agree, the equipment shall be stored in any warehouse and handing over shall take place accordingly. This task shall take place in two manners:-

- a. The first is when the supplier delivers the equipment at the site of the lessee.
- b. The second is when handing over of such equipment's is effected at warehouse.

## **6.10 Capital Goods Repair & Maintenance**

**6.10.1** The lessee shall take care of and preserve the capital goods as long as it is in his/her custody.

**6.10.2** The lessee shall not change the manner of utilization of the capital goods without the consent of the Company.

**6.10.3** The leased asset shall regularly service by the lessee at the recommended frequency and authorized service center.

**6.10.4** The supplier shall clearly state or provide the regular schedule of the annual service at the time the purchase is made in warranty period.

**6.10.5** The suppliers shall provide the manual along with capital goods.

**6.10.6** The lessee is responsible to undertake all minor and major maintenance timely and the lessee bear the maintenance costs/expenses.

**6.10.7** It is illegal to change or transfer the machine from its previous place where it was installed for any reason without prior written approval/endorsement of the company.

**6.10.8** Notwithstanding the above article 6.10.7, the lessee and the company jointly decide where to repair the machine if periodic maintenance and overhauling service is needed.

- 6.10.9** Notwithstanding the above article 6.10.7, any minor or major maintenance can be made where the lessee prefers but should notify the company and get written approval before conducting the minor/major repair.
- 6.10.10** During the warranty/guaranty/ period for any manufacturer defect occurred the supplier shall maintain the capital Goods defected.
- 6.10.11** Notwithstanding the above article 6.10.10 for any damaged that might occur after the warranty period maintenance and repair shall be made by agreement that will be made with supplier who supplied the machinery or any other qualified supplier.
- 6.10.12** Maintenance and repair may be done by capacitating the skill of some members of the enterprise through training provided on maintenance of the purchased Capital Goods by the supplier or nearby TVET Collage after getting the consent from the company.
- 6.10.13** The other option that repair and maintenance can be made by the maintenance department in the TVET collages if any. It shall give the service to lessees by affordable fee.
- 6.10.14** Maintenance and repair can be made by licensed maintenance service providers nearby.

## **6.11 Capital Goods Insurance**

- 6.11.1** The leased asset whose values greater or equal to Birr 100,000.00 (any asset to be leased) shall be insured with the name of the company and the insurance is to be regularly renewed by the lessee until the termination of the lease period.
- 6.11.2** Insurance must be adequate for all risks (either of comprehensive insurance or insurance for fire disaster) and events which the leased asset potentially faces.
- 6.11.3** If the lease term is more than a year, the lessee shall be required to renew the insurance of the capital goods for the subsequent years.
- 6.11.4** Branches assist lessees and fill forms so as to purchase insurance policies against possible risks and events for leased asset.
- 6.11.5** The specific time for the purchase of insurance policies depends on the type and complexity of the machinery. It can be:

- i. After lease contract is signed; or
- ii. After arrival of machinery.

**6.11.6** Branches follow-up insurance status of all leased machinery and equipment handled by them.

**6.11.7** Branches shall advise lessees to renew their insurance policies on time.

**6.11.8** Branches shall notify the lessee so as to settle the due amount of insurance premium.

**6.11.9** Branches after notifying the head office, shall settle the amount of insurance premium when the lessee fails to do so and add the amount to the balances of the customer in accordance with relevant articles of the lease contract.

**6.11.10** Transit insurance will be covered based on the agreement made among lessor, lessee and supplier.

## **6.12 Supervision and Follow-up**

**6.12.1** The company undertakes supervision and follow-up activities using both on-site and off-site supervision methods.

**6.12.2** The purpose of follow-up is to ensure that financed machineries are properly implemented and operating.

**6.12.3** Follow-up also serves as a means for the provision of technical assistance when required.

**6.12.4** All branches shall make close supervision on the capital goods financed and shall report to head office immediately whenever any problems occurred.

**6.12.5** All branches shall report the status of all leased machineries at least quarterly basis.

**6.12.6** Off-site supervisions using periodic reports from lessees/concerned body can be made based on prior agreements between the two parties.

**6.12.7** Machineries deemed unsecured and enterprises with Non Performing Leases shall be monitored (followed up) more frequently and at least once in a month.

**6.12.8** Company shall work together with concerned government organs regarding follow-up of leased machinery.

**6.12.9** Head office shall conduct on site supervision and follow-up the status of capital goods leased on quarterly basis.

### **6.13 Registration of Capital Goods**

**6.13.1** Registration of the capital goods shall be made to protect illegal sale, exchange or transfer of the Capital Goods to the third party without prior written consent and approval of the company

**6.13.2** The company shall register the capital goods and capital goods lease agreements and amendments, modifications and terminations of the agreements by registering organs (legally mandated organization/office),

**6.13.3** The capital goods shall be registered by Bureau of Trade of Oromia or competent zonal organ along with lease agreements after delivery of the capital goods to the lessee.

**6.13.4** The leased asset or capital goods shall be registered in the name of the company, i.e. the Company holds the title deed of the asset and the registration certificate.

**6.13.5** The company is responsible to process all requirements of registration but any payments related with registration shall be covered by the lessee.

**6.13.6** The capital goods and lease agreements registration shall be in line with registration and supervision of capital goods and capital goods leasing agreements council of ministers regulation no. 309/2014 and Ministry of Trade capital goods lease business registration and supervision Directives no. 001/2007

**6.13.7** The registration of capital goods shall be renewed every year and its cost covered by lessee.

**6.13.8** Any leased machine which is manufactured by local manufacturer shall print on the machine the word OCGF and year of manufacturing.

**6.13.9** All branches shall register and report to head office the serial number of each machinery leased.

**6.13.10** Notwithstanding the article 6.13.9, head office shall register the serial number of capital goods leased when it seems convenient to do so.



**6.13.11** The serial number of capital goods leased shall be registered by branch on the format provided and the lessee shall authenticate by its signed with stamp and be annexed to the agreements.

#### **6.14 Collateral and Capital Goods Finance Guaranty Fund**

**6.14.1** The capital Goods financed shall be used as collateral.

**6.14.2** The Oromia Regional Government and/or any other donors shall establish Capital Goods Finance Guarantee fund to settle the uncollected installments based on the Capital Goods Finance guarantee management agreement if allowed to be financed for startup business or University/ TVET graduate students.

#### **6.15 Arrears Management, penalty and Repossession**

**6.15.1** The lessee is required to pay installment timely in accordance to the agreement made. However, if the lessee delays payments beyond the agreed schedule, the lessee shall be **penalized 5%** or **(0.00014** per day) of the amount to be paid. Though, the penalty percentage rate is subject to any change that might be made by the concerned body.

**6.15.2** Notwithstanding the article 6.15.1 above, if the lessee delays payment beyond the agreed schedule, the company shall calculate the service charge on the principal amount delayed.

**6.15.3** The company shall write the letter of notification for defaulted enterprises and provide for lessee three times with the interval of ten days in a month.

**6.15.4** The company has full right to repossesses the capital goods defaulted and store it in its warehouse after 30 days passed from the date of the default without taking the issue to the court.

**6.15.5** The company has full right on the defaulted Capital Goods to legally prevent the lessee not to use it and/or the company to repossess and resell the defaulted machinery.

**6.15.6** Resale /rehire will be done by the ad-hoc committee of the company. This committee shall consider but not limited to the following issues during the price estimation of defaulted capital goods:-

- a. The original cost of machine procured

- b. Down payment paid for the capital goods
- c. Service charge not paid on defaulted machine
- d. The installment collected amount, if any
- e. Accumulated depreciation of the machine
- f. Current market price
- g. Outstanding balance
- h. The current status of the machine

## **6.16 Safety and environmental issues**

- 6.16.1** The lessee is responsible for any injuries or accidents that the machine caused on its employees.
- 6.16.2** The lessee is also responsible for any damage or pollution that the machine results on the environment.
- 6.16.3** The lessee shall provide an environmental impact assessment document or certificate from concerned body.
- 6.16.4** The lessee is responsible for guarding the machine and its parts from theft/any other danger.
- 6.16.5** To insure proper utilization of machine, it has to be operated by skilled and experienced man power.

## **6.17 Payment rescheduling procedure**

- 6.17.1** The company may accept payment rescheduling requests for Business plans that are under implementation, provided that they fall within the reasonable problem (rescheduling parameters) as defined in the rescheduling criteria here in this policy.
- 6.17.2** Commissioned leases can only be rescheduled based on rescheduling criteria. The company may accept payment rescheduling requests for customers who are under force majeure due to:-
  - a. The delay of commissioning and erection
  - b. Supply of shortage of raw material and utilities
  - c. Problem of working premises

- d. Malfunctioning of the machine
- e. Instability of political situation
- f. Other Unforeseen convincing reason
- g. Machine breakage or malfunctioning due to machine manufacturer problems that could happen within the warranty/ guarantee period or machine breakage after warranty period.

### **6.17.3 Eligibility criteria for reschedule**

- a. Application from lessee is accepted and considered for evaluation if one or more problems that are stated in article 6.17.2 is/are faced and supported by tangible evidences.
- b. For applications that face problem at middle of operation, the applicant shall be non-defaulting or has been paying its lease repayment properly before facing the problems. If applicant is already defaulting customer, company does not accept the rescheduling application.
- c. The application for rescheduling of the lease repayment will be accepted if lessees faces or encounter force majeure stated above for a period that stayed at least the lessee shall pay at least 25% and above of the defaulted amount (including service charge).

### **6.17.4 Application procedure for reschedule**

- a. The lessee shall apply at branch office through written application that to be supported by tangible evidences.
- b. The branch offices receive the application and evaluate the applicant's evidences against the eligibility criteria and problems that are stated above.
- c. If the branch offices accept the request for rescheduling, they transfer the request to head office along with branches recommendation minutes that to be signed by branch offices.
- d. The branch offices shall transfer the application to head offices within five (5) working days after receiving the application.

### **6.17.5 Approval procedure**

- 6.17.5.1 The concerned directorate shall evaluate the application against the problems and eligibility criteria that are stated above.

- 6.17.5.2 If it is required to conduct site visit in order to give appropriate decision, the concerned Directorate facilitate and conduct site visit so as support the decision to be given on request.
- 6.17.5.3 The concerned directorate shall Organize the applicant's documents evidence and other supporting documents and submit to managing director of the company within ten(10) working days of receiving the application from branches.
- 6.17.5.4 The managing Director, call the management committee members and get the decision by the management within three days of after receiving the application along with recommendation of concerned directorate.

#### **6.17.6 Other general issues**

- a. A lessee cannot apply for rescheduling for more than one time during the lease term.
- b. The maximum extension period shall not be more than six months.
- c. Company shall charge the service charge for the period that is extended due to reschedule.
- d. The reschedule will be extended the payment of principal amount only to non-turnkey lessees.
- e. When the lessee installment payment is matured as per the newly revised schedule the lessee will pay both principal and service charge amount together.

#### **6.18 Write-off Procedure**

**6.18.1** Non Performing Leases deemed to be unrecoverable, i.e., after exhausting all necessary actions per the established procedure, shall be written-off as per the Approval of Board of Directors write-off/write-back minutes.

#### **6.19 Terms and Conditions for repossession**

The following terms and conditions shall constitute a default and the company reserves the right to take all appropriate administrative and/or legal measures including repossession of the leased asset in case of any one of the following:

- a. Any deviation from the agreed terms and conditions will be considered as an event of default,

- b. Failure to comply with the agreed terms and conditions as stated in the lease contract,
- c. Failure to make scheduled payments; any delay in payment exceeding thirty (30) days from the time of payment shall be considered as default.
- d. Failure to renew insurance policy of the leased asset on time,
- e. Failure to use the leased asset for the defined purpose or use of leased asset for purposes other than prescribed by the manufacturer,
- f. Failure to keep leased asset in good operating condition or failure to maintain or service the leased asset at the designated service center regularly,
- g. Tampering with the leased asset such as attempt to remove key components or modify the asset or unauthorized actions such as attaching additional items to the leased asset,
- h. Moving the leased asset out of the defined or designated area without the written consent of the company.,
- i. Entering into other agreements with other financial institutions for the same leases without the consent of the company,
- j. Presentation of falsified documents by the lessee,
- k. In instances where the events of default mentioned under article “a” through “j” above occur, the Company reserves the right to cancel all agreements and contracts, repossession of the asset and to take legal measures.

## **7 Record Keeping and Reporting**

**7.1.1** The lease financing portfolio database of the company shall be consolidated and maintained centrally.

**7.1.2** All branches shall submit lease financing performance reports periodically to the Head Office on monthly basis.

## **8 Loan provision and classification**

As per proclamation No.103/1998 and amended proclamation No. 807/2013, the National Bank of Ethiopia issued Directives on provisioning for doubtful accounts and depreciation of fixed assets. Accordingly, the company shall hold enough provisions as per the NBE directives.

## **9 Depreciation allowance and income tax**

- 9.1** Depreciation allowance shall be for the benefit of the customer in case of hire purchase.
- 9.2** Depreciation allowance shall be for the benefit of the lessor in case of financial lease.
- 9.3** Payments made to the lessor/company under capital goods finance shall be exempted from Value Added Tax.
- 9.4** A supplier or the Company shall be exempted from customs duties and taxes on capital goods imported in accordance with the relevant laws.

## **10 Transferring Capital Goods Ownership Title**

- 10.1** When it is a financial leasing after the lessee complete the lease fee of the machinery, the ownership of the equipment remains under the name of the share company and after completion of settlement of the equipment total price, upon the agreement of the parties, the title shall be transferred to the lessee.
- 10.2** When it is a hire purchase the lessee shall have ownership share equivalent with the amount of payment on the capital equipment. The title shall be fully transferred to the lessee upon completion of settlement of the total price for the equipment.
- 10.3** Final payment certificate shall be issued to the lessee confirming completion of payment. The hire purchase option is prioritized by the company whereas financial lease would be the second option.
- 10.4** Notwithstanding the above articles 11.1-11.3, concerning duty free imported capital goods shall remain registered by the name of the company as per the proclamation of custom duty.

## **11 Appeals by Customers**

- 12.1** The company cordially accepts appeals by customers on presumed delinquencies or unfavorable decisions.
- 12.2** Such appeals by lessees can be submitted to the branch in writing and resolved at any stage of the lease financing processing and where the need arises escalated to the operational directorate director or the Deputy Managing Director in charge of SMEs lease financing or the CEO of company for final resolution/ratification and decision at the company level.
- 12.3** Appeals can also be further escalated to the BOD.

## Part IV

### 12 Duties and Responsibilities of Stakeholders and Performing Entities

#### 12.1 Oromia Capital Goods Finance and Business Share Company

- a. Performs the search for resources to be used for capital equipment finance supply, identifying finance resources and reinforcing saving
- b. Performs are additional revenue generating works to ensure health financial flow as well as insures planned capital equipment purchaser
- c. Prepares and engage in the preparation and implementation of detail implementing directives to be used for capital finance supply procedures
- d. Undertakes enterprises' demand and for capital equipment and recruits user enterprise
- e. Shall sign capital equipment agreement by identifying capital equipment manufacturing /importing/ company's order the manufacturing of capital equipment as well as importing the same and transfers to user enterprises through contract
- f. Monitors operation of the enterprise that are users of capital finance supply and collect repayment
- g. Undertakes the necessary action on enterprises that fail short to effect the necessary repayment of the installment
- h. Works in collaboration with other companies to establish common market to make capital equipment returned after lease expiration sold in such facilities.
- i. Shall work with stakeholder to implement a system whereby easy to obtain debtors information
- j. Shall make use of suitable technology (method) that helps to facilitate the operation of the company

#### 12.2 Oromia Enterprises Development and Industry Bureau

- a. The bureau shall coordinate the designing and adoption of support frameworks by the regional administration regarding the capital goods finance supply as well as recommend on improvement of services.
- b. In the process of identifying capital goods manufacturing (importing) companies, shall participate in the identification of enterprises' capital goods demand and coordinate the participation of other concerned parties
- c. Make sure budget is allocated for establishment of manufacturing of and market facilities and monitors the construction as well as performance of such activities.

- d. Shall mobilize finance to be used for capital goods finance supply through saving and supports the creation of convenient conditions for the repayment of installment.
- e. Shall cover the manufacturing equipment gaps witnessed during value chain implementation by availing capital equipment finance.
- f. Shall provide feedback in collaboration with other stakeholders in the status of goods finance supply and performance of such activities.
- g. Shall create awareness for user enterprises regards capital goods finance supply, recruits beneficiaries delivers attitude trainings.
- h. Organizes information of capital goods finance enterprises and transfers the information to the relevant authority.
- i. Shall support the interrelation of enterprises by conducting local market research.
- j. Shall expand better experiences of enterprises that have shown advance performance record to others.
- k. In accordance with a decision of the federal government to establish a guaranty fund to warrant the capital finance service, shall crate awareness among the towns stakeholders and works in sense of responsibility to make the guaranty fund reality in the city administration

### **12.3 Bureau of Technical and vocational education training**

- a. Shall coordinate monitor and support the technique and vocational training institutions under mandate to prepare identification and detail description of capital goods to be used for micro, small and medium enterprises
- b. Coordinates competency evaluation of trainers after completion of training
- c. Shall coordination the relevant authorities to participate in the process of identifying capital goods manufacturers, identification of enterprises' capital goods demand, undertakes activities that insures competent enterprises become evaluation centers as well as leading evaluators
- d. Shall perform verification tasks before the capital goods are transferred to users when the installation and production test is performed by the supplying company
- e. It coordinate the preparation of manual to be used for the human resource development and industry extension services performed by the lessee
- f. Conducts study on skill gaps witnesses on technique and vocational education and training institution instructors and facilitate conditions where they could obtain additional trainer
- g. Shall provide special training and advise service for those who are users of capital goods finance supply as well as model micro and small enterprises.
- h. Shall technically assist for capital goods finance supply users and undertakes manufacturing of affordable spare parts and maintenance work



- i. Provide support to enterprises engaged in manufacturing equipment maintenance work
- j. Shall provide training and advice services to micro and small enterprise regarding technologies of manufacturing equipment's
- k. Ensures the development of capacity that enables the performance of capital goods maintenance and enterprise
- l. Shall perform technical support upon handing over of the capital equipment from the share company to the user enterprise

#### **12.4 Women, Children and Youths Affair Office**

- a. Create awareness on youths and women who seeks loan by making them register in one central service station
- b. Ensures the consumption of culture of work motivation to make women and youths have better perspective towards successful work
- c. Support and monitors to make them have awareness regarding developmental strategies and become developmental investors
- d. Create awareness on organizations and structure created for youths and women aiming at internalizing saving culture
- e. Shall undertake campaign in various mass medias for woman and youths to save from they generate.

#### **12.5 Beneficiaries of capital goods finance**

- a. The capital goods finance beneficiary enterprise should show recognizable and reliable demand
- b. Should provide accurate information was for capital goods financing institution and other relevant bodies related with this operation
- c. Is responsible to appropriately use care for and maintain the equipment supplied though the capital goods financing scheme
- d. Shall undertake the fulfillment of its obligation by paying the loan received in due time
- e. Is responsible for the timely registration, examination and testing of capital goods supplied.
- f. Should inform the relevant bodies any problems encountered related with usage of manufacturing equipment's should perform maintenance tasks that can be managed by the facility.
- g. Should prevent any accidents that inflict damages on employees and will be responsible for any damages that would occur.

- h. It is the responsibility of the capital good lessee to protect the capital goods from theft including accessories and spare parts.
- i. The only way to ensure effective utilization of capital goods is by operating the capital equipment by competent and skill full employee.

### **13. Amendment**

This lease financing policy shall be amended by the company's BOD's with own initiative and based on feedback obtained from management and staff and concerned government organs as deemed necessary.

### **14. Issuing authority and effective date**

This lease financing policy shall be effective \_\_\_\_\_.

Name of Chairman of BOD:- Sadat Nasha

Signature\_\_\_\_\_

Date\_\_\_\_\_

## **Annex**

### **A. The Leasing Operation and activity checklist**

There are at least 15 steps in a typical leasing operation. These steps in sequence are:

- a) The MSE submits an application to OCGFBSCO.
- b) OCGFBSCO evaluates the application.
- c) OCGFBSCO choose the supplier after receiving written specification of the capital goods demanded from the MSME or OCGFBSCO permits the MSE by themselves to choose the Capital Goods and the Capital Goods supplier if it believes that the direct involvement of the MSEs will not endanger the leasing processes and does not create collusion between the supplier and the lessee in hiding some facts about the reliability of the quality of the goods and the quotation of the price.
- d) The supplier buys or collects the specification (documents) from OCGFBSCO.
- e) OCGFBSCO evaluates the specification catalogue and make cost analysis (technical evaluation)
- f) OCGFBSCO and MSME sign a lease contract and OCGFBSCO.
- g) The MSME pays the advance security deposits and Application fee in cash.
- h) OCGFBSCO orders the Capital Goods from the supplier.
- i) The supplier delivers the Capital Goods to the MSME premise.
- j) OCGFBSCO registers the Capital Goods at legally authorized organ
- k) MSMEs insures the Capital Goods
- l) The supplier provides after-sales services as per contract.
- m) The MSME maintains the Capital Goods in consulting with the OCGFBSCO.
- n) OCGFBSCO monitors the lease operation.
- o) The MSME pays installments as per contract.
- p) At the end of the lease period, the MSME either returns the Capital Goods or exercises the option of purchase depending on the type of the lease and agreement made.
- q) If the option is purchase, the MSE pays the agreed final sum and OCGFBSCO transfers the ownership of the Capital Goods to the lessee.

## **B. Lease Agreement**