Effect of Microfinance Services on Financial Performance of Selected Small and Medium Enterprises in Gisagara District, Rwanda

NYIRANSABIMANA Evelyne & Dr. Tarus Thomas

ISSN: 2616-4965

Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance and Accounting
Volume 7||Issue 8||Page 80-88 ||November||2023|
Email: info@stratfordjournals.org ISSN: 2616-4965

Effect of Microfinance Services on Financial Performance of Selected Small and Medium Enterprises in Gisagara District, Rwanda

NYIRANSABIMANA Evelyne[1] & Dr. Tarus Thomas[2]
[1] Master of Accounting and Finance, University of Kigali, Rwanda
[2] Senior Lecturer, University of Kigali, Rwanda

***How to cite this article*: NYIRANSABIMANA E., & Tarus T. (2023). Effect of Microfinance Services on Financial Performance of Selected Small and Medium Enterprises in Gisagara District, Rwanda. *Journal of Finance and Accounting. Vol* 7(8) pp. 80-88 https://doi.org/10.53819/81018102t2239**

Abstract

The general objective of this research was to assess the effect of microfinance services on financial performance of small and medium enterprises in Rwanda. This study had the following specific objectives; to find out effect of financial literacy on financial performance of small medium enterprises in Gisagara District, examine the effect of saving services on financial performance of small and medium enterprises in Gisagara District and determine the effect of access to credit services on financial performance of small and medium enterprises in Gisagara District. For this study 6984 Small and Medium Enterprises as members of SACCOs in Gisagara District made up the study's population. The sample size determined by the help of Solvin's formula. Respondents selected from the clusters using a basic random sampling method for the study. As all 378 respondents are members of SACCOs in Gisagara District, random sampling used to choose a representative sample from each division. Each study goal probed with detailed inquiries to guarantee its fruitful conclusion. The study employed descriptive and inferential statistics. The findings indicate the coefficients between financial literacy, saving services, credit services, and financial performance of the respondents. There is significant effect of financial literacy on financial performance of SMEs (β=0.335, p<0.05). There is a significant effect of saving services on financial performance of SMEs ($\beta = 0.273$, $p < 0.05$). This indicates that individuals who utilize saving services tend to have better financial performance in their businesses. There is a significant effect of credit services on financial performance of SMEs (β=0.337, p<0.05). These findings highlight the importance of financial literacy, access to saving and credit services in promoting better financial outcomes for entrepreneurs and small and medium enterprises in Gisagara District. To enhance the financial performance of small and medium enterprises (SMEs) in Gisagara District, it is recommended to implement targeted financial literacy programs that address the specific needs of SMEs and collaborate with local stakeholders to ensure widespread adoption of financial best practices.

Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance and Accounting
Volume 7||Issue 8||Page 80-88 ||November||2023|
Email: info@stratfordjournals.org ISSN: 2616-4965

1. Introduction

Rwanda's economic growth and development are greatly supported by the country's small and medium-sized businesses (SMEs). However, many businesses continue to struggle due to a lack of access to reliable financial services, which threatens their long-term viability. Savings and Credit Cooperatives (SACCOS) are one kind of microfinance organization that was set up to help small and medium-sized enterprises (SMEs) with their finances (Habyarimana & Muturi, 2018).

Small and medium-sized enterprises (SMEs) in Gisagara District continue to struggle financially despite the presence of microfinance institutions. Fewer than 200 new small and medium-sized enterprises (SMEs) were founded between 2013 and 2018. As of May 2017, a feasibility study for a pig processing facility has yet to get financing. While the DDP targeted a minimum of 600 new SMEs annually, an average of 116 were born between 2013 and 2018 (Local Economic Development (LED) Strategy, 2017).

National Institute of Statistics of Rwanda, EICV3 (2012) shows that When compared to the national averages of 21% and 24%, respectively, Gisagara district has a much higher proportion of its inhabitants living in severe poverty (32% and 27%, respectively). Gisagara district is one of seven that have a higher poverty rate than the national average. The poverty rate in Gisagara is 59.01% (this includes the very poor). Gisagara district ranks very bottom, along with Nyabihu, with just 27.2% of families having at least one savings account, far lower than the national norm of 39.4%. At the provincial level, 61.4% of urban families and 35.8% of rural households have savings accounts.

Despite several studies looking at how microfinance services affect small and medium-sized businesses' bottom lines, few have looked further into what causes SMEs in Gisagara District to underperform financially. By looking into how the availability of financial literacy, savings opportunities, and loans in the Gisagara District affects SME financial performance, this study seeks to fill this knowledge gap. The results of this research helped policymakers and practitioners better serve small and medium-sized enterprises in the Gisagara District by shedding light on the particular reasons that lead to their poor financial performance.

1.2 Objectives of the Study

The general objective of this research was to assess the effect of microfinance services on financial performance of small and medium enterprises in Rwanda.

This study had the following specific objectives:

i. To establish effect of financial literacy on financial performance of small medium enterprises in Gisagara District.
ii. To examine the effect of saving services on financial performance of small and medium enterprises in Gisagara District.
iii. To determine the effect of access to credit services on financial performance of small and medium enterprises in Gisagara District.

Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance and Accounting
Volume 7||Issue 8||Page 80-88 ||November||2023|
Email: info@stratfordjournals.org ISSN: 2616-4965

1.3 Hypotheses

The following hypotheses were proposed by the researcher:

$H0_a$: There is no significant effect of financial literacy on financial performance of small and medium enterprises in Gisagara District.

$H0_b$: There is no significant effect of saving services on financial performance of small and medium enterprises in Gisagara District.

$H0_c$: There is no significant effect of access to credit services on financial performance of small and medium enterprises in Gisagara District.

2. Literature review

The theoretical and empirical literature as well as the critical evaluation, research gaps, theoretical and conceptual frameworks and summary as all covered in this chapter based on the topic under consideration.

2.1 Theoretical review

This study refers and uses the theories like Financial Intermediation Theory, Agency Theory, Goal setting, Attribution theory, theory of security and pecking order theory. In this section the researcher explained how all the used theories are applied by consideration of main and specific objectives of the study.

Financial Intermediation Theory

As a field of study, financial intermediation theory was developed by Gurley and Shaw (1960). So long as surplus units are deposited with accessible banking firms, they reasoned, those establishments would be willing to lend the equivalent quantities to surplus spending in the economy, which is a key feature of direct investment. According to Babiaz and Robb (2014), financial activities are further subdivided into four categories: the first group comprises fixed-term deposits, while the middle group comprises quick deposits relative to their comparable assets. The final group comprises assets and obligations that can't be transferred easily. Therefore, the primary function of financial mediators is to assure a consistent funding flow from shortfalls to surpluses.

For this study, financial intermediation theory assumes that microfinance services applied to minimize transaction costs and inefficiencies in knowledge. As the general objective of this study is the relationship between microfinance services and performance of SMEs.

Agency Theory

The hypothesis was proposed by Jensen and Meckling (1976), who consider financial firms as the principal and the correspondence bank as the operator, with misunderstandings or inconsistencies in their respective interests causing problems. When a financial organization disregards the laws and regulation established by banks, agency theory develops. According to agency theory, financial firms (banking and associated agents) typically serve as intermediaries between money and the market or households. The distribution of resources (money) based on a flawless and comprehensive market is hampered by frictions such as transaction costs and information asymmetries (Aduda, Kiragu & Ndwiga, 2013).

This theory involved clients and policymakers of SACCOs. Market methods measure usefulness while controls are segregated. Though complications may arise from a lack of formal agreement, adopting and formulating laws is voluntary. Diverse agent transaction modes may prevent management from enforcing policies.

Goal Setting Theory

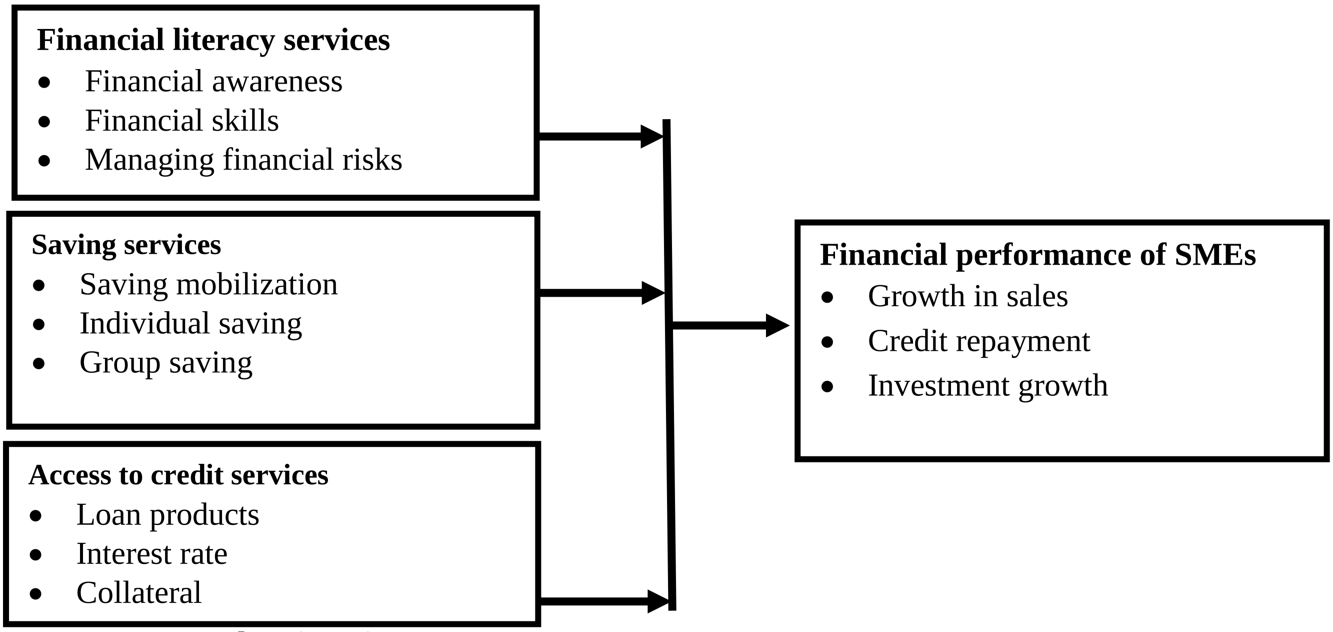
Dating back to 1987, expectancy theory has been integrated with goal setting theory. The premise of goal setting theory is that conscious goals and intentions influence results. Locke (1986), Locke and Latham (1990) conclude, based on the goal setting theory of motivation, that an individuals personal goals are likely to determine how well they perform on related tasks. Specific, well defined, and more difficult objectives produce greater productivity than vague, easy, or do your best objectives. For goal setting theory to be successful, it is assumed that individuals must be committed to the goal, seek input, and be able to complete the work. This indicates that money literacy programs should be more effective when they are driven by beliefs and concerns about future financial security.

This study employed goal setting theory, Goal-setting has a multiplicative effect on performance, leading not just to more output but also to higher-quality output by increasing output both in terms of quantity and intensity of effort.

Conceptual framework

Methods for extending access to microfinance services may vary by factors like financial literacy services, saving services and access to credit services; a direct effect on the predictor variables (financial performance of SMEs) via its constituent parts; membership retention, return on assets and Non-Performing Loan Ratio. This shows that financial literacy practices focused on financial awareness, financial skills and managing financial risks affected performance of SMEs. Contingency plan practices concentrated on saving mobilization, individual saving and group saving affected performance of SACCO. Access to credit practices focused loan products, interest rate and collateral affected performance of SMEs.

Independent Variable **Dependent Variable**
Microfinance services



Source: Researcher (2023)

Figure 1: Conceptual framework

3. Research methodology

In the context of this study, quantitative data were connected through a closed-ended questionnaire. Descriptive analysis was employed to generate frequencies, percentages, means, and standard deviations. To explore relationships between variables, the researcher adopted an explanatory design, utilizing a correlational approach to ascertain associations.

The population consists of 6,984 Small and Medium Enterprises that are associated with SACCOs in Gisagara District.

The sample size was determined by the help of Solvin (1960) formula.

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the sample size, N is the population size which are 6984, and e is the marginal of error (5%).

$$n=\frac{6984}{1+6984(0.05)^2}=\frac{6984}{1+17.46}=\frac{6984}{18.46}=378$$

Every research objective was thoroughly examined through a series of detailed inquiries to ensure a successful and meaningful outcome. The study drew information from both documentary sources, questionnaires and interview to compile relevant data.

By leveraging the functionalities of SPSS, the researcher computed descriptive statistics such as frequency distributions, percentages, means, and standard deviation.

4. Research findings

Chapter Four of the research report reveals the outcomes of the study and the methodology used to analyze the collected data. The findings pertinent to the research objectives were dissected through both descriptive and inferential analyses, aided by the utilization of the Statistical Package for Social Sciences (SPSS) for data manipulation. Remarkably, all 378 distributed surveys were successfully completed and subsequently returned, underscoring the high level of participation and engagement in the research.

Table 1: Correlations

		Financial literacy	Saving services	Credit services	Financial performance
Financial literacy	Pearson Correlation	1	.642**	.779**	.756**
	Sig. (2-tailed)		.000	.000	.000
	N	378	378	378	378
Saving services	Pearson Correlation	.642**	1	.699**	.716**
	Sig. (2-tailed)	.000		.000	.000
	N	378	378	378	378
Credit services	Pearson Correlation	.779**	.699**	1	.773**
	Sig. (2-tailed)	.000	.000		.000
	N	378	378	378	378
Financial performance	Pearson Correlation	.756**	.716**	.773**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	378	378	378	378

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Field data, 2023

Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance and Accounting
Volume 7||Issue 8||Page 80-88 ||November||2023|
Email: info@stratfordjournals.org ISSN: 2616-4965

The table 1 presents the Pearson correlation coefficients between financial literacy, saving services, credit services, and financial performance of the respondents. There is a strong positive and significant correlation between financial literacy and financial performance ($r = 0.756$, $p < 0.05$). This implies that individuals with higher financial literacy levels tend to exhibit better financial performance in their businesses. There is a positive and significant correlation between saving services and financial performance ($r=0.716$, $p<0.05$). This indicates that individuals who utilize saving services tend to have better financial performance in their businesses. There is a strong positive and significant correlation between credit services and financial performance ($r = 0.773$, $p < 0.05$). This implies that individuals who have access to credit services from SACCOs tend to have better financial performance in their businesses. These findings highlight the importance of financial literacy and access to saving and credit services in promoting better financial outcomes for entrepreneurs and small and medium enterprises in Gisagara District.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.834[a]	.696	.694	.35811

a. Predictors: (Constant), Credit services, Saving services, Financial literacy

Source: Field data, 2023

The multiple regression models aims to explore the relationship between financial performance as the dependent variable and three key predictors: Credit services, financial literacy, and saving services. In the given multiple regression model, the coefficient of determination (R-squared) is 0.696, indicating that approximately 69.6% of the variance in the dependent variable (Financial performance) can be explained by the independent variables (Credit services, financial literacy, and Saving services). The multiple correlation coefficients (R), is 0.834. This indicates a strong positive relationship between the independent variables and the dependent variable. The multiple regression models demonstrates a significant relationship between Credit services, financial literacy, and Saving services with financial performance.

Table 3: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	109.824	3	36.608	285.463	.000[b]
	Residual	47.962	374	.128		
	Total	157.786	377			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Credit services, Saving services, Financial literacy

Source: Field data, 2023

The ANOVA table 3 presents the partitioning of total variability in the dependent variable (Financial performance) and predictors (Credit services, financial literacy, and Saving services). The results, F-value of 285.463 with a corresponding p-value (Sig.) of .000 ($p < 0.05$), indicate that the model is statistically significant, and the predictors together have a substantial impact on explaining the variance in financial performance. The high F-value and

Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance and Accounting
Volume 7||Issue 8||Page 80-88 ||November||2023|
Email: info@stratfordjournals.org ISSN: 2616-4965

low p-value suggest that the model provides a valid representation of the data, and the predictors make a substantial contribution to predicting the financial performance of the businesses under study.

Table 4: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.318	.111		2.851	.005
	Financial literacy	.335	.049	.321	6.893	.000
	Saving services	.273	.040	.282	6.905	.000
	Credit services	.337	.052	.325	6.518	.000

a. Dependent Variable: Financial performance

Source: Field data, 2023

The coefficients table 4 presents the multiple regression model that examines the relationship between financial performance (dependent variable) and three key predictors: Financial literacy, Saving services, and Credit services. The Constant, has an unstandardized coefficient of 0.318. All predictor variables (Financial literacy, saving services, and Credit services) have highly significant β (0.335, 0.273, and 0.337 respectively) with associated p-values (Sig.) of 0.000<0.05, indicating that they all have significant effect on financial performance of SMEs financed by SACCOs in Gisagara District.

These coefficients illustrate the strength and direction of the relationships between the independent variables and the dependent variable, providing insights into their contributions to financial performance of SMEs. The first (H0a) stated that there is no significant effect of financial literacy on financial performance of small and medium enterprises in Gisagara District, was rejected. The second hypothesis (H0b) stated that there is no significant effect of saving services on financial performance of small and medium enterprises in Gisagara District, was rejected. The second hypothesis (H0c) stated that there is no significant effect of access to credit services on financial performance of small and medium enterprises in Gisagara District, was rejected.

5. Conclusion

In conclusion, this study aimed to investigate the relationship between financial literacy, saving services, access to credit services, and the financial performance of small and medium enterprises (SMEs) in Gisagara District. The findings revealed significant positive correlations between financial literacy, saving services, access to credit services, and financial performance, indicating that these factors play crucial roles in determining the success and sustainability of SMEs in the region.

Firstly, financial literacy was found to have a significant positive impact on the financial performance of SMEs. SMEs with higher levels of financial literacy exhibited better financial performance, highlighting the importance of equipping entrepreneurs with the necessary knowledge and skills to make informed financial decisions. Secondly, saving services offered by SACCOs were shown to positively influence the financial performance of SMEs. Businesses that utilized saving services demonstrated improved financial growth and stability, indicating the value of disciplined financial planning and the benefits of having a

https://doi.org/10.53819/81018102t2239

secure and reliable savings platform. Thirdly, access to credit services from SACCOs had a significant positive effect on the financial performance of SMEs. Businesses with access to credit services were better equipped to overcome financial constraints, invest in business growth, and seize market opportunities, contributing to their overall profitability and competitiveness.

These coefficients illustrate the strength and direction of the relationships between the independent variables and the dependent variable, providing insights into their contributions to financial performance of SMEs. The first (H0a) stated that there is no significant effect of financial literacy on financial performance of small and medium enterprises in Gisagara District, was rejected. The second hypothesis (H0b) stated that there is no significant effect of saving services on financial performance of small and medium enterprises in Gisagara District, was rejected. The second hypothesis (H0c) stated that there is no significant effect of access to credit services on financial performance of small and medium enterprises in Gisagara District, was rejected. Overall, this study provides valuable insights into the interplay between financial literacy, saving services, access to credit services, and the financial performance of SMEs in Gisagara District.

6. Recommendations

SACCOs should prioritize financial literacy programs tailored, offer accessible and attractive saving and credit services, and foster collaboration between financial institutions and SMEs.

To enhance the financial performance of small and medium enterprises (SMEs) in Gisagara District, it is recommended to implement targeted financial literacy programs that address the specific needs of SMEs and collaborate with local stakeholders to ensure widespread adoption of financial best practices.

References

Adeyemo, T. A., & Aworinde, O. B. (2020). The impact of microfinance on poverty reduction in Nigeria. *Journal of Poverty, Investment and Development*, 57, 67-78.

Alzyadat, J. A. (2021). Sectoral Banking Credit Facilities and Non-Oil Economic Growth in Saudi Arabia: Application of the Autoregressive Distributed Lag (ARDL). *The Journal of Asian Finance, Economics and Business*

Balogun, A. G., & Olatunji, G. A. (2021). Microfinance Services and Financial Performance of Small and Medium Enterprises in Nigeria. *Journal of Small Business and Entrepreneurship Development*, 8(1), 1-15.

Emiola, B. O., & Oluborode, O. O. (2018). Microfinance Services and the Financial Performance of Small and Medium Enterprises in Nigeria. *International Journal of Business and Management Review*, 6(2), 12-25.

Hütten, M., Maman, D., and Rosenhek, Z., and Thiemann, M. (2018). Critical financial literacy: an agenda. *International Journal of Pluralism and Economics Education*. 9 (3): 274–291.

Mutegi, H. K. (2015). Financial literacy and its impact on loan repayment by small and medium entrepreneurs in Kenya. *International Journal of Economics, Commerce and Management*

Mwaniki, S.M (2014). *Influence of financial literacy training on financial performance of women self-help groups*; a case study of equity bank customers Isiolo branch Kenya.

Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance and Accounting
Volume 7||Issue 8||Page 80-88 ||November||2023|
Email: info@stratfordjournals.org ISSN: 2616-4965

Ndiege, B. O., Haule, T.B. and Kazungu, I. (2013). Relationship between Sources of Funds and Outreach in Savings and Credits Cooperatives Societies: Tanzanian case. *European Journal of Business and Management.*

Tumwine F., Mbabazi M. and Jaya S. (2015) Savings And Credit Cooperatives (Sacco's) Services' Terms and Members' Economic Development in Rwanda: A Case Study of Zigama Sacco Ltd. *International Journal of Community and Cooperative Studies*

Umejiaku, R. (2020) Access to Credit On the Growth of Women Entrepreneurs in Jos, Plateau State: The Influence of Financial Support Services. *International Journal of Social Sciences and Economic Review.*

https://doi.org/10.53819/81018102t2239