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Abstract

The study sought to assess the impact of factors influencing access to finance on the growth of small and medium enterprises (SMEs) in Rwanda, highlighting a significant gap in the current understanding of how financial access affects business development within this context. The specific objectives were to evaluate how credit offerings, interest rates, and business risks influence the development of SMEs and to propose solutions to the challenges related to financial access for these businesses in Rwanda. Employing a descriptive research design, the study utilized a survey method to gather insights into the determinants of financial access and their effects on business growth, focusing on SMEs in Kigali. The target population comprised 4,112 employees from SMEs in Kigali, with a sample size of 98 respondents selected to represent this group. Data was collected through questionnaires, and both primary and secondary data sources were used. Analysis was conducted using descriptive and inferential statistics via the Statistical Package for Social Sciences (SPSS). The findings revealed that high transaction costs and interest rates, along with stringent collateral requirements, hinder SMEs' ability to access finance. It was also found that the size of an enterprise plays a crucial role in loan approval decisions, with smaller enterprises facing greater challenges in securing loans due to perceived higher risks. The study concludes that reducing transaction costs, simplifying loan application processes, and offering more flexible loan repayment options could enhance SMEs' access to finance. The study recommends lending institutions and the government work together to create a more conducive environment for SME financing, including adherence to regulated interest rates to prevent the exploitation of SMEs and to encourage their growth and development in Rwanda.

Keywords: *Financial access and business development, small and medium enterprises,*

1.1 Introduction

Globally, Small and medium enterprises (SMEs) are considered as important and key sectors in most of the economies of the developed and developing countries alike. Their survival and growth even though depend on their ability to access finance. Recently, economic, social and scientific circles have showed a growing interest in SMEs as they represent a significant part of the production, industry and service sector in the economic activity of any State or country

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(Rezazadeh, 2017). Their importance or significance is attributed to the important role schemes play in providing employment opportunities in many different areas at different levels of employment. In expansion, SMEs are simple to be built up and they are overseen by their proprietors. They are moreover portrayed to be competent of adjusting to the conditions and financial emergencies, which is one of their victory components.

Typically, small and medium enterprises contribute to economic development by increasing national output, creating jobs, and reducing income inequality and poverty (Tooth, 2015). All inclusive, (Du et al, 2015) state that governments, analysts and other partners over the world have created awesome inquire about intrigued in little and medium scale undertakings (SMEs) financing since of noteworthy part these little firms play in GDP development of different nations. National bureau of measurements of China (2017), too states that 99% of firms in china are made up of SMEs and contribute 60% of GDP. The story is comparative within the US as 67% of private division business is made by SMEs and contributes 99.7% of US boss firms, (Small business administration, 2016).

According to previous empirical studies show that SMEs in developing countries are markedly supporter and attraction of economic prosperity (Harash, (2015), Harash, (2019), Njogo & Safiyu (2017) and Olatunyi, (2018). Yoshino & Taghizadeh-Hesary (2015), Yoshinos, Taghizadeh- hasary, Charoensvakom & Niiraula (2016) state that small & medium enterprise (SMEs) form a significant portion of the commercial landscape and the backbone of Asian economies. Also Kuwahara, Yoshino, Sagara & Taghizadeh- Hesary, (2015), (Yosino et al, 2016) indicate that the success of SMEs has huge implications for the growth and socioeconomic wellbeing of a country.

The necessity of financing the development and growth of Small and Medium Enterprises (SMEs) in Sub-Saharan African economies has garnered attention from numerous policy makers for two primary reasons. Firstly, for Sub-Saharan Africa to effectively compete in the globalized environment, its micro and small enterprises must expand and evolve into entities capable of adopting efficient production techniques. Undoubtedly, the SME sector in Sub-Saharan Africa has been referred to as the 'Missing Middle' in the context of financial inclusion, or access to financial services including banking. Small companies make up the endless larger part of businesses in most nations and utilize a noteworthy rate of the worldwide workforce. In spite of the fact that exact information is inaccessible, World Bank investigate over the world's economies has evaluated that SMEs reliably frame around 95 % of existing businesses and utilize around 60 to 70 percent of private-sector specialists, and create a expansive share of unused employments in Organization for financial participation and improvement (OECD) economies (OECD, 2019). They are moreover accepted to contribute approximately 50 % to world Net Esteem Included (GVA). MSMEs are on normal, the businesses that are producing development, making occupations, developing quicker and improving more. But most of all, they are a good deal less complicated (structurally) and more efficient and flexible than large firms.

SMEs in Kenya are crucial for economic growth and development in both developed and developing countries, as they play a key role in creating new jobs. Financing is essential to help these enterprises establish and expand their operations, develop new products, and invest in new personnel or production facilities. Many small businesses begin with an idea from one or two individuals who invest their own money and often turn to family and friends for financial support in exchange for a share in the business. But in the event that they are effective, there come at times for all creating SMEs when they need new speculation to extend or enhance

assist. That's where they frequently run into issues, since they discover it much harder than bigger businesses to get financing from banks, capital markets or other providers of credit (Mulandi, 2018).

According to Aldaba (2018) small and medium enterprises (SMEs) are seen as crucial for a country's economic growth, employment creation and innovation. Their need of get to financing has frequently been cited as one of the major imperatives influencing their execution and competitiveness. Need of get to financing infers that a considerable number of SMEs cannot get financing from banks and other sources in arrange to begin, enhance, develop and create their ventures. Taken a toll of credit can be classified as; net intrigued and net intrigued. Net intrigued is the entire sum that the indebted person propels to a bank and the net interest implies the portion of intrigued that's for the utilize of capital as it were. Kung'u (2011) expressed that the sectioned and deficient nature of monetary markets increments exchange costs related with money related administrations. Those organizations with near connections are seen to have more get to credit. Relationship with a single bank may diminish hazard and subsequently the taken a toll of credit, i.e. intrigued rate may be decreased. This is often due to diminished frequency of ethical danger and made strides information of the firm which eventually diminishes unfavorable choice (Muguchu, 2018). Tall intrigued rate on credit may dishearten SMEs from borrowing hence lessening the openness of credit among them. It is demonstrated that banks exchange on client stores, they loan at intrigued rates tall sufficient to pay their overheads and take off equalizations to pay intrigued to clients whose stores are being loaned (Makena, 2017). The intrigued rate as a rule may be a rate of the borrowed sum decided by the sum of intrigued over length which may be a year.

The economic contribution of small enterprises in Rwanda is widely acknowledged. However, it seems little efforts are made to look at it from the youth perspective. The specific needs of the youth and particularly their entrepreneurial potential as well as their critical contribution to economic and social progress are underestimated (Irene, 2019) quoted in (Mutai, 2015). Small and micro enterprises (SMEs) have become important players in the Rwandan economy, but at the same time they continue to face constraints that limit their development. The lack of access to credit stands as a significant barrier for SMEs, with various factors contributing to this issue, such as the fragmented and incomplete nature of financial markets. SMEs have leveraged support from the government for development. In Rwanda, for instance, SMEs are a major contributor to economic growth; in 2011, it was estimated that there were 123,526 enterprises classified as SMEs, accounting for 90% of the private sector in the country (MINICOM 2015). SMEs employ approximately 1 million of people equivalent to 90% of total non-farm private sector workers. Therefore, SMEs represent one of the most viable vehicles for sustainable development and grass root economic growth. The Business Development Funds (BDF's) aim is to promote SME development through the provision of financial services to enhance the lending mechanism of financial institutions. As part of the financial infrastructure to promote SMEs, it was established in 2011 as a wholly owned subsidiary of the Development Bank of Rwanda (BRD).

The Rwandan government has established small and medium enterprises (SMEs) with the aim of creating various job opportunities. Observations on the ground reveal that while some SMEs are thriving and contributing to business development, others are incurring losses, leaving many Rwandans still struggling. Access to credit is deemed a crucial element in enhancing the development of SMEs, enabling them to grow and contribute more significantly to the economy. It is thought that credit augment income levels, increases employment and thereby

reducing poverty, (Harelimana. 2017). Most SMEs in the country lack the capacity in terms of qualified personnel to manage their activities.

As a result, they are incapable to distribute the same quality of monetary data as those huge firms and as such are not able to supply reviewed budgetary explanation, which is one of the basic necessities in getting to credit from the monetary institution. Usually reinforced by the explanation that secretly held firms don't distribute the same amount or quality of budgetary data that freely held firms are required to create. As a result, data on their money related condition, profit, and profit prospect may be deficient or wrong. Confronted with this sort of vulnerability, a bank may deny credit, some of the time to the firms that are credit commendable but incapable to report their comes about, (World Bank gather, 2015). Another issue needs to do with the inadequate capital base of most SMEs within the nation to meet the collateral requirement by the banks some time recently credit is given out. Within the circumstance where a few SMEs are able to supply collateral, they regularly conclusion up being lacking for the sum they required to set out on their ventures as SMEs assets- sponsored collateral are ordinarily evaluated at 'carcass value' to guarantee that the credit is reasonably secured within the case of default due to the vulnerability encompassing the survival and development of SMEs, (Wythe, 2019).

1.2 Statement of the Problem

It is believed that access to credit enable poor SME to overcome their liquidity constraints and undertake some investments for better performance of small and medium enterprise. However, luck of external and internal sources of finance, luck of consolidating capital, and lack of access to credit to start or expand small scale enterprises has often plagued this sector of the economy. Most SMEs tend to rely on the personal resources of their owners, and or loans from friends and relatives to fund the enterprises. Different financial institutions remain highly liquid and reluctant to expand credit other than to most credit worthy borrowers which in most cases excludes the SMEs (Muguchu, 2017). Most SMEs have come into many constraints that have seen some collapse, some selling off their assets, some being acquired by others, unemployment and retarded economic growth and performance of small and medium Enterprise. That is why this study was assessed the effects of access to finance's determinants on the business development in Rwanda.

1.3 Objective of the Study

- i. To examine the effects of credit offering on development of small and medium enterprise;
- ii. To determine the effects of interest rate on development of small and medium enterprise;
- iii. To analyze the effects of business risk on development of small and medium enterprise;

2.1 Theoretical Literature Review

The study was guided by the Transaction, Capital channel Model, credit rationing and prospect theories. These theories are discussed in the subsequent sections.

2.1.1 Transaction Cost Theory

The Transaction Cost Theory was developed by Ferris in 2016. "This theory postulates that trade credit use brings down exchange costs. "The transaction motive rests on the simplification of payment induced by trade credit". "The purpose here is not financing but reducing transaction costs". "This theory holds that when transactions between sellers and buyers are

frequent both parties may reduce transaction costs by agreeing to a periodical payment schedule”. “This works so long as saving in transaction costs remains more than the cost of holding receivables”. “Mian and Smith (2017) found that when supply of goods and credit are made from one point there is an overall reduction in costs and increase in efficiency as both the monitoring of supplies and the credit could be done from the same point. “Sellers in general, but more particularly those having large inventory can save on warehousing and related costs by effecting sales with attractive credit terms”. “This is possible when marginal cost of holding inventory is greater than the cost of holding receivables”. “Firms whose product suffers from high demand fluctuations may resort to trade credit, which is found to be the least cost solution, the others being adjustment of production schedule or effecting price reduction”.

The dealer might unwind credit terms when the request is loosening and fix them when request appears an rise. This theory of Emery (2017) found bolster within the experimental discoveries of Long, Malitz and Ravid (2016) who concluded that firms with tall variable request amplify more credit than firms getting a charge out of request steadiness. A few scholars recommend that by advertising exchange credit providers can concede assess installment or benefit from assess shields within the brief run (Mian & Smith, 2017). When buyers and dealers are in numerous charge brackets, taken a toll of financing is additionally distinctive, other things remaining steady. A firm in tall charge bracket has lower net intrigued fetched than a firm in moo charge bracket. Thus, the previous has an motivating force to offer exchange credit to spare on negligible assess (Brick & Fung, 2014).

2.1.2 The Capital Channel Model

The bank capital channel model, formulated by Chami and Cosimano in 2018, is a framework where banks aim to maximize the present value of future profits while adhering to a minimum capital-to-asset ratio. In this model, banks anticipate potential future constraints on their capital and, as a preventive measure, determine an optimal level of dividend payouts for each period to minimize the likelihood of these constraints affecting their operations. “According to Obamuyi (2017), the bank capital channel views a change in interest rate as affecting lending through bank’s capital, particularly when banks’ lending is constrained by a capital adequacy requirement. The “bank capital channel” works in the following way”. After an increase in market interest rates, a lower fraction of loans can be renegotiated with respect to deposits (loans are mainly long-term, while deposits are typically short-term): banks therefore bear a cost due to the maturity transformation performed that reduce profits and then capital. If equity is sufficiently low (and it is too costly to issue new shares), banks reduce lending because prudential regulations establish that capital has to be at least a minimum percentage of loans (Bolton and Freixas, 2018; Van den Heuvel, 2017). The bank capital channel model considers the lending behaviors of bank to SMES to be affected by a capital adequacy requirement”. “Thus, an increase in interest rates will raise the cost of banks’ external funding, but reduce banks’ profits and capital”. “The tendency is for the banks to reduce their supply of loans if the capital constraint becomes binding”. “However, banks could also become more willing to lend during certain periods because of an improvement in their underlying financial condition. This condition as purported by this model, is seen clearly in the relationship between banks and SMEs as the SMEs suffers through a lack of financial assistance as a result of this situation.

2.1.3 Credit Rationing Theory

One of the most important theories that focused on financing gap analysis is the Credit Rationing Theory by Stiglitz and Weiss (2017). “In their formulation, Stiglitz and Weiss (2017) argued that agency problems (a conflict of interest between management (agents) and the

shareholders (owners) of the organization) and information asymmetries are the major reason why SMEs have constrained access to finance”. “They argued that only SMEs know their real financial structure, the real strength of the investment project and the effective intention to repay the debt, that is, firms have superior private information (asymmetric information)”. “Hence, the bank manager makes decisions under asymmetric information, and operates under a moral hazard and adverse selection risk”.

Stiglitz and Weiss (2017) delved into the decision-making process regarding various financing sources in the context of asymmetric information and credit rationing. They highlighted that restricted access to finance, stemming from the credit rationing behavior of financial institutions, may lead to inefficiencies. This is because managers operate under conditions where information is not equally distributed. As a result, less advantageous investments might receive funding while more promising opportunities are overlooked, leading to potential issues of adverse selection and moral hazard. “Therefore, deviated data can clarify topsy-turvy of credit among firms with indistinguishable characteristics, the banks not being mindful of the precise liquidation probability for the firms, know as it were that this likelihood is positive and so select to extend debts’ cost”. “Start-up little firms are more likely to be influenced by data asymmetry problems”. “There are a few categories of SMEs that will confront extra issues due to need of security, such as youthful business people or those from denied zones. In expansion, there may be asymmetries emerging from area as well as sector”. “For example, owners of MSEs in rural environments may face difficulties with access to bank finance”. “Small firms are more likely to be rationed because they are seen as particularly risky”. “Although they might be willing to pay more to compensate for the additional risk, the banks will refuse to raise the interest rate sufficiently to equate supply and demand.

2.1.4 Prospect Theory

Prospect theory, proposed by Kahneman and Tversky in 2019, focuses on the decision-making behaviors of individuals when faced with a choice between two options, particularly under conditions of risk. Decision-making in risky situations is conceptualized as choosing between different prospects or gambles, with each choice associated with certain probabilities or risks. The theory reveals a human tendency to be more risk-averse when dealing with potential gains and more risk-taking when facing potential losses. Prospect theory is built on the principle that people evaluate gains or losses relative to a certain reference point or status quo, aligning with the concept of adaptation level, which suggests that our perceptions and experiences are influenced by previous exposures and contexts. That is, we adjust to a steady level of essentially any mental measurement and discover it to be neutral”. “Prospect hypothesis bargains with the way we outline choices, the diverse ways we name results, and how they influence our demeanor towards risk”. “It helps explain how loss aversion, and an inability to ignore sunk costs, leads people to take actions that are not in their best interest”. The sting of losing money, for example, often leads investors to pull money out of the stock market unwisely when prices decline”. “Prospect theory assumes that investors' utility functions depend on change in the value of their portfolios rather than the value of the portfolio.

2.2 Conceptual Review

This section puts into perspective review of past empirical studies on determinants of financial determinants by small and medium enterprises in Rwanda.

2.2.1 Credit Offering

Gichuki et al., (2016) in their study on challenges confronting MSEs in getting to credit offices in Kangemi Harambee Advertise in Kenya, found out that get to credit offices by miniaturized scale and little undertakings is profoundly constrained by tall reimbursement taken a toll of credit given. The think about hence prescribed that the administration of credit giving teaches ought to consider bringing down their intrigued rates as a way of empowering MSEs to borrow from them. Gitari, (2017) in her ponder on components influencing ladies entrepreneurs' monetary execution in Kenya: a case of Ngara Advertise found out that need of data on who is advertising what and the fetched of getting such administrations constrain them which tall stock costing are a few of the major disadvantages for victory in ladies enterprise. The tall taken a toll of running the business people could be a huge risk to the ladies improvement due to need of satisfactory capital and on the other hand need of data on how to access funds to boost the trade too could be a major danger.

2.2.2 Interest rates

Bowen et al., (2019) in “their study on Management of Business Challenges Among Small and Micro Enterprises in Nairobi Kenya found out that SMEs face the following challenges; competition among themselves and from large firms, lack of access to credit, cheap imports, insecurity, high interest rates and debt collection”. “Amonoo et al., (2017) on their study, The Impact of Interest Rates on Demand for Credit and Loan Repayment by the Poor and SMEs in Ghana, found that demand for credit among firms in Ghana is also influenced by interest rate charged as well as the owners' equity and firm's annual profit”. “There is a negative relationship between interest rate (defined as the lending rate at which SMEs borrow from lending institutions) and SMEs' demand for credit and loan repayment at both bank and non-bank financial institutions”.

2.2.3 Business Risk

“Waari (2015) in the study factors influencing access to finance by SMEs in Meru County established that 47.6% of the SME's have high credit risk exposure due to them operating more than two loans”. “This raises their credit risk profile which the lenders may not be aware of”. “The research is consistent with the literature review that established that SME's have poor credit risk mitigation measures”. “Makena (2016) in the study Challenges faced by SMEs in access to finance in Kiambu town, clearly demonstrated that SME are usually more credit constrained than other segments of the economy because of financial sector policy distortions, lack of collateral, information asymmetries, lack of sufficient collateral as well as high risks inherent in lending to SMEs”.

3.0 Materials and Methods

The descriptive research design was used in this study as a way to facilitate a researcher to have a mixture of both qualitative and quantitative approaches. This is considered as a way to investigate how it was utilized to depict characteristics of a wonder to be examined Kumar (2011). The analyst was portrayed the circumstance or preparing detail. Thus, this study was used descriptive research design.

The total target masses was considered and expected to give out the information related to the objectives of the explore think approximately was based on participations of differing individuals in SMEs in Kigali who was composed of 4,112 employees in different departments and 98 respondents as sample size. As all population was sample size; therefore, be made of number the staff and employees of SMEs in Kigali respondents who was involved in interaction

with researcher. Data collected was analyzed using descriptive statistics because the data obtained in this study was quantitative. According to (Quang and Hong, 2009), quantitative data are observations measured on a numerical scale. Results collect also entered into the statistical analysis. This analysis indicated variations of the response in the sample, response to the various questions and variations among different groups. Presentation of the results and findings were in terms of tables and graphs. Qualitative analysis techniques were used. The Qualitative analysis techniques were complemented with some statistics that was mainly obtained from the secondary data that was obtained through documentary analysis from the case study organization.

4.0 Results and Discussion

The study findings were presented per objective.

4.1 The Effects of Credit Offering On Development Of Small And Medium Enterprise

Table 1: Effects Of Credit Offering On Development Of Small And Medium Enterprise

Statements	N. of respondents	Percentages
It is of help to increase capital as investment for small and medium enterprise	23	23.4%
Changing market conditions and increasing financial performance of the enterprise	27	27.5%
It is giving chance to entrepreneurs to be secured and expanding markets	30	30.6%
It is giving opportunities to all especially to satisfy a market with products and services	18	18.3
Total	98	100%

Source: Researcher, (2022)

The study findings indicate that credit offerings significantly impact the growth and development of small and medium enterprises (SMEs). According to the survey, 23 respondents (23.4%) mentioned that credit offerings contribute to increasing capital for investment in SMEs. Additionally, 27 respondents (27.5%) observed that credit offerings facilitate changes in market conditions and improve the financial performance of enterprises. Another 30 respondents (30.6%) highlighted that credit offerings provide entrepreneurs with opportunities for security and market expansion. Lastly, 18 respondents (18.3%) pointed out that credit offerings open up opportunities for various players, particularly in meeting market demands with diverse products and services. This implies that all respondents know the influence of credit offering on performance of small and medium enterprise.

4.2 Perceptions of The Respondents On Credit Offering On Performance Of Small And Medium Enterprise

Table 2 shows the perception of respondents on credit offering on the performance of small and medium enterprises.

Table 2: Perceptions of The Respondents On Credit Offering On Performance Of Small And Medium Enterprise

	N		Mean	Std. Deviation
	Valid	Missing		
It is of help to increase capital as investment for small and medium enterprise	98	0	4.24	.936
Changing market conditions and increasing financial performance of the enterprise	98	0	3.92	.679
It is giving chance to entrepreneurs to be secured and expanding markets	98	0	3.73	.917
It is giving opportunities to all especially to satisfy a market with products and services	98	0	3.22	.834

Source: Researcher, (2022)

The results in table 2 shows the respondents perception about credit offering on performance of small and medium enterprise where all are agree that it is of help to increase capital as investment for small and medium enterprise with 4.24 mean and .936 standard deviation is interpreted as strong and homogenous, changing market conditions and increasing financial performance of the enterprise with 3.92 mean and .679 standard deviation is interpreted as strong and homogenous, it is giving chance to entrepreneurs to be secured and expanding markets with 3.73 and .917 standard deviation is interpreted as strong and homogenous while it is giving opportunities to all especially to satisfy a market with products and services with 3.22 and .834 standard deviation is interpreted as strong and homogenous. This implies that beneficiaries appreciate credit offering for performance of small and medium enterprise.

4.3 The effects of interest rate on development of small and medium enterprise

Table 3. Effects of Interest Rate On Development of Small And Medium Enterprise

Statements	N. of respondents	Percentages
It helps small and medium enterprise to save when interest rate is not high	23	23.4%
Low interest rate help small and medium enterprise to increase its market share	24	24.4%
Small and medium enterprise have more access to financing because loans are less expensive	20	20.4%
Small and medium enterprise consider interest rate as better resources to fund new business ventures, equipment, or improvements	16	16.3%
High levels interest rates greatly affected loan borrowing in SMEs and its performance	15	15.3%
Total	98	100%

Source: Researcher, (2022)

From the findings above shows that 23 of respondents with 23.4% said that when interest rate is not high help performance of small and medium enterprise, 24 of respondents with 24.4% said that low interest rate help small and medium enterprise to increase its market share, 20 of respondents with 20.4% said that small and medium enterprise have more access to financing because loans are less expensive, 16 of respondents with 16.3% said that small and medium enterprise consider interest rate as better resources to fund new business ventures, equipment, or improvements while 15 of respondents with 15.3% said that high levels interest rates greatly affected loan borrowing in SMEs and its performance. This implies there is impact for cost of interest rate for performance of small and medium enterprise. The study put into perspective the opinions of respondents regarding the influence of interest rate on performance of small and medium enterprise

4.4 Descriptive Statistics For Influence Of Interest Rate On Performance Of Small And Medium Enterprise

Table 4 shows the influence of interest rate on performance of small and medium enterprise.

Table 4: Descriptive Statistics for Influence of Interest Rate On Performance of Small and Medium Enterprise

Statements	N		Mean	Std. Deviation
	Valid	Missing		
It helps small and medium enterprise to save when interest rate is not high	98	0	4.00	.923
Low interest rate help small and medium enterprise to increase its market share	98	0	3.98	1.285
Small and medium enterprise have more access to financing because loans are less expensive	98	0	4.12	.767
Small and medium enterprise consider interest rate as better resources to fund new business ventures, equipment, or improvements	98	0	3.21	.665
High levels interest rates greatly affected loan borrowing in SMEs and its performance	98	0	4.02	.817

Source: Researcher, (2022)

The findings from the field, the respondents also agreed that it helps small and medium enterprise to save when interest rate is not high with mean of 4.00 and Std deviation of 0.923. Low interest rate helps small and medium enterprise to increase its market share with mean of 3.98 and Std deviation of 1.285, the respondents agreed that small and medium enterprise have more access to financing because loans are less expensive mean of 4.12 and Std deviation of 0.767, small and medium enterprise consider interest rate as better resources to fund new business ventures, equipment, or improvements with mean of 3.21 and Std deviation of

0.665 while High levels interest rates greatly affected loan borrowing in SMEs and its performance with mean of 4.02 and Std deviation of 0.817.

4.5 Effects Of Business Risk On Development Of Small And Medium Enterprise

Table 5 shows the effect of business risk on the development of small and medium enterprises.

Table 5 : Effects Of Business Risk On Development Of Small And Medium Enterprise

Statements	N. of respondents	Percentages
Business risk is risk management plan which impacts to the identification and analysis of potential risks small and medium enterprise for better performance	28	28.5%
Business risk is the design and implementation of processes within and between the entities and small & medium enterprise activities	24	24.4%
Business risk associated with unanticipated differences in resource requirements in foreign markets of small & medium enterprise	25	25.5%
Business risk in small & medium enterprise helps identify areas of underutilized capacity, perhaps offering the option to capitalize a good performance	21	21.4%
Total	98	100%

Source: Researcher, (2022)

The findings show that 28 of respondents with 28.5% said that business risk is risk management plan which impacts to the identification and analysis of potential risks small and medium enterprise for better performance, 24 of respondents with 24.4% said that business risk is the design and implementation of processes within and between the entities and small & medium enterprise activities, 25 of respondents with 25.5% said that business risk associated with unanticipated differences in resource requirements in foreign markets of small & medium enterprise while 21 of respondents with 21 of respondents with 21.4% said that business risk in small & medium enterprise helps identify areas of underutilized capacity, perhaps offering the option to capitalize a good performance. This implies that there is influence of business risk business development particular for small and medium enterprise.

4.6 Descriptive Statistics for Business Risk On Business Development Particular Small And Medium Enterprise

Table 6 below shows the descriptive statistics for business risk.

Table 6: Descriptive Statistics For Business Risk On Business Development Particular Small And Medium Enterprise	N		Mean	Std. Deviation
	Valid	Missing		
Business risk is risk management plan which impacts to the identification and analysis of potential risks small and medium enterprise for better performance	98	0	3.54	.898
Business risk is the design and implementation of processes within and between the entities and small & medium enterprise activities	98	0	4.21	.798
Business risk associated with unanticipated differences in resource requirements in foreign markets of small & medium enterprise	98	0	3.95	.978
Business risk in small & medium enterprise helps identify areas of underutilized capacity, perhaps offering the option to capitalize a good performance	98	0	3.77	.825

Source: Researcher, (2022)

The results suggest that business risk, as part of a risk management plan, significantly influences the identification and analysis of potential risks for small and medium enterprises, thereby contributing to better performance. The findings are quantified with a mean of 3.54 and a standard deviation of 0.898, indicating a positive perception of the impact of risk management on SME performance among the respondents. The study also revealed that the respondents concurred that business risk is the design and implementation of processes within and between the entities and small & medium enterprise activities with mean of 4.21 and Std deviation of 0.798, the respondents also agreed that the Business risk associated with unanticipated differences in resource requirements in foreign markets of small & medium enterprise with mean of 3.95 and Std deviation of 0.978 while business risk in small & medium enterprise helps identify areas of underutilized capacity, perhaps offering the option to capitalize a good performance with mean of 3.77 and Std deviation of 0.825.

4.7 Regression Analysis

Table 7: Model summary of credit offering and business development

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.941 ^a	.879	.805	.143

a. Predictors: (Constant), Credit offering

According to results in Table 7, credit offering is determined by 87.9% on business development particular for small and medium enterprise. This is as given by the R square value of 0.879. The adjusted R square value is 0.805 which shows that the study result is 80.5%, this show the reliability of the study.

Table 8: ANOVA Test

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	21.930	3	5.483	214.145	.000 ^a
	Residual	2.202	95	.026		
	Total	24.132	98			

a. predictors: (Constant), Credit offering

b. Dependent Variable: Business development

ANOVA results further show that credit offering explain the business development particular for small and medium. The table above 6 shows the sig value (0.000) less than the level significance (0.05). The F-statistics (F=214.145) is far greater than the P-value (0.000) hence a further confirmation that credit offering significantly on business development particular for small and medium. Further, Tables 6 indicates that the residual value (2.202) is less than the regression value (21.930) which means that credit offering contributes to the business development particular for small and medium.

Table 9: Coefficient of credit offering

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	.671	.145		4.618	.000
Credit offering	.648	.085	.505	5.264	.000

a. Dependent Variable: Business development

Using linear regression analysis from SPSS data bases, shows that credit offering is significant with (sig=0.000 and 0.01). This means credit offering influences to the business development particular for small and medium.

$$Y=0.671+0.648x_1+\epsilon$$

This therefore reveals that, given a unit increase in credit offering would positively change by 0.648 times.

5.0 Conclusion

The study concludes that high transaction costs lead to increased borrowing costs and restrict access to external finance for certain borrower groups. It also finds that partnerships between financial institutions and insurance companies have significantly lowered insurance fees. Additionally, there has been a reduction in legal fees incurred by SMEs when borrowing funds. The study determines that the interest rates charged are influenced by factors such as expected inflation, default risk, liquidity premium, and maturity premium, with less liquid securities attracting higher interest rates and loan interest rates varying with the time to bond maturity.

Moreover, the study concludes that borrowers considered not creditworthy are often completely denied loans, a practice known as credit rationing, which is particularly common for risky ventures. It also observes that lending institutions take into account the size of an enterprise during the loan approval process and tend to perceive small enterprises as high-risk, making them hesitant to provide credit. The risk of asset obsolescence in SMEs means these assets are often not accepted as collateral. Finally, the study notes that recent technological advancements in government policy have had a detrimental effect on the operations of many SMEs.

6. Recommendations

The study recommends that lending institutions simplify the loan application process to minimize unnecessary expenses, thereby encouraging more SMEs to apply for loans. It is crucial for these institutions to also offer flexible loan repayment options tailored to the needs of SMEs.

The study recommends that the government, particularly through the Ministry of Finance, ensure that established interest rates are strictly adhered to. This measure is intended to prevent the exploitation of SMEs and facilitate their access to loans, addressing one of the major barriers to financial accessibility for SMEs, which is high interest rates.

Furthermore, the study recommends that SMEs should consider forming groups to enhance their ability to access loans. Financial institutions often show a preference for group lending over individual lending, and such an approach could significantly improve the performance and loan accessibility for SMEs.

Lastly, the study recommends that financial institutions develop specific loan packages designed for SMEs, considering their unique challenges such as financial sector policy distortions, lack of collateral, and information asymmetries. Additionally, it suggests that SMEs receive training in

proper financial management to mitigate the high risks associated with lending to this sector and to address the issue of SMEs being more credit constrained than other segments of the economy.

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