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Microfinance Institution Services and Performance of Small and Medium Enterprises (SMEs) In Rwanda: A Case Study of Reseau Interdioscesain of Microfinance (Rim), Nyarugenge District

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Abstract

This is the reason researcher conducted a study to assess the microfinance institution services and performance of small and Medium Enterprises (SMEs). The specific objectives in this research were to determine microfinance institution services that contribute to performance of SMEs in Nyarugenge District, to assess the performance of SMEs resulting from financial support of microfinance institution and to determine extent to which training facilities contribute to the performance of SMEs. This research used descriptive research design with two mixed methods (quantitative and qualitative). The target population was officials of credit department, employment team in finance department, officials in operation department of reseau Interdioscesain of Microfinance, Nyarugenge District. The total population was 111 from which a sample of 87 respondents were drawn. Simple random sampling techniques was used to select a sample and data were collected by using questionnaire and interview. Data analysis was done through Statistical Package for Social Science (SPSS) version 16. Research findings showed that 62.1% highlighted saving service facility to assist microfinance operations, 31% of respondents indicated that microfinance offers credits facilities, 6.9% of respondents said that the institution provide additional support services like financial advice as indicated by 48.2%, trainings facilities as indicated by 39.1% and business planning as indicated by 12.6%. Therefore, researcher recommends this institution to continuous cut off problems related to capital market, costs of financial services, capital access, collateral requirements, capital management, cost of registration, structural weakness in terms of governance, portfolio management and internal control for its sustainability.

Keywords: *Microfinance, Institution, performance, small and medium enterprise*

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1.0 Introduction

Microfinance programme were existed for so many years ago form 1800s when the theories Lysander Spooner was writing over the benefits from small credits to SMEs and farmers. The introduction of microfinance was to mitigate constraints of SMEs in accessing sustainable financial means/support. However, microfinance offers services related to deposit /saving facilities, credit facilities, payments services, money transfer and insurance facilities. Poor and low-income households are the main beneficiaries of microfinance institutions. According to Opportunity International (2012), microfinance or financial sector is the institutions performing the role of accepting deposits to its members, which participate in developmental orientation of business clients. The baking system offers and control credit movement and participate in financial advices among its beneficiaries. Through microfinance services, business oriented activities like fabric, telephone services and emerge companies have developed.

Microfinance programme started in 1846 in south Germany during agriculture crisis and heavy drought in Europe. Through microfinance institution services, 192 million poor people below poverty line 14.2 among them have benefited financial loan with specialized microfinance institutions (SMFIs), banks, NGOs and other non-financial institutions (Opportunity Interational, 2012).According to Boter (2005), microfinance institution services have the purpose of assisting and providing credits to SMEs and other small business oriented activities, increasing public awareness, promoting inclusion financial system, offering support of sustainable access of finances encouraging product development and innovation. The financial system of microfinance has really enhanced the performance of SMEs especially those with capital constraints.

According to Cull and Davis (2004), access to credit and financial service by SMEs is a key to grow, perform and leads to development of any enterprise. Thus, this has led the states to put more efforts on development planning programmes to promote financial services of microfinance institutions and offer incentives to attract investment culture. In African continent, microfinance institutions operate poorly due to low income generated to boost their social economic development. Unless the capabilities, there are no doubt can greatly contribute to economic development of various SMEs and integrate them into economic systems (Cheston & Kuhn , 2002).

1.1 Problem Statement

The situation of market behavior in stock exchange brings about the significant effect Due to poverty and capacity constraints, low-income earners are limited with accessing financial services in large financial sector. However, they are obliged to turn back to MFIs or rely on other financial agencies. During financial service practices, microfinance institutions incur various problems to perform the needs of its clients and they include capital market, costs, security problems and capital management (Rusu, 2011). At present moment, poverty is challenging issue as most people in developing countries face with financial constraints to undertake investment opportunities. Therefore, people prefer to turn in microfinance institution to acquire capital or financial support. Even though microfinance institutions face with constraints of small capital to support small income earners, it is clearly understood the existence present significant to the development and performance of SMEs (Cull & Davis, 2004).

In the context of Rwanda, more specifically at RIM, there are various problems hindering financial system. These include capital markets. Cost, security and capital management. Other problems related to governance, portfolio management, poor internal control system and inappropriate financial sustainability continue to alter financial system. Therefore, quality services is not satisfactory which sometimes leads to insufficient customers. The coordination of microfinance operations is not properly done and this affect institution to achieve its objectives. At the macro level, supervision and coordination is not properly conducted due to limited resources. This is the reason why researcher interested in assessing microfinance institutions services and performance of small and medium enterprises in Rwanda. Case of RIM, head quarter office of Nyarugenge district, in Kigali city.

1.2 Research Objectives

- i. To determine microfinance institution services that contribute to the performance of small and medium enterprises in Nyarugenge District.
- ii. To assess the performance of SMEs resulting from financial support of microfinance institution
- iii. To determine extent to which training facilities contribute to the performance of SMEs.

2.0 Literature Review

According to Graham and Wright (2002), saving refers to voluntary money or assets kept aside for future use. The concept of saving in microfinance institutions assume that active poor save part of their income and this is made to help them but to make unlimited withdrawals at any time within microfinance institutions. According to Sowah (2003), credit is about contractual agreement between borrower and lender to have something of value (like money or valuable assets) so as to be paid later on agreed period of time. This facility enables the borrower to fulfil the legal requirements like engaging in productive business activities. Microfinance institutions like other commercial bank institutions base on main principles when offering credits to its clients.

According to Cook and Nexsxon (2000), performance is the subject measure of how well a firm utilizes its resources and assets to achieve the profit margin. The performance measure require clear preparation of books of account like income statement, balance sheet, cash flow statement. Within financial statement, business is able to establish strength and weakness. According to Ehrhardt and Brigham (2008), based on financial statement, financial statement analysis enables preparation of report based on financial position of the business. Financial statement analysis aimed at assessing organization profitability, liquidity and solvency. The management usually put more efforts in controlling business through cost effectiveness so that they achieve organization performance.

2.1 Game Theory of Microfinance

Game theory of microfinance was introduced to emphasise lending abilities for small businesses. The theory has the origin from Grameen lending model of microfinance aimed at providing loan to individual groups ranging from four to seven members. This theory provides an idea of collective form of finance among micro small and medium enterprises. Game theory of microfinance based on Gramen lending model which encourages group financing

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capabilities which is made to individual groups ranging up to seven in association (Ledgerwood, 1999). The implication of this theory is to encourage financing services by strong financial sector, small financial sectors, non government organization and lending groups as well. Therefore, with this, the development of the business holders and the country will be fully achieved.

2.2 Uniting Theory of Microfinance

The uniting theory of microfinance was first put in front by Ghatak and Guinnane (1999) to encourage financing needs based on jointly liabilities. This theory assumes that the concerned group at financing people with uniting responsibilities facilitate high repayment rate and the concerned borrowers have good health conditions. With jointly liabilities, financial institutions as well as microfinance institutions are safe from default payment problems. Group financing implies that if one member fails for payment, all member as they have mutual contract are supposed to repay instead. The theory assumes that the whole groups become ineligible for future loan even if the lending. The implication of this theory is that microfinance security in its financial support service is based on group lending rather than individual support service and this practice reduces default payments.

2.3 Financial Sustainability Theory

Financial sustainability theory was developed by Zelleret *et al*, (2000) and puts more focus on long term financing needs to make sustainability and survival of business. Financial sustainability assists social groups in achieving development goals and alleviating poverty. The theory assumes that sustainability begins from people's own feet based of their small income which is supported by microfinance or financial institutions' loans. The implication of this theory is that the sustainability system of microfinance institutions is achieved throughout availability of funds to support its borrowers with small and medium enterprises which therefore bring both social and economic benefits.

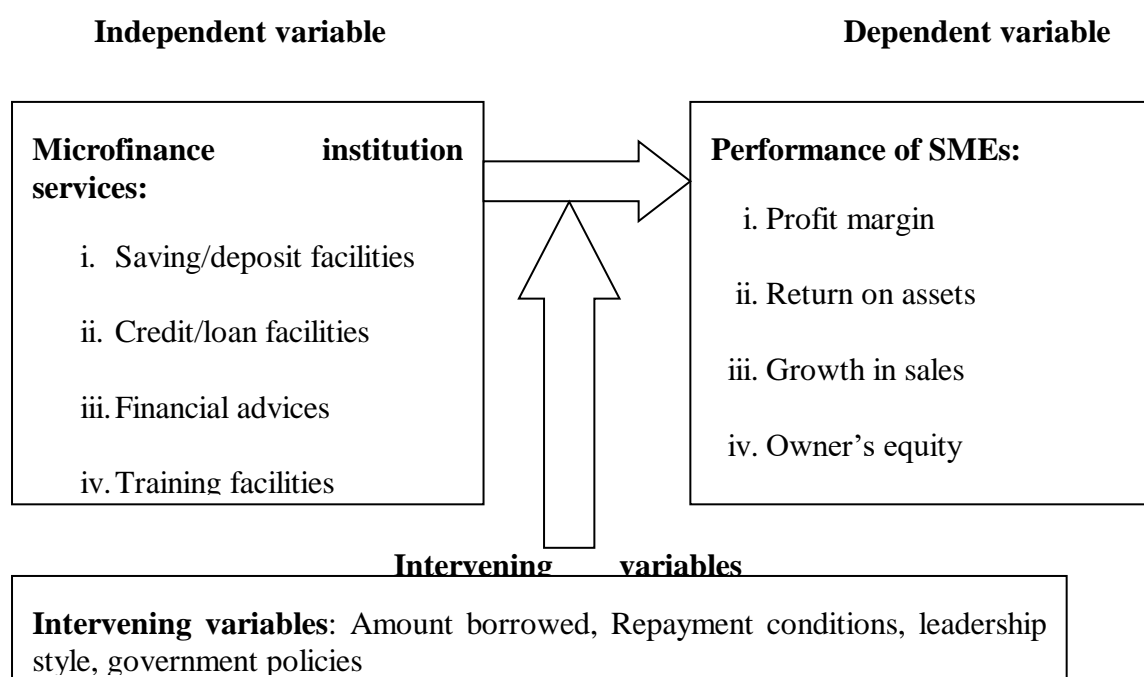


Figure 1: Conceptual Framework

Source: Researcher

3.0 Methodology

Researcher used a descriptive research design to describe the situation related to microfinance institution services and performance of SMEs taking RIM as case study.

Target population

Table 1: Target population

Category of Population	Number
Officials of management of RIM	8
Officials of credit department of RIM	38
Employment team in finance department	41
Officials of operation department	24
Total	111

Source: Primary Data

Sample Size

The sample size was 87 respondents selected from all cadre of total targeted population of 111 at RIM, Nyarugenge Branch. The selection of these respondents was aimed at assessing microfinance institutions' services and performance of SMEs in Rwanda. Case of Nyarugenge District. The formula used to determine the sample size is written as follow:

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

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Where, n= Sample Size. N= Total target population. (e)= Sampling error =5%

Based on Yamane formula above, the sample size was:

$$n = \frac{111}{1+111(0.05)^2} = \frac{111}{1+0.2775} = \frac{111}{1.2775} = 86.6 \cong 87$$

In order to know how many respondents for each category that was asked information from the sample size of 87, the sample ratio was computed by taking the population of each stratum over the total population. Therefore, the sample ratio calculation was $\frac{8}{111} = 0.0720$ for the management officials, $\frac{38}{111} = 0.342$ for credit officials, $\frac{41}{111} = 0.369$ for employment team in finance department and $\frac{24}{111} = 0.216$ for operation officials.

The formula of Yamane (1967) was based on to get the sample size as representative of the whole population at RIM, Nyarugenge District. Therefore, the formula showed that among 111 populations, 87 respondents were selected and 5% of error of precision was used to make corrections of voluntary and involuntary errors done by respondents.

Sampling Technique

Researcher used simple random sampling to select 87 respondents from total targeted population of 111 in different categories at RIM. This technique assisted researcher to acquire the necessary information from selected departments of interest and was appropriate to achieve research purpose. Data on performance of SMEs was conducted from the operational management of RIM. The choice of this approach was determined by the fact that SMEs are expected to report on their performance to RIM in order to get the next installment. The qualitative information was collected through interview discussion conducted to the management official where researcher used record keeping through telephone within 30-45 minutes.

The quantitative data from the questionnaire was interred into SPSS version 20 for analysis. Descriptive statistics was used to determine the microfinance institution service and performance of SMEs. The results were presented in the form of frequency tables, bar graph, and pie graph with their related percentages. For qualitative analysis, thematically analysis was used. Therefore, each interview transcript was assigned as a unique key informant identifier. The transcripts were sent back to the key informants for validation purposes. The key issues in all the transcripts were coded and grouped into similar concepts. The concepts were then being categorized into themes and a short report were produced for each discussion topic.

4.0 Findings and Discussion

4.1 Descriptive Statistics

Services offered by RIM, Nyarugenge District

The information collected at RIM, Nyarugenge District revealed that this institution provides a variety of banking services to its clients as they are presented in figure 4.5 below.

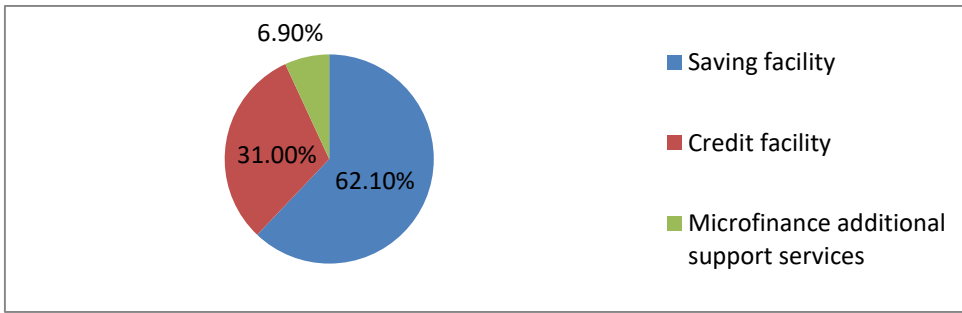


Figure 2: Services offered by RIM as microfinance institution

Source: Primary Data

Figure 2 shows that 62.1% of respondents have highlighted saving facility as one of the services offered by RIM. 31% of respondents indicated credit facilities as other service provided by RIM. Apart from this, 6.9% of respondents pointed out that RIM offers additional support services including financial advices and trainings to its clients in ensuring capital management. As indicated, ideally RIM plays an important role in promoting small business as provided by strong financial institutions in Rwanda. There is no doubt that the efficiency of banking service can achieve SMEs towards performance at Nyarugenge District.

Level of Savings by SMEs in microfinance institution

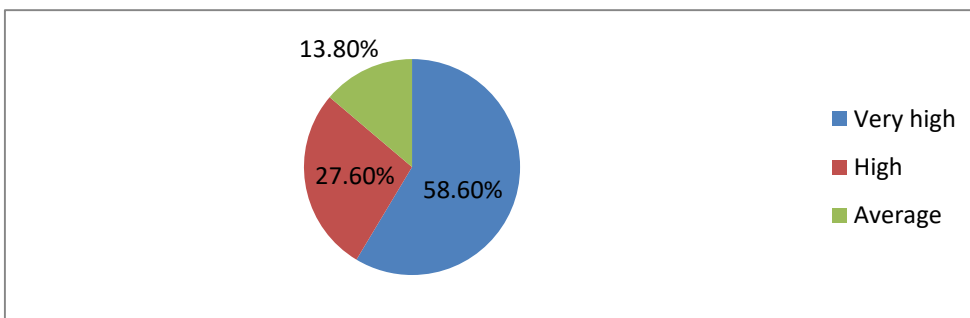


Figure 3: Extent level of saving by SMEs at RIM Nyarugenge District

Source: Primary Data

Figure 3 indicates that 58.6% of respondents pointed out the level of customers' saving as very high, 27.6% of respondents argued that the level of saving is high while 13.8% of respondents confirmed that the level of customers' saving is average. The research conclusion is that based on what respondents said, RIM as microfinance institution performs commercial role as the saving level increases overtime. Therefore, this is the basis of offering credits to its clients as they are engaged in productive activities.

Credit offered by RIM to its clients with SMES

The information collected from respondents are presented in figure 4 below which summarizes information needed by researcher to achieve his objective.

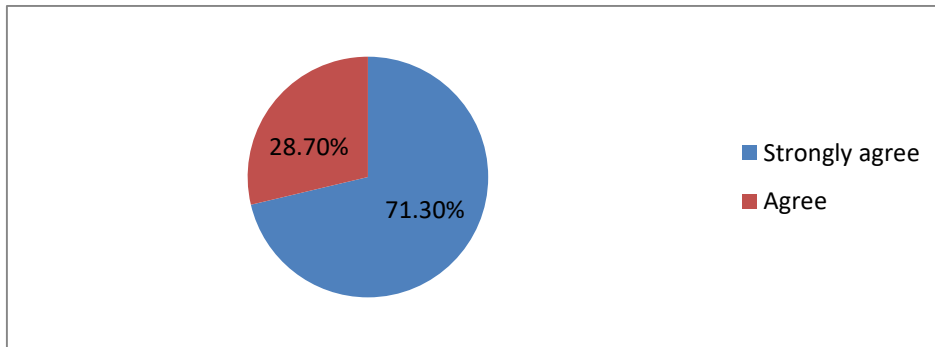


Figure 4: Credit is offered by RIM to its clients with SMEs

Source: Primary Data

Figure 4 shows information on whether credits is offered by RIM to assist its clients with SMEs. However, 71.3% of respondents strongly confirmed that credits normally are provided to institution customers fulfilling all requirements or conditions. 28.7% of respondents said that to get loan at RIM is sometimes difficulty for clients not fulfilling institution principles. The general conclusion is that microfinance institution offers credits to its clients more specifically for those with viability to repay back or with business performance.

Table 2: Credit / loan assessment criteria by RIM to its clients

Response	Frequency	Percent
Borrower character	20	23.0
Capacity of the borrower	56	64.4
Collateral of the borrower	11	12.6
Total	87	100.0

Source: Primary Data

Table 2 represents information related to credit assessment criteria applied by RIM while providing credits / loan to its customers. 64.4 % of respondents considered capacity of the borrower as one of the basic character, 23% of surveyed respondents pointed out borrower’s character while 12.6% of respondents indicated collateral of the borrower as important criteria. The research conclusion is that it is important to determine basic criteria while offering credits and this indeed is the basis of reducing an institution’s bankruptcy.

Table 3: RIM as microfinance institution offers additional support services

Response	Frequency	Percent
Strongly agree	85	98.0
Disagree	2	2.0
Total	87	100.0

Source: Primary Data

Table 3 summarizes the information corrected from respondents about additional services provided by RIM. Most (98%) of respondents confirm that RIM as microfinance institution provide additional services beyond credit and deposits service facilities. 2% of respondents were opposite about additional services but majority consideration was taken as true as this confirms what researcher sought from SMEs holders and what the management has said.

Table 4: Additional support services offered by RIM

Additional services	Frequency	Percent
Financial advices	42	48.3
Trainings	34	39.1
Business plan	11	12.6
Total	87	100.0

Source: Primary Data

As presented in table 4 above, research findings revealed that 48.3 % of surveyed respondents confirm that financial advices is one of additional support services offered by RIM in assisting its customers for proper use of acquired credits. 39.1% of respondents argued that trainings facilities have been offered by RIM to promote capacity building of clients having SMEs. 12.6% of respondents put more emphasis on form of business plan, which is usually designed to assist customers of RIM towards business success.

Performance of SMEs resulting from financial support of microfinance institution

Table 5: Credit Offered Led to Performance of SMEs

Response	Frequency	Percent
Strongly agree	85	97.7
Disagree	2	2.3
Total	87	100.0

Source: Primary Data

Table 5 shows that 97% of respondents confirmed microfinance institution's credits led to the performance of SMEs of their clients.

Table 6: Level of gross profit margin determining performance of SMEs

Gross profit margin	Frequency	Percent
Between 4-8%	31	35.6
Between 8-12%	36	41.4
Between 12- 16%	8	9.2
Above 16%	12	13.8
Total	87	100.0

Source: Primary Data

Table 6 represents information from surveyed respondents where 41.4% of respondents concluded that as result of finance from RIM, the gross profit margin of small and medium enterprises varies between 8-12%. The field survey also indicated that 35.6% of respondents argued that the gross profit margin is between 4-8%, 13.8% of respondents provided information and said that the gross profit margin is above 16% .and then other information of 9.2% were retrieved from respondents who agreed that the gross profit margin of SMEs is between 12-16%. Based on research findings, the overall conclusion is that small and medium enterprises have performed due to financial support from RIM. Therefore, this performance has changed health conditions of business holders in Nyarugenge District.

Table 7: Return on assets for SMEs financed by RIM

Level of return on assets	Frequency	Percent
Between 8-12%	34	39.1
Between 12- 16%	35	40.2
above 16%	18	20.7
Total	87	100.0

Source: Primary Data

Table 7 shows that 40.2% of respondents who confirmed return on assets of SMEs being financed varies between 12-16% while 39.1% of respondents confirmed that return on assets varies between 8-12% and 20.7% of respondents pointed out that return on assets is above 16%. Based on research findings, SMEs have had positive changes in operating activities and an increasing return on assets is as result of loan offered by RIM.

Table 8: Level of growth in sales and owner's equity

Measurement level on growth in sales			Level of owner 'equity		
	Frequency	%		Frequency	%
Between 8-12%	34	39.1	Between 8-12%	31	35.6
Between 12-16%	38	43.7	Between 12-16%	40	46.0
Above 16	15	17.2	Above 16%	16	18.4
Total	87	100.0	Total	87	100.0

Source: primary Data

Table 8 shows the measurement level on growth in sales and the level of owner's equity. The information collected about measurement level of growth in sales indicates that 43.7% of respondents said that the growth in sales of SMEs is between 12-16% and 39.1% argued that growth in sales is between 8-12% while 17.2% of surveyed respondents confirm that the growth in sales is above 16%. The general conclusion on this information is that the trending ratio of SMEs important and this can lead to its financial performance. On the other hand, the results on level of owner's equity shows that 46.0% of respondents accept that it varies between 12-16%, the respondents equivalent to 35.6% confirm that the level of owner's equity varies between 8-12% while 18.4% of respondents argued that sometimes the level of owner's equity is above 16%.

Table 9: Other performance measures of SMEs being financed by RIM

Response	Frequency	Percent
Sufficient investment capital	50	57.4
Production facilities	5	5.8
Business expansion	32	36.8
Total	87	100.0

Source: Primary Data

As showed in table 9 respondents equivalent to 57.4% highlighted sufficiency of investment capital as an indicator of SMEs of institution's customers in Nyarugenge district. Among respondents assessed, 5.8% of respondents pointed out production facilities like affordable government policies as also the measure of SMEs performance. Moreover, 36.8% of respondents argued that SMEs expansion also measure the performance of business in Nyarugenge district especially those financed bu Reseaux interdioscesain of microfinance.

Table 10: Challenges by RIM in financial support services

Challenges	Frequency	Percent
Competition	35	40.2
High rate of non-performing loan	30	34.5
insufficient of skilled credit recovery experts	22	25.3
Total	87	100.0

Source: Primary Data

Table 10 shows that 40.2% of respondents accepted that competition is one of the challenges faced by RIM in Nyarugenge District. Apart from this 34.5% indicated that high rate of non-performing loan constitute another problem while 25.3% of respondents pointed out insufficient of skilled experts especially during credit recovery as other problem mostly observed within RIM, Nyarugenge District. Therefore, RIM plays the major role in satisfying the needs of customers, innovations are needed to achieve competitive market by using strong and skilled employees as well as having strong rules and regulations.

Table 11: Ways of overcoming challenges by RIM in supporting SMES at Nyarugenge District

Ways to overcome challenges	Frequency	Valid Percent
Credit control	34	39.1
Credit policy	20	23.0
Setting collateral requirements	33	37.9
Total	87	100.0

Source: Primary Data

Table 11 above shows that as microfinance institution incurs challenges during financial support services, this institution tries to overcome these challenges for effective sustainability in financial system. 34 (39.1%) of respondents confirmed that RIM uses credit policies, 20(23.0%) confirmed that RIM applies credit policies and 33(37.9%) concluded that RIM tries to set collateral requirements to facilitate credit repayment and cut of other incoming challenges.

The extent to which training facilities contribute to the performance of SMEs

Table 12: RIM offers training facilities to its clients with SMEs in Nyarugenge District

Training facilities	Frequency	Valid Percent
Strongly agree	53	60.9
Agree	34	39.1
Total	87	100.0

Source: Primary Data

This was strongly agreed by 53 (60.9%) of respondents, and 34 (39.1%) of respondents also confirmed. Therefore, training facilities increased business holder's ability for work performance.

Table 13: Extent to which training facilities contributed to SMEs performance

Response	Frequency	Valid Percent
Valid At large extent	53	60.9
At small extent	34	39.1
Total	87	100.0

Source: Primary Data

As indicated in table 13 above, research findings showed that RIM as microfinance institution contribute to training facilities which has led to the performance of SMEs in Nyarugenge District at large extent as confirmed by 53 (60.9%). Among the surveyed respondents, 34 (39.1) concluded that trainings facilities have led to SMEs performance at small extent. Indeed, RIM is proven to play significant role in business skills as important aspect of achieving performance.

Research findings related to the correlation between microfinance institution services and performance of SMEs

To determine the correlation related to the link between services offered by RIM and performance of SMEs, research wanted to know extent to which microfinance contribute to the performance of SMEs.

Table 14: The degree of microfinance institution services and performance of SMEs

Response	Frequency	Percent
Very good	20	23.0
Good	47	54.0
Average	20	23.0
Total	87	100.0

Source: Primary Data

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Table 14 shows that 54% of respondents accepted that services offered by RIM promote to the performance of SMEs, 23% of respondents appreciate them very good and 23% of respondents also considered them as average.

Table 15: External factors affecting microfinance services and performance of SMEs

Response	Frequency	Percent
Amount borrowed	6	6.9
Repayment conditions	36	41.4
Leadership	26	29.9
Government policy	19	21.8
Total	87	100.0

Source: Primary Data

Table 15 shows external that affect activities of microfinance and those of SMEs in nyarugenge District. Research findings indicated that 41.4% of respondents highlights repayment condition as one of the factors, 29.9% of respondents shows leadership as the second factor, 21.8% of respondents shows that government policies can positively and negatively affect the operations of RIM as well as SMEs in Nyarugenge District while 6.9% of respondents pointed out amount of money borrowed as other factor.

4.2 Correlation Analysis

This correlation was determined based on services provided by RIM in relationship to the performance indicators of SMEs in Nyarugenge District. As shown using Spearman though, there is a very high correlation between microfinance institution services and performance of SMEs. This implies that the presence of one variable presents significant positive impact to the other variable.

Table 16: Correlation between microfinance institution services and performance of SMEs

		Microfinance institutions' services	Performance of SMEs
Spearman's rho	Microfinance institutions' services	Correlation Coefficient	1.000
		Sig. (2-tailed)	.000
		N	87
	Performance of SMEs	Correlation Coefficient	.844**
		Sig. (2-tailed)	.000
		N	87

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

The table 16 provides the information related to correlation between microfinance institution services and financial performance of SMEs. Based on Spearman rho, there no doubt microfinance institutions' services has significant relationship to financial performance of SMEs. This is confirmed with reference to the assumption provided by Spearman, which indicates the range of correlation as indicated below:

.00-.19 “very weak”

.20-.39“weak”

.40-.59“moderate”

.60-.79“strong”

.80-1.0“very strong”

However, the general conclusion is that Microfinance institution's services has statistically correlation of .844, which implies very strong correlation. Therefore, the presence of one variable leads to the presence of another vice versa.

Performance of SMEs resulting from financial support of microfinance institution

As indicated, findings showed that 40.2% of respondents showed that through financial support from RIM, performance of SMEs was determined by return on assets of between 12-16%. In this research, 39.1% of respondents also confirmed that return on assets of SMEs resulted from financial support offered by RIM and was likely to vary between 8- 12% while 20.7% of respondents argued that return on assets by SMEs was above 16%.

The general conclusion is that performance for SMEs is of great important as it shows the level of return on assets. Thus, the field survey also pointed that with financial support, the SMEs holders were responsible to determine the growth in sales and owners' equity within business. With reference to financial support received from RIM, Nyarugenge District, the study findings showed that growth in sales of SMEs was between 12-16% as confirmed by 43.7%. Among the surveyed respondents, 39.1% of them argued that growth in sales varied between 8-12% while 17.2% of respondents said that growth in sales of supported small and medium enterprises became above 16%.

Based on research findings, it clearly indicates that as growth in sales increases, performance of SMEs become more and more sustainable. However, performance also plays a major role as it shows the part of owner's equity for SMEs in Nyarugenge District. As indicated the owner's equity of SMEs varied from 12-16%, which was confirmed by 46% of respondents. 35.6% of respondents argued that some SMEs being financed had owner's equity if between 8-12% while respondents' equivalent to 18.4% confirmed that some SMEs which benefited support had owner's equity of above 16%.

Correlation between microfinance institution services and performance of SMEs

The results from research findings showed that there is significant correlation between microfinance institution services and performance of SMEs. The information provided by Spearman though showed that microfinance institution services have a significance correlation of 0.844 towards SMEs, which implies very strong correlation.

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5.0 Conclusion

Studies showed that microfinance institutions play an important role on performance of SMEs in such a way that they assist them in acquiring services like saving facilities, credit facilities and provision of additional support services containing financial advices, trainings and business plan services. The existence of RIM as microfinancial institution in Rwanda has proven to be very important in accelerating the growth and performance of SMEs not only in Nyarugenge District but also in the whole country. Based on research findings, it is clearly indicated that most of SMEs holders who benefited from loan have had the gross profit margin of above 16% and the performance observed as result of microfinance institutions services are assisted in building investment facilities, production facilities and expansion facilities. The existence of RIM has increased SMEs' return on investment capital, liquidity ratio as well as owner's equity has also improved. The research findings also showed that factors like amount of money borrowed, repayment conditions, leadership style and government policies influenced both microfinance institution services and performance of SMEs.

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