IJNRD.ORG ISSN : 2456-4184
INTERNATIONAL JOURNAL OF NOVEL RESEARCH AND DEVELOPMENT (IJNRD) | IJNRD.ORG
An International Open Access, Peer-reviewed, Refereed Journal

SIGNIFICANCE OF ACCESS TO FINANCE AND MSMES DEVELOPMENT IN RURAL AREAS. CASE OF NYAMASHEKE DISTRICT, RWANDA.

INGABIRE Aline
Kibogora polytechnique

Abstract: The main objective of the study was to assess the significance of access to finance and Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas, case of Nyamasheke District, Rwanda. It has used both primary and secondary data. The study was descriptive and correlational design. Primary data were collected from 152 MSMEs in Nyamasheke district which has active loan from financial institutions (2022). Data were collected using questionnaire, and documentation. Data were presented in form of descriptive and inferential statistics as an outcome of the use Statistical Package for Social Scientist (SPSS). Specific analysis. Overall analysis has explained that access to finance signify 75.6% of Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas (r=0.756 strong correlation with p-value=0.00 less than 5% meaning statistical significance of the correlation between independent and dependent variable). Therefore, the formulated H1 starting that the there is no positive significance of access to finance and Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas. Case of Nyamasheke District was not accepted.

Keywords: Significance; Access to finance; MSMES development; rural areas.

0. Introduction

This study entitled as: "Significance of access to finance and Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas. Case of Nyamasheke District, Rwanda" was conducted to evaluate whether in rural areas MSMES has access to finance for improving income generating activities and challenges they are facing. The case study of Nyamasheke was selected since, it is a rural dominated District in Rwanda which suffered with less infrastructure to support private sector development ((Nyamasheke District, 2018). MSMEs are, collectively, the largest employers in many low-income countries, yet their viability can be threatened by a lack of access to such risk-management tools as savings, insurance, and credit. Their growth is often stifled by restricted access to credit, equity, and payments services (Simone, 2013). Thus, the study intends to assess the significance of access to finance and MSMES development in rural areas. Case of Nyamasheke District, Rwanda.

1. Statement of the problem

Micro, small and medium-sized enterprises (MSMEs) are often praised for their important role as drivers of economic activity. For instance, Dayé, et al. (2016) report that SMEs (fewer than 250 employees) operating in the formal sector account for 78% of the employment in Low Income Countries (LICs) and 66% in high income countries (HICs). When micro and informal firms are added to the discussion, a much higher labor share is reported for developing countries (90%). However, MSMEs often face external financing constraints that undermine their growth and hence potentially limit their welfare impacts (Dayé, 2016). Small and Medium Enterprises (SMEs) and micro enterprises in Rwanda account for over 95% of all firms, 60-70% of employment and 55% of GDP and create most new jobs, indicating the impact MSMEs have on employment. In contrast, currently over 80% of Rwandans are engaged in agricultural production. The MSME sector, including formal and informal businesses, comprises 98% of the businesses in Rwanda and 41% of all private sector employment though the formalized sector has much growth potential with only 300,000 currently employed. Most micro and small enterprises employ up to four people, showing that growth in the sector would create significant private sector non-agricultural employment opportunities (MINICOM, 2020).

In Rwanda, the lack of sufficient guarantees represents the main constraint to the adequate coverage of the financing needs of the MSMEs in different sectors. Therefore, the incentive financing mechanism favored by the financial institutions is a portfolio guarantee fund with flexible and incentive intervention modalities. Existing national mechanisms are considered little attractive by most financial institutions. In most rural areas of Rwanda MSMEs are struggling in development process as an outcome insufficient funds, taxation structure, working environment and less access to financial services from financial institutions. The most common challenge is insufficient or lack of collateral to access on the financial institutions' loan or credit. Most of the collaterals are joint land titles, and in most cases entrepreneurs for MSMEs are suffered with insufficient skills for financial management. Thus, this study intends to assess the significance of access to finance and MSMES development in rural areas. Case of Nyamasheke District, Rwanda.

2. Empirical Studies

Tambunan (2017) historically, micro, small, and medium enterprises (MSMEs) have played an important role in economic development in Indonesia. MSMEs are very numerous, amounting to, on average, almost 99% of total enterprises and more than 90% of total employment across sectors in the country. Although the lack of finance is not the only problem facing many MSMEs, this chapter discusses the Indonesian experience with MSME financing with the focus on a government-initiated credit guarantee scheme, namely KUR (people business credit), aiming to give the enterprises more access to finance and the development of microfinance institutions. It also provides a brief description of MSMEs' development, their main constraints, and their main finance sources. The chapter shows that, despite government efforts, the majority of MSMEs, especially micro and small enterprises (MSEs), still depend on informal sources for their capital (Tambunan, 2017).

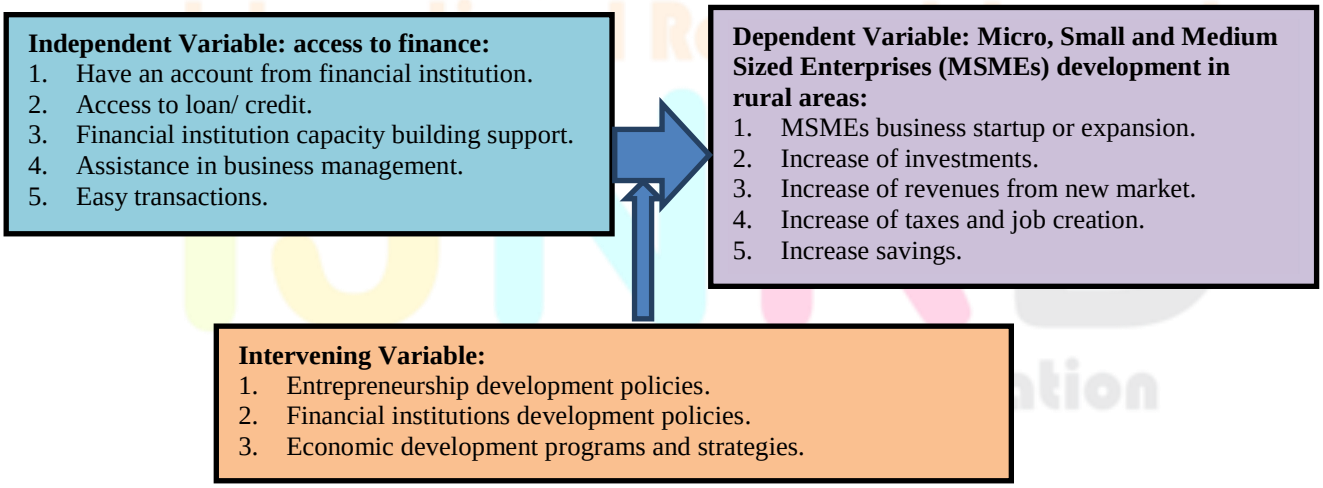
MSMEs in Rwanda have remained less competitive compared to regional neighbors and if no effort is made to make them more competitive, this situation is likely to worsen with the full-fledged East African Community (EAC) common market, which Rwanda entered in July 2010. Making existing and new Rwandan MSMEs more competitive in value added exports is therefore one among other vital actions necessary to reverse the trade imbalance and build competitiveness (MINICOM, 2020).

MSMEs account for approximately 97% of businesses in Rwanda, contribute to 55% of the total GDP, and employ around 41% of the population. With the importance accorded to the MSME sector by the government and the role they play in Rwandan economy, it is imperative to understand their situation in terms of access to finance and role of private sector in enhancing their growth (Azimut, 2022). This note features MSMEs' access to finance in Rwanda and charts a potential roadmap for financial institutions in Rwanda as they expand to MSME markets. A significant 79% of the surveyed enterprises mentioned that financial institutions do not meet all their financial needs. MSMEs find it very hard to convince the financial institutions to provide finance as they lack reliable financial statements and collateral to cover the business and financial risks. Most of the MSMEs meet their total requirement of funds using the entrepreneur's own capital and borrowings from friends and family. However, often they miss or underestimate the fund planning, which usually results in a fund crunch situation if in case the enterprise underperforms in short run (NISR, 2021).

MSMEs recounted unfavorable experiences at banks while applying for loans mainly due to collateral requirements and lack of client-centric processes. Collateral requirements become major impediment at times to grow the businesses. Entrepreneurs do understand the importance of collateral to secure loans. However, they expressed that bank lending should be based on assets, cash flow and credit history, rather than only on collaterals. Another key worry of the entrepreneurs is the requirement for property (land and house) as the collateral for many banks. They expressed their discontentment at having to pledge their personal property for the business. Some of the respondents expressed that in not so rare instances, banks have forced them to have 8-10 times collateral for loans. It is worth noting that the financial institution may benefit from the collateral registry for movable assets as the institutions may lend against lever- age movable assets such as inventory, chattels etc (Singh, 2017).

3. Conceptual framework of the study

Figure 1 is describing the conceptual framework of the study. The figure shows indicators per each variable (independent and dependent) preauthorized by the researcher and intervening variables. Always policies and economic strategies are the guiding principles for financial services decentralization and MSMEs development. Once MSMEs have operating accounts, access to loan or credit, ensure transactions via financial institutions, etc lead to business development, increase of revenues, market expansion and increased savings. Finance can be sourced from micro finance, banks, non-banking financing institutions and even from the government.



Source: Compiled by the researcher

Figure 1: Conceptual framework linking access to finance to MSMEs development

Financial access is critical for the growth of micro, small and medium-size enterprises (MSMEs). It allows entrepreneurs to innovate, improve efficiency, expand to new markets, and provide millions of jobs. Yet, in developing countries, most MSMEs are unable to acquire the financing they need to reach their potential. Financing MSMEs in the developing world can be risky and expensive for lenders, leading to an estimated financing gap of one trillion USD (International Finance Corporation, 2020).

To reduce the credit gap, financial institutions, governments, and donors invest in lending products and policies designed to provide MSMEs with the financing they need to grow and innovate. However, the extent to which such programs effectively reduce the barriers to MSME financing has generally not been rigorously measured. The MSME Program at Innovations for Poverty Action (IPA) rigorously evaluates potential solutions and promotes the most efficient and cost-effective ways to expand access to finance for MSMEs (IPA, 2022).

4. Methodology of the study

This study is descriptive and correlative design. It describes the characteristics of MSMEs in Nyamasheke District and their level of development as an outcome of access to finance. The study also reports the correlation between access to finance and MSMEs development. The study population was all MSMEs working on administrative division of Nyamasheke District which has active loan from micro finance across SACCOs (Savings and Credit Cooperatives) in other words called "Umurenge SACCO) and this is available to each sector of Nyamasheke District. From which 152 MSMEs were counted, and all were meet and attended to list of questions (see the summary of results in point 5 of this study).

Data collection was made using a list of questions (questionnaire) and was administrated to 152 MSMEs owners in Nyamasheke District (Not that as they were from different sectors among 15 sectors of Nyamasheke) who were invited at sector office (the place of interview). Questionnaire was under scaling form where the respondent either choose either Strongly Agree, Agree, Not Sure, Disagree and Strongly Disagree). And answers were classified whether the mean is strong (ranged between 3.5-5.0), moderate (ranged between 2.5-3.49) and weak mean (ranged between 1.00-2.49). And the standard deviation also was categorized into two forms heterogeneity (less than 0.5) and homogeneity (greater than 0.5).

Correlation analysis also relay on the Bivariate correlation analysis and Linear regression analysis. Bivariate correlation shows Pearson correlation (r) and sig.(2-tailed) which explain whether, there is positive or negative correlation between tested variables or not and whether the obtained correlation is statistically significant or not. The "r" may be strong, moderate, or weak also due its level, where respectively explained as follows: r>0.7; between 0.5 to 0.7 and once less than 0.5 means weak correlation (all these forms may be negative or positive). The correlation is called statistically significant once the p-value if less or equal to 0.05 (5% level of significance). Linear regression model was made with reference to this model:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$, where each indicator from independent variable taken to combined indicators from dependent variable.

5. Specific objectives

The specific objectives concerned by this study were:

1. To assess the services provided by financial services to MSMEs.
2. To evaluate the level of MSMEs development in Nyamasheke District.
3. To establish the correlation between access to finance and micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas.

6. Research hypothesis

The research hypotheses of this study were into five folds:

H_1: There is no positive significance of access to finance and Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas. Case of Nyamasheke District, Rwanda.

H_2: There is a positive significance of access to finance and Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas. Case of Nyamasheke District, Rwanda.

7. Findings

The study findings reflect to the study objectives and hypothesis. The researcher has presented summaries in this study, and they are in forms of descriptive statistics and inferential statistics. Here below are results:

Table 1: Descriptive statistics results

Main Indicators Assessed	N	Min. Mean	Max. Mean	Mean of the Mean	Std. Deviation	Comment
Have an account from financial institution.	152	3.5000	4.5000	4.09	.2966	Strong Homogeneity
Access to loan/ credit.	152	3.0000	4.5000	3.95	.4231	Strong Homogeneity
Financial institution capacity building support.	152	3.3330	4.3330	4.06	.3214	Strong Homogeneity
Assistance in business management.	152	3.6670	4.6670	4.23	.2842	Strong Homogeneity
Easy transactions.	152	2.6670	5.0000	4.15	.5419	Strong Homogeneity
MSMEs business startup or expansion.	152	2.0000	5.0000	4.00	.7670	Strong Heterogeneity

Main Indicators Assessed	N	Min. Mean	Max. Mean	Mean of the Mean	Std. Deviation	Comment
Increase of investments.	152	2.0000	5.0000	4.02	.6101	Strong Heterogeneity
Increase of revenues from new market.	152	3.0000	4.5000	4.01	.3897	Strong Homogeneity
Increase of taxes and job creation.	152	2.0000	5.0000	3.92	1.0450	Strong Heterogeneity
Increase savings	152	3.0000	4.5000	3.92	.5547	Strong Heterogeneity
Valid N (listwise)/ Average	**152**	**2.0000**	**5.0000**	**4.03**	**.5234**	**Strong Heterogeneity**

Source: Primary data, 2022

As seen from the table 1, for each item on both side (dependent variable and independent variable) were assessed in positive manner whether is effectively and efficiently accessed and observed. The minimum mean from 152 assessed respondents was 3.5 and maximum was 4.5 which confirm that 152 MSMEs assessed have an account from any financial institution (4.09 mean of the mean with homogeneity standard deviation), has access to loan/ credit (min mean is 3.0 to 4.5 mean, 3.95 mean of the mean which is strong with homogeneity standard deviation), get capacity building from financial institutions (3.33 minimum mean to 4.33 maximum mean, and 4.06 mean of the mean strong with homogeneity standard deviation), get assistance in business management (3.66 minimum mean, 4.66 maximum mean, 4.23 mean of the mean strong with homogeneity standard deviation), and 152 MSMEs assessed confirm that they are enjoying easy transactions in business due to the access to finance (minimum mean is 2.66 to 5.0 maximum mean and 4.15 mean of the mean strong homogeneity).

The assessment also on the MSMEs development made due to the access on finance, the study results confirm that MSMEs bsuness was started and expanded due to the access to finance (minimum mean 2.00 to 5.00 maximum mean and 4.00 mean of the mean strong heterogeneity), MSMEs has increased investments due to the access to finance (minimum mean 2.00 to 5.00 maximum mean and 4.02 mean of the mean strong heterogeneity), due to the access to finance MSMEs has increased revenues from new market (minimum mean 3.00 to 4.5 maximum mean and 4.01 mean of the mean strong homogeneity), increase of taxes paid by MSMEs due to the access to finance and job creation (minimum mean 2.00 to 5.00 maximum mean and 3.92 mean of the mean strong heterogeneity), and MSMEs has increased savings due to the access on finance (minimum mean 3.00 to 4.5 maximum mean and 3.92 mean of the mean strong heterogeneity). Overall, the indicators were observed with a minimum mean of 2.00 to 5.00 maximum mean and 4.03 mean of the mean strong heterogeneity. This signify that, access to finance by MSMEs is measured at good level but not at excellent level, which made moderate development of MSMEs in business and income generation but also which is not maximized (this explained by the extent of minimum mean which is less than 3.49 and heterogeneity standard deviation).

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.496[a]	.246	.164	.5072589

a. Predictors: (Constant), Easy transactions., Have an account from financial institution., Assistance in business management., Access to loan/ credit., Financial institution capacity building support.

Source: Primary data, 2022

As seen from table 2, the model had Adjusted R2 of 0.164, implies that Easy transactions., Have an account from financial institution., Assistance in business management., Access to loan/ credit., Financial institution capacity building support explain 16.4% of Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas. While the remaining 83.6% (determinant) of Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas are resulted from other factors that have not been captured in the model.

Table 3: ANOVA Results

	Model	Sum of Squares	df	Mean Square	F	Sig.
	Regression	3.856	15	.771	2.997	.020[b]
1	Residual	11.836	156	.257		
	Total	**15.692**	**151**			

a. Dependent Variable: Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas

b. Predictors: (Constant), Easy transactions., Have an account from financial institution., Assistance in business management., Access to loan/ credit., Financial institution capacity building support.

As seen from table 3, the results show that the model had an F ratio of 2.997 and the P value was 0.020<0.05, signifying that the F ratio was statistically significant, therefore the overall regression model for all the variables tested were all statistically significant for prediction at 5% significant level. This further indicate that the predictors variables x_1 Is Have an account from financial institution, x_2 Is Access to loan/ credit; x_3 Is Financial institution capacity building support; x_4 Is Assistance in business management, x_5 Is Easy transactions used in this study are all statistically significant to Y_1 Is MSMEs business startup or expansion; Y_2 Is Increase of investments, Y_3 is Increase of revenues from new market, Y_4 Is Increase of revenues from new market, Y_5 is Increase of taxes and job creation. Therefore, the formulated **H_1** starting that the there is no positive significance of access to finance and Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas. Case of Nyamasheke District was not accepted.

Table 4: Correlation coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.921	1.899		3.646	.001
	Have an account from financial institution (X_1).	.531	.248	.284	2.142	.038
	Access to loan/ credit (X_2).	.240	.185	.183	1.296	.001
	Financial institution capacity building support (X_3).	.179	.247	.104	.725	.002
	Assistance in business management (X_4).	.276	.263	.141	1.047	.003
	Easy transactions (X_5).	.322	.153	.314	2.108	.041

a. Dependent Variable: Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas.

As seen from Table 5, the beta (β) sign shows the positive effect of the independent variable's coefficients over the dependent variable. Table above shows that, beta values for all independent variables are positive meaning positive effect on the predicted dependent variable. β_1=0.531, t=2.142, p=0.038>0.05; β_2=0.240, t=1.296, p=0.001>0.05; β_3=0.179, t=0.725, p=0.002>0.05; β_4=0.276, t=1.047, p=0.003>0.05 and β_5=-0.322, t=2.1008, p=0.041>0.05.

That means, any increase in the independent variables lead to increase in the dependent variable and vice versa as all variables shown positive relationship. The regression model become as follows:

$$\text{Y or MSMEs development in rural areas} = 6.921 + 0.531X1 + 0.240X2 + 0.179X3 + 0.276X4 + 0.322X5 + \varepsilon$$

Thus, the study concluded that have an account from financial institution (X1), access to loan/ credit (X2), financial institution capacity building support (X3), assistance in business management (X4), easy transactions (X5) are positive determinants of Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas and for all variables, the relationship is statistically significant.

Table 5: Bivariate correlation analysis

Tested variables/ Indicators		MSMEs business startup or expansion.	Increase of investments.	Increase of revenues from new market.	Increase of taxes and job creation.	Increase Savings	Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas
Have an account from financial institution.	**r**	.216	.262	.092	.326	.301	.301
	p	.025	.001	.016	.018	.030	.030
	N	152	152	152	152	152	152
Access to loan/ credit.	**r**	.060	.080	.116	.213	.067	.067
	p	.000	.005	.003	.029	.035	.035
	N	152	152	152	152	152	152
Financial institution capacity building support.	**r**	.318	.339	.074	.208	.136	.136
	p	.022	.014	.002	.039	.038	.038
	N	152	152	152	152	152	152
Assistance in business management.	**r**	.239	.351	.304	.357	.258	.258
	p	.008	.011	.028	.009	.004	.004
	N	152	152	152	152	152	152
Easy transactions.	**r**	.234	.147	.115	.199	.309	.309

	p	.000	.008	.017	.008	.026	.026
	N	152	152	152	152	152	152
Access to Finance	**r**	.426	.107	.491	.523	.756	.756
	p	.002	.040	.000	.000	.000	.000
	N	152	152	152	152	152	152

Correlation is significant at the 0.05 level (2-tailed).

The researcher also has made specific analysis between tested indicators from all findings of 152 evaluated MSMEs. The results of the study have shown all p-values less than 0.05 to the whole model, meaning that all tested variables are statistically significant. In specific manner having an account from financial institution signify 21.6% in MSMEs business startup or expansion, 26.2% in increase of investments, 9.2% in increase of revenues from new market, 32.6% in increase of taxes and job creation and 30.1% in increase savings. Access to loan signify 6% in MSMEs business startup or expansion, 8% in increase of investments, 11.6% in increase of revenues from new market, 21.3% in increase of taxes and job creation and 6.7% in increase savings. Financial institution capacity building signifies 31.8% in MSMEs business startup or expansion, 33.9% in increase of investments, 7.4% in increase of revenues from new market, 20.8% in increase of taxes and job creation and 13.6% in increase savings. Assistance in business management signifies 23.9% in MSMEs business startup or expansion, 35.1% in increase of investments, 30.4% in increase of revenues from new market, 35.7% in increase of taxes and job creation and 25.8% in increase savings. And easy financial transactions signify 23.4% in MSMEs business startup or expansion, 14.7% in increase of investments, 11.5% in increase of revenues from new market, 19.9% in increase of taxes and job creation and 30.9% in increase savings. Overall analysis also has explained that access to finance signify 75.6% of Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas (r=0.756 strong correlation with p-value=0.00 less than 5% meaning statistical significance of the correlation between independent and dependent variable).

6. Conclusion

In Rwanda more specifically in rural areas Micro, Small and Medium Sized Enterprises (MSMEs) need to be considered in special way while providing financial support and access. This because, MSMEs have limited access to finance due to insufficient budget, and insufficient collateral as well as insufficient capacity building for business management. The study findings have shown that access to finance contribute 75.6% to the Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas while only 24.4% explained by other factors not covered by this analysis. And this contribution is statistically significant. Thus, there is a positive significance of access to finance and Micro, Small and Medium Sized Enterprises (MSMEs) development in rural areas. Case of Nyamasheke District, Rwanda. Due to that, we invite micro-finance institutions, large and small banking institutions, non-governmental organizations and other donors, government and individuals who have financial services provision to MSMEs to ensure and allocate special support to access to finance by lowering and simplifying terms and conditions for finance access, for example lowering collaterals, support all MSMEs by providing capacity building and basic infrastructures in the rural area.

REFERENCES

Azimut. (2022). *MSMEs AND ACCESS TO FINANCE IN RWANDA Challenges and way forward A case study on the stone and clay value chains.* Kigali, Rwanda: Government of Rwanda with the support of the Belgian cooperation ENABEL.

Dayé, e. a. (2016). *Improving MSMEs access to external financing in Low Income Countries: Is there a role for Development Cooperation?* Cairn International.

International Finance Corporation. (2020). *The MSME Program discovers and promotes effective solutions to the constraints affecting MSME growth and entrepreneurship in developing countries.* IPA: www.poverty-action.org/sme.

IPA. (2022). *Access to Finance for Small and Medium Enterprises.* www.poverty-action.org/sme: The SME Program addresses challenges throughout the SME lending cycle.

MINICOM. (2020). *Small and Medium Enterprises (SMEs) Development Policy.* Kigali City: Ministry of Trade and Industry.

NISR. (2021). *Rwanda Vision 2020.* Government of Rwanda: Ministry of Finance and Economic Planning.

Nyamasheke District. (2018). *Nyamasheke District Development Strategic Plan 2018-2024.* Nyamasheke City: National Institute of Statistics of Rwanda.

Simone, D. (2013). *Micro, Small, and Medium Enterprise (MSME) Finance.* Brussels: World Bank.

Singh, A. (2017). *MSME Finance in Rwanda – Status and Opportunities for Financial Institutions.* Government of Rwanda: MicroSave – Briefing Note #170.

Tambunan. (2017). *MSMEs and Access to Financing in a Developing Economy: The Indonesian Experience.* Center for Industry, SME and Business Competition Studies, Indonesia · University of Trisakti.