

Impact of small and medium enterprise in improving living standard of population and economic growth of Rwanda

Murekeyimana Theogene¹, Dr Monika Mehrotra²,

Dr. Nkurayija Jean de la Croix³

¹Research Scholar, Department of Economics, Nims University Jaipur (Rajasthan)

²Associate Professor, Department of Economics, Nims University Jaipur (Rajasthan)

³Senior Lecturer, School of Economics, Law & Governance, University of Rwanda

ABSTRACT

Small and Medium Enterprises (SMEs) are important to economic growth and significantly essential to generate profit, increase sales and provide return on investment to the owners as well as in the country. The major findings of this study include the following: SMEs have played and continue to play significant roles in the growth, development and industrialization of many economies of the world. In the case of Rwanda, SMEs have performed below expectation due to a combination of problems which ranges from attitude and habits of SMEs themselves through environmental related factors, limited resources, lack of customers, new businesses copying existing business models and opening in the same area, high costs of transport, lack initiative of creativity, low level of doing research and development as well as marketing and advertisement in their businesses etc.

Keywords: *Economic development, economic growth, Entrepreneurship, Rwanda, SMEs*

I. INTRODUCTION

Rwanda is a landlocked country, very limited natural resources. The population is about 12 million, and 87 per cent of Rwandans live in rural areas. Current population density in Rwanda stands at 416 people per square kilometer. Rwanda has distinguished itself for its government's commitment by promoting and sustaining economic growth, improving the business environment [1]

Small and medium enterprises (SMEs) are important to economic growth and greatly to generate profit, increase sales and supply return on investment to owners of SMEs [2]. Therefore the SMEs growth depends to a greater degree on the way entrepreneurship skills have been developed in a given country [3]. In Africa, the SMEs sector accounts for almost 90% of all the enterprises, in which they are located in both the rural and urban areas, whereby they provide more equitable distribution of income in all areas of the country [4]. This means that the SMEs are the main source of providing employment to the people and stimulate the development of the country increasing entrepreneurship and the business skills amongst communities and strengthen the local production sector as well as the basic industrial [5]. Accordingly, the SMEs in general have been considered to be a very

important engine for obtaining national development goals' such as creation new employment; poverty alleviation and economic growth [6].

The term SMEs involves a wide range of definitions and measures, varying from country to country and between the statistics sources reporting of SME. There is no general agreed definition of SME in the world, but some of the commonly standard of defining SMEs are the number of employees, values of assets, value of sales and size of capital [7]. Among them, the most common definitional basis used is employees because of the comparatively ease of collecting this information, and here again there is variation in defining the upper and lower size of a SME.

The Rwandan Ministry of Trade and Industry (MINICOM) defines SMEs in terms of size, net capital investment, annual turnover and number of employees. SMEs in Rwanda are classified in one of these categories (micro, small, medium and large enterprise) at least if it has 75% of the definition of SMEs. For the purpose of this study, the definition of SMEs is adopted from the SME Policy of June 2010 document of the Government of Rwanda as illustrated in table below [8],[9].

Definition of SMEs in Rwanda

Size of the enterprise	Net capital invested (million of Rwandan francs)	Annual turnover (millions Rwf)	Number of employees	Percentage
Micro enterprise	Less than 0.5	Less than 0.3	1 to 3	90.1
Small enterprise	0.5 to 15	0.3 to 12	4 to 30	8.7
Medium Enterprise	15 to 75	12 to 50	31 to 100	1.1
Large enterprise	More than 75	More than 50	More than 100	0.2

MINICOM, 2010 and establishment census (NISR, 2014).

As comparative study purpose, now the SME department of the World Bank works with the following definitions: microenterprise up to 10 employees, total assets of up to \$ 10,000 and total annual sales of up \$ 100,000; small enterprise up to 50 employees, total assets and sales of up to \$ 15 million; medium enterprise up to 250 employees. Various organizations such as the International Monetary Fund (IMF), the World Bank and International Labor Organization relate the definition of SME to the objective measures of size such as number of employees, sales turnover, profitability, net worth, etc. In summary, different countries have different definitions of SME, according to the local context [10].

Table that summarizes the definition of SMEs in different countries and its graphic

Countries	Micro	Small	Medium	Large
Rwanda	3	30	100	above 100
Tanzania	4	50	100	above 100
Nigeria	10	70	200	above 200

USA & Canada	50	250	500	above 500
Japan	50	100	300	above 300
European Union	10	50	250	above 250
World Bank	10	50	250	above 250
India	10	50	300	above 300

Source: Author plotting from different SMEs' definition of these countries.

The above table illustrates the different countries and World Bank's definition of SMEs by considering only their number of employees. It revealed that USA & Canada consider small enterprises as one that occupy from 50 to 250 employees, many of them are the large enterprises in Rwanda and Tanzania; some micro enterprises in USA, Canada and Japan are medium enterprises in Rwanda and Tanzania; European Union, India and World Bank definition of SMEs that have the same number of employees

II. OBJECTIVE OF THE STUDY

The general objective of this study is to examine the impact of small and medium enterprises in expansion of production and increasing economic growth of Rwanda. Their specific objectives are: to analyze the role of government in promoting the expansion of SMEs; to investigate the critical success factors that influence the performance of SMEs in Rwanda and to analyze the role of SMEs for national economy and poverty alleviation in Rwanda.

III. IMPORTANCE OF SMES IN DEVELOPMENT

According to UNCTAD 2002, SMEs play an important role as the main productive sector in developing countries. The export competitiveness of these small enterprises depends in particular on the capability of these to maintain its presence in the international market [11]. They need to develop their export knowledge and expertise to the extent to be able to offer high quality products at competitive prices [12].

IV. SMES DEVELOPMENT SUPPORT BY THE GOVERNMENT OF RWANDA

A large proportion of the Rwanda Development Bank's (BRD) lending activities provide direct financing to SMEs and cooperatives, refinancing to microfinance institutions, equity financing and equipment leasing through agricultural and other loan funds. Other support facilities, managed by commercial banks as well as Micro-finance Institutions (MFI), target women and youth funds, cooperatives, and agro-business [13].

In encouraging the Rwandan to invest more, the government of Rwanda creates: Rwanda Development Board (RDB) was formed to coordinate and combine all services and support for Rwandan private sector development including investment and export support, business registration, environmental and tax advice, free trade zone and information technology development and cluster specific programs such as tourism development. It provides several specific initiatives to support SMEs, including training programs, networking and moveable asset registration, in addition working to improve the overall business environment in Rwanda; Rwanda Cooperative Agency (RCA) works to train and regulate cooperatives in the rural areas; Private Sector Federation

(PSF) was formed to represent the interests of the private sector vis-à-vis the government of Rwanda (GoR) and Business Development Service Centers (BDS) as a support of Rwandan SMEs through financing mechanisms [14].

V. Methodology

In Rwanda there are more than 100000 people working in SMEs. Due to limitations of time and funds, the target population in this research could not cover all SMEs in Rwanda [15]. Stratified random sampling techniques were used for the study [16], [17]. This study used a total population of 150 respondents selected from SMEs in Rwanda which comprises of 63 respondents working in different medium enterprises; 77 respondents working also in different small enterprises and 10 officers in the ministries and government boards that have SMEs in their attribution. Primary and secondary data were the instrument used to collect data from the respondents. All computation was performed by using SPSS which were presented in tables and charts.

VI. RESULTS

The following results is presented as follow;

Distribution of establishment (number and percent) in Rwanda

Size	Numbers	Percentage
Micro enterprises (1-3)	138,894	90.1
Small enterprises (4-30)	13,385	8,7
Medium enterprises (31-100)	1,628	1.1
Large enterprises (100+)	329	0.2
Total	154,236	100

Source: Establishment census, 2014

Classification of enterprises according to their number of the full time employees

	Frequency	Percent	Cumulative Percent
Valid Less than 4	28	18.7	18.7
Between 4 and 30	64	42.7	61.3
From 31 to 100	45	30.0	91.3
Above 100	13	8.7	100.0
Total	150	100.0	

Classification of respondents according to their main activity

		Frequency	Valid Percent	Cumulative Percent
Valid	Mining	11	7.3	7.3
	Textile	5	3.3	10.7
	Transport	1	.7	11.3
	Agriculture	35	23.3	34.7
	Paints	1	.7	35.3
	Oil processing	1	.7	36.0
	Food and beverage	38	25.3	61.3
	Pharmaceutical	2	1.3	62.7
	Electronically	5	3.3	66.0
	Craft	41	27.3	93.3
	Paper and rubber	1	.7	94.0
	Leather manufacture	8	5.3	99.3
	Construction	1	.7	100.0
	Total	150	100.0	

Classification of enterprises according to their net capital invested

		Frequency	Percent	Cumulative Percent
Valid	Less than 500000	24	16.0	16.0
	Between 500000and 1500000	79	52.7	68.7
	Between1500000and 7500000	37	24.7	93.3
	Above 7500000	10	6.7	100.0
	Total	150	100.0	

Classification of firms according to their sales turnover

	Frequency	Valid Percent	Cumulative Percent
Valid Less than 500000	1	.7	.7
Between 500000 and 12000000	36	24.0	24.7
Between 12000000 and 50000000	61	40.7	65.3
Above 50000000	52	34.7	100.0
Total	150	100.0	

Statistics of money spent in R&D, marketing and development, capital invested and sales turnover in 2016

	Money spent in research and development	Net capital invested	Sales turnover in 2016	Money spent in marketing and advertisement
N Valid	150	150	150	150
Missing	0	0	0	0
Mean	2.6267	2.2200	3.0933	3.7133
Std. Deviation	.95219	.79318	.78018	1.26564

Views of respondents on application for loan in financial institutions

	Frequency	Valid Percent	Cumulative Percent
Valid Yes	131	87.3	87.3
No	19	12.7	100.0
Total	150	100.0	

Enterprise received loan from bank

	Frequency	Valid Percent	Cumulative Percent
Valid Yes	131	87.3	87.3
No	19	12.7	100.0
Total	150	100.0	

Challenges or problems affecting SMEs performance

	Frequency	Valid Percent	Cumulative Percent
Valid Customers	18	12.0	12.0
Competition	14	9.3	21.3
Access to finance	9	6.0	27.3
Skilled staff or regulation labors	11	7.3	34.7
Lack of raw material	41	27.3	62.0
Transportation	16	10.7	72.7
Lack adequate infrastructure	14	9.3	82.0
Access to electricity	8	5.3	87.3
Lack initiative of creativity	19	12.7	100.0
Total	150	100.0	

Government issues towards SMEs

	Frequency	Valid Percent	Cumulative Percent
Valid Increase workshop and training	69	46.0	46.0
Ameliorate infrastructure	26	17.3	63.3
Reduce taxes	54	36.0	99.3
Offering license and permit	1	.7	100.0
Total	150	100.0	

Generalization of the findings

In order to assess the contribution of SMEs to the economic development of Rwanda, following keys were guiding statements that the researcher wanted to verify. SMEs have been completely recognized by the government as the main engine of economic growth and the major factor in promoting private sector development and partnership. The development of the SME sector represents an essential element in the growth strategy of most economies and holds particular significance. SMEs have not played the significant and crucial role they are expected to play in Rwanda's economic growth, development and industrialization.

The study found out that access to finance or capital is not the most problem facing SMEs in Rwanda. The greatest or worst problem confronting SMEs in Rwanda is managerial capacity. Access to capital or finance is necessary but not an enough condition for successful entrepreneurial development. Marketing knowledge is important for the promotion of growth and development of small and medium enterprises. In this regard, the Rwandan government has formulated SMEs' strategies to ease marketing challenges by creating inter-linkage

mechanisms with other institutions, providing training on marketing, developing export support programs and marketing information centre. However, inability to sell the products and services; lack of adequate marketing channels, and lack of marketing skills are the problems to the starting business and further growth of the sector. The problems of SMEs' management arises from the limited knowledge and ability of the owner or shortage of competent staff to advice the owner on management policies. Decision-making skills, management and accounting practices are very low for SMEs operators in developing countries even in Rwanda. The main reason for an education and training program is to measure if the members are comfortable with the system and increase the expertise and knowledge level of the members. Some companies offer training courses for new employees. The purpose of training is to improve knowledge, skills and attitudes that in turn increase confidence, motivation and job satisfaction. In the business research and development is compulsory for increasing innovation; initiative of creativity and expansion of the markets. In Rwanda there is lack of businesses' researcher.

1. Problems occurred in SMEs

The scale of production and distribution level has been facing problems in the SMEs operated of Rwanda. The major problems that SMEs fighting in their everyday activities are: non-availability of raw materials locally; inadequate machines (many of raw materials and machines inputs are imported from abroad at high price); the high and multiple taxes; inadequate suppliers of their products; small markets; distorted prices (too high or too low, discriminatory and excessive marketing margins); management problems; access to finance; insufficiency of capital; lack of infrastructure; government policy inconsistency and bureaucracy; environmental factors related problems; access to modern technology in rural areas; unfair competition; marketing problems; absence of research and development; over-dependence on imported raw materials and spare parts; low level of entrepreneurship skills as well as in monitoring and evaluation.

2. Suggestions for challenges faced by SMEs in Rwanda

The government is urged to get involved in determining the interest rate, centralize the interest rates such that the rate is uniform for the microfinance institutions and also monitor the services of the microfinance institutions. Moreover, financial institutions should develop better lending terms enabling small and medium firms to benefit from them. The entrepreneurs should invest in research and development so as to explore what can be done to improve the small and medium firm's situations either by looking into what other developed countries have done or by coming up with new ideas. Stakeholders should develop training programs and courses aimed at small and medium business owners and their respective staffs. This will ensure that the small and medium business owners are equipped with adequate business knowledge and experience for them to run successful small and medium businesses.

SMEs' should try to seek professional advice and consultancy in matters that are not very familiar to them such how to access loan, how to write a business plan, marketing strategies and human resource management. The SMEs should regularly review their marketing strategies and policies to ensure that they are update and they are effective. In the review process, SMEs should incorporate creative and innovative strategies which will improve the overall performance of the enterprises. The study findings also revealed that the most preferred innovative

marketing strategies by SMEs in Rwanda were creative product placement and innovative branding, and that innovative marketing strategies are helpful in dealing with the changing environment to maintain a competitive advantage.

3. Conclusion of the study

SMEs represent the sub-sector of special focus in any significant economic restructuring program that targets employment generation, poverty eradication, food security, rapid industrialization and the reduction of rural-urban migration. Based on the study findings, the study concludes that marketing strategies influence the performance of Small and medium enterprises in Rwanda. Customer relationship strategies also affect the performance of SMEs. The study also concludes that innovative marketing strategies influence the performance of SMEs. Finally, marketing influences performance and poor marketing strategies lead to poor performance of small and medium enterprises. The solution of Rwandan SMEs' problem can only be realized if both the leaders and the citizens concertedly work together. The government has to take the lead by increasing the current reforms to the educational and industrial sectors particular as regards policy formulation and implementation, ports reforms, transportation sector reforms, ameliorate the infrastructural facilities.

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