

UNIVERSITY OF RWANDA

COLLEGE OF BUSINESS AND ECONOMICS

SCHOOL OF BUSINESS

DEPARTMENT OF FINANCE

THE EVALUATION OF LOANS TOWARDS SMES DEVELOPMENT

CASE STUDY: RIM LTD HUYE BRANCH

Thesis submitted to the University of Rwanda in partial fulfillment of the Requirements
the award of Master's degree with Honors in Business Administration

By: Jeannette KUBWIMANA

Reg.Number: PG 10210144

Supervisor: Dr. Marvin Elie MBASSANA

Kigali, October 2016

DECLARATION

I, Jeannette KUBWIMANA, hereby declare that this research thesis entitled “the evaluation of loans towards SMES development, case study: RIM Ltd Huye branch” is my own work and to the best of my knowledge it contains no materials previously published or written by another person, no material which, to a substantial extent has been accepted for the award of any other degree or diploma at UR or any other educational institution, except where due acknowledgement is made.

Signed:.....Date.....

APPROVAL

This thesis entitled “The Evaluation of Loans towards SMES development, case study: RIM Ltd Huye branch” has been submitted for examination with the approval of the following supervisor:

Names.....Date.....

DEDICATION

To my God;

To my love NDAYAMBAJE Emmanuel;

To my child ISHIMWE Jessica Emmanuella;

To my family.

ACKNOWLEDGEMENTS

The completion of this dissertation would not have been possible without joint efforts from a number of people to whom I owe to give my thanks.

First of all, I thank my God who always guide, protect me for doing this thesis.

I would like to thanks my Love NDAYAMBAJE Emmanuel for his support and sacrifice for my study in Masters program for payment the scholar fees and others expenses.

I am greatly indebted to my supervisor Dr. Marvin Elie MBASSANA for having accepted to supervise this work and his highly quality academic advice and insight thought along the research work.

I thank also University of Rwanda for all support in this Post graduate study especial the College of Business and Economics.

I extend my sincere appreciation to employees and customers of RIM Ltd for responding to questionnaires for reaching this research.

Finally, I thank all my friends and classmates whom we shared ideas and cooperated together.

Thank you all for your effort that directly or indirectly had a positive impact on this work.

Thank you very much

LIST OF TABLES

Table 1: Socio-demographic characteristic of key informants	28
Table 2: Demographic information of respondents	39
Table 3: Categories of loans amount applied by the customers.....	41
Table 4: Categories of loans amount offered by RIM Ltd Huye branch	42
Table 5: Variation of loans applied for SMEs	42
Table 6: Loans offered to SMEs	43
Table 7: Salary advance applied as loans	44
Table 8: Salary advance offered	45
Table 9: Agriculture and farming loans applied	46
Table 10: Loans offered for Agriculture and farming	47
Table 11: Loans applied for equipment	48
Table 12: Loans offered for equipment	49
Table 13: Social loans applied	50
Table 14: Social loans offered	51
Table 15: Category of respondents' business and its employees	52
Table 16: Length of customers' business.....	54
Table 17: Criteria required by RIM Ltd for giving the loan	54
Table 18: Respondents' opinion on interest rates required by RIM.....	56
Table 19: Respondents' opinion on existence of problem for repayment a bank loan	57
Table 20: Problems of repayment of financial institution loan.....	57
Table 21: Length of obtaining loans from RIM Ltd	58
Table 22: Repayment of loan on conventional time and requesting of another loan	59
Table 23: Position of respondents on contribution of loan in SMEs development	60
Table 24: Roles of SMES in economic development due to loans provided by RIM Ltd	61
Table 25: Hypothesis test.....	64

LIST OF FIGURES

Figure 1: Theoretical framework loans towards SMEs development.....	8
Figure 2: Trend of loans applied for SMEs from 2010-2014	43
Figure 3: Loans offered to SMEs from 2010-2014.....	44
Figure 4: Loans applied to in terms of salary advance from 2010-2014	45
Figure 5: Salary offered by RIM Ltd as salary advance from 2010-2014	46
Figure 6: Loans applied to RIM Ltd in terms of agriculture and farming from 2010-2014	47
Figure 7: Loans offered in terms of agriculture and farming from 2010-2014	48
Figure 8: Loans applied in terms of equipment from 2010-2014	49
Figure 9: Loans offered in terms of equipment from 2010-2014	50
Figure 10: Loans applied to RIM Ltd in terms of social loans from 2010-2014.....	51
Figure 11: Loans offered by RIM Ltd in terms of social loans from 2010-2014	52

LIST OF ACCRONYMES, SIGLES AND ABBREVIATIONS

\$: American dollar
ASSOFI	: <i>Association de Solidarité Financière</i>
BKRM	: Bank Kerjasama Rakyat Malaysia
BNR	: <i>Banque Nationale du Rwanda</i>
CODISOFI	: <i>Coopératives Diocésaines de Solidarité Financière</i>
CRS	: Catholic Relief Services
EADB	: East African Development Bank
EDPRS	: Economic Development and Poverty Reduction Strategy
GDP	: Gross Domestic Product
KCB	: Kenya Commercial Bank
MFIs	: Micro Finance Institutions
MINICOM	: Ministry of Trade and Industry
NGOs	: Non Governmental Organizations
NPLs	: Non Performing Loans
PLPP	: Poverty Lending Pilot Project
RIM Ltd	: Réseau Interdiocésain pour la Micro finance
SMEs	: Small and Medium Enterprises
UNIDO	: United Nations Industrial Development Organization

TABLE OF CONTENT

DECLARATION	i
APPROVAL	ii
DEDICATION	iii
ACKNOWLEDGEMENTS	iv
LIST OF TABLES	v
LIST OF FIGURES	vi
LIST OF ACCRONYMES, SIGLES AND ABBREVIATIONS	vii
TABLE OF CONTENT	viii
ABSTRACT	xii
CHAPTER ONE: GENERAL INTRODUCTION	1
1.1. Background to the study.....	1
1.2. Statement of the problem	2
1.3. Objectives of the study.....	3
1.3.1. General objective.....	3
1.3.2. Specific Objectives.....	3
1.4. Hypothesis of the study	4
1.5. Research questions	4
1.6. The scope of the study.....	4
1.7. Organization of the study	4
CHAPTER TWO: LITERATURE REVIEW	5
2.1. Definition of key concepts	5
2.1.1. Loan.....	5
2.1.2. Small and medium enterprise.....	5
2.1.3. Development	7
2.2. Theoretical framework	8
2.2.1. Theories of Loans	9
2.2.1.1. Types of loans	9
2.2.1.1.1. Accounts receivable loans.....	9
2.2.1.1.2. Inventory loans.....	9

2.2.1.1.3. Equipment loans	9
2.2.1.1.4. Real estate loans	9
2.2.1.1.5. Cash flow financing	9
2.2.1.1.6. Installment loans	10
2.2.1.1.7. Straight commercial loans	10
2.2.1.1.8. Long – term loans.....	10
2.2.1.1.9. Character loans	10
2.2.1.2. Loans portfolio.....	10
2.2.1.2.1. Portfolio.....	11
2.2.1.2.2. Loan Portfolio	11
2.2.1.2.3. Portfolio Management.....	12
2.2.1.2.4. Poor portfolio risk management or weakness in the economy.....	12
2.2.1.3. Contribution of loans in SMEs development.....	14
2.2.2. Theories of SMEs development	15
2.2.2.1. Background of SMEs in Rwanda.....	15
2.2.2.2. Enabling Policy Environment and Infrastructure	16
2.2.2.3. Opportunities provided by SME in Rwanda.....	17
2.2.2.4. SMEs and Access to Finance in Rwanda.....	18
2.2.2.5. Roles of SMEs in economic development	19
2.3. Empirical studies	22
CHAPTER THREE: RESEARCH METHODOLOGY	24
3.1. Introduction	24
3.2. Research design.....	24
3.3. Study population	24
3.4. Sample size selection and calculation	25
3.5. Data collections techniques	26
3.5.1. Sources of data	26
3.5.1.1. Primary data	26
3.5.1.1.1. Questionnaire	26
3.5.1.1.2. Interview.....	27
3.5.1.2. Secondary data	28

3.5.1.2.1. Documents study	28
3.6. Data processing, analysis and interpretation	29
3.6.1. Editing.....	30
3.6.2. Coding.....	31
3.6.3. Tabulation.....	31
3.7. Ethical consideration	31
CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION ...	32
4.1. Presentation of RIM Ltd.....	32
4.1.1 Introduction	32
4.1.2 Mission of RIM Ltd.....	33
4.1.3. Objectives of RIM Ltd.....	33
4.1.4. Loan activities and Products	34
4.2.5. The organizational structure of RIM Ltd	34
4.2.6. Organization chart of RIM Ltd at agency level.....	35
4.2.7. Services and tasks in RIM Ltd.....	35
4.2.6.1. The Management of RIM Ltd	35
4.2.7.2. The committee of credit.....	36
4.2.6.3. The accounting department.....	37
4.2.6.4. The post of supervisor.....	37
4.2.6.5. The post of credit agent.....	37
4.2.6.6. The post of the Secretary	38
4.2.6.7. The post of Cashier	38
4.2.6.8. The post of the counter Agent.....	38
4.2.6.9. Target clients.....	39
4.2. Demographic information of respondents.....	39
4.3. Findings of research	41
4.3.1. Categories of loans amount applied and received by the customers in RIM Ltd Huye branch	41
4.3.2. Trend lines of loans applied and received by customers.....	42
4.3.2. Contribution of loans in SMEs development.....	59
4.3.3. Roles of SMEs in economic development due to loans provided by RIM Ltd.....	61

4.4. Discussion of research findings.....	62
4.4.1. Loans requested and received by SMES	62
4.4.2. Contribution of loans in SMEs development.....	63
4.4.3. Roles of SMEs in economic development due to loans provided by RIM Ltd.....	63
4.5. Hypothesis test and objectives achievement	63
CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS	65
5.1. Conclusions	65
5.3. Recommendations	66
5.4. Suggestions to further researchers.....	67
REFERENCES.....	69

ABSTRACT

The SMEs are the engine of National economy and have the role of increase of income of people, employment creation, and intensive labor than large firms and increase the competitiveness. Despite the role of SMEs in national economy, they have the constraints affecting their development like: Finance issues, lack of managerial skills, lack of equipment and technology, regulatory issues. The fundamental objective of this study is the Evaluation of Loans towards SMEs development. The study population was 2353. The sample size was 100 respondents composed of 96 customers and 4 staff of RIM Ltd. The questionnaire, interview, documentation were used to collected data. Data was analyzed by using SPSS. Based on the findings related to the second objective on contribution of loans in SMEs development, it was revealed that 50.0% confirmed that profitability of business, increase in sales, and increase in stock level, increase of working capital and expansion of business are performances achieved by SMEs owners. With these findings, the researcher concluded that to get loan from financial institution is significant and necessary for ensure the development of SMEs. For the third objective on roles of SMEs in economic development, findings revealed that SMEs play a role in economic development through the poverty alleviation by creating the jobs, increasing of people's income and overall living standards, SMEs contribute to the growth of existing business, opening up the new business opportunities, SMEs provide the employment opportunities, SMEs improves income of people and enhancement of competition and entrepreneurship. By these findings, the researcher concluded that the collaboration of people with financial institution is vital because they facilitate to access to finance. Lastly but not least, one can conclude that loans lead to small and medium enterprises development, by using factors that greatly influence development like income of people, education level, and investment level. In addition, it can be said that the objectives of the study were successfully achieved. Findings and conclusions were found in line with the interpretation of the data. The research was carried out on the role loan in small and medium enterprises development with reference to RIM Ltd customers. The study established a positive significant relationship between amount of loan and SMEs achievement of goals. So the researcher is enables to reject the null hypothesis. The researcher therefore concluded that loans contribute to the SMEs development and rejects the alternative hypothesis.

Keywords: Loans, Loans portfolio, SMEs development and Banks sectors

CHAPTER ONE: GENERAL INTRODUCTION

1.1. Background to the study

Rwanda is predominated by the society where 90% of the population depends on agriculture. As Rwanda's economy like any other country in sub-Sahara Africa is characterized by a multitude of economic activities of which agricultural looms largely. Agriculture productivity however is still low consequently yielding low income to the population which has aggravated poor access to social services, prolonged human misery and hardening the ability of the population to break out of the vicious cycle of poverty-a phenomenon that explains why the social and economic welfare of the citizens is still low and in a dire state (MINICOFIN, 2007).

A crucial element in the development of the SME sector is access to finance, particularly to bank financing, given the relative importance of the banking sector in serving this segment. Firm-level data collected by the World Bank show that access to finance is perceived as one of the main obstacles to doing business (World Bank, 2014). A number of studies have shown that financing is a greater obstacle for SMEs than it is for large firms, particularly in the developing world, and that accesses to finance affect the growth of the SME sector more than that of large companies (Atieno, 2009).

The SMEs are considered a profitable business prospect and provide an important opportunity for cross-selling. Banks consider that the SME lending market is large, not saturated and with a very positive outlook. A number of obstacles are, however, constraining further banks' engagement with the SME segment, including SME-related factors such as the lack of adequate information and collateral as well as their largely family-owned structures. Macroeconomic factors, business regulation, the legal and contractual environment, the lack of a more proactive government attitude towards the segment, some areas of prudential regulation and some bank-specific factors are also perceived to negatively affect the SME lending market in the sample countries.

It is on this background that Rwanda like other developing countries has greatly embraced the policy of promoting the private sector like SMEs in order to increase the GDP and reducing the unemployment of people (EDPRS II, 2013 -2018)

Thus basing on such ideas, the researcher picked interest in studying the Evaluation of loans portfolio towards Small and Medium Enterprises' development considering the loans as the important service to stimulate economic growth and development of SMEs in Rwanda. The support of financial institutions has gained major significance in envelopment aid as a means of creation of SMEs.

The focus of this study was on the Evaluation of loans portfolio towards Small and Medium Enterprises' development, with a reference to RIM Ltd / Huye Branch.

Therefore this chapter presents an overview of this research presentation. It is made up of brief introduction, the background to the study, the statement of the problem, the objectives of the study, the hypothesis, the research questions, the significance of the study, the scope and the format of this research presentation.

1.2. Statement of the problem

SMEs are known as the engine of a country's economy due to their contribution in employment, increase of people's incomes, as well as contribution to overall economic and GDP growth in developed or developing countries.

SMEs have been widely recognized by various governments of the world and among development economists as the main drive of economic growth and a crucial factor in promoting private sector development and partnership in a country (Arlinda, 2015).

According to the United Nations Industrial Development Organization (UNIDO) report of 2012, SMEs have a significant role to play in economic development they also play an import role in poverty alleviation and unemployment generation. SMEs contribute to a more efficient allocation of resources. They tend to adopt labor intensive method of production and support the development and diffusion of entrepreneurship spirit and skills and help in reducing economic disparity between rural and urban centers.

Despite the importance of SMEs in national economic development, They have some constraints affecting their development like : Lack of the finance , lack of entrepreneurship culture ,the unfavorable business environment , limited innovation and competitiveness in the SMEs sector

caused by a lack of technical and managerial skills , SMEs have inadequate access to market information that could benefit their business as well inadequate knowledge about marketing to their business, the government policies (high taxes charged on business) , informal economy , bad location , the economic instability (inflation , ...) and some conditions fixed by banks likes high collateral requirement, high interest rate, not confident about success of application, not able to fulfill bank requirements, long period of receiving loan, and short term period of loans repayment those factors affecting negatively development of SMEs .

The role of bank credit is significantly important having into consideration that it remains the main external source of financing for SMEs, banks impose a number of constrains for credits borrowers for their own safety reasons and to decreases the credit exposure, because they are afraid that borrowers may not pay the installments and they may not be able to collect Non Performing Loans, having into consideration the inefficient judicial system in country. This is one of the main challenges encountered by SMEs in their development, which also pushes bankers to tighten credit procedures (Douglas J. Elliott, 2013).

All these banks restricting for loan borrowers are often discouraging many entrepreneurs, some of whom do not even try to get a loan. Such factors also result in failure of existing business or the ones in early stage of development, who may have had potentially good idea to open new business and create new opportunities.

That is the reason why the above statements incited me to select the following topic: The evaluation of loans towards SMEs development.

1.3. Objectives of the study

1.3.1. General objective

The general objective of this work is the evaluation of loans towards SME development.

1.3.2. Specific Objectives

- To determine the trend of loans at RIM Ltd over a given period of time
- To evaluate the contribution of loans in SMEs development
- To examine the roles of SMEs in economic development of customers due to loans provided by RIM Ltd

1.4. Hypothesis of the study

H₀: Loans contribute to the SMEs development

H₁: Loans do not contribute to the SMEs development

1.5. Research questions

A number of research questions enabled the researcher in focusing the study on the set objectives. These are:

1. What is the trend of loans over years at RIM Ltd?
2. What is the contribution of loans in SMEs development?
3. What are the roles of SMEs in economic development of customers due to loans provided by RIM Ltd?

1.6. The scope of the study

The study is limited to the evaluation of the loans towards SMEs development with specific reference to RIM Ltd Huye branch. The researcher chooses RIM Ltd because their mission is to contribute to the economic growth of the country by reinforcing the idea of entrepreneurship related to my topic and it is near to my home and job.

1.7. Organization of the study

The thesis is made up of five chapters, each following the other:

- **Chapter one**

Presents the introductory part, background to the study, statement of the problem, objectives of the study, hypothesis, and identification of the study variables, significance of the study, research questions, scope and area of study.

- **Chapter two:** Covers the literature review, which reviews the results of the available studies in this area.
- **Chapter three:** Covers research methodology.
- **Chapter four:** focuses on the presentation of data and analysis of the data collected. It starts with the test Accessibility to loans and moves on to establish loans Contributions toward SMEs' development.
- **Chapter five:** summarizes the findings of the study and offers recommendations for improvements and areas for further research.

CHAPTER TWO: LITERATURE REVIEW

This chapter deals with the review of relevant literature. The researcher discusses past research done on the topic and other related ones in order for the researcher to analyze, summarize and relate previous studies. This enabled the researcher to establish theoretical framework for the problem and to establish the significance of the study.

2.1. Definition of key concepts

In this section, the researcher selected the key concepts including small and medium enterprise (SMEs) and development.

2.1.1. Loan

In finance, a **loan** is a debt provided by one entity (organization or individual) to another entity at an interest rate, and evidenced by a note which specifies, among other things, the principal amount, interest rate, and date of repayment.

A loan is the act of giving money, property or other material goods to another party in exchange for future repayment of the principal amount along with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as open-ended credit up to a specified ceiling amount (Samuel, 2007).

A loan in terms of small business finance is a sum of money advanced to a business that must be repaid, with interest at some point in the future. The lender must bear the risk that the borrower may not repay the loan. The interest rate charged is the price for that risk. A loan is money, classified as debt, for temporary use.

2.1.2. Small and medium enterprise

The European definition of SME follows: "The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro." (Du Toit, Erasmus, & Strydom, 2009).

A comprehensive definition of an SME in South Africa is therefore any enterprise with one or more of the following characteristics:

- Fewer than 200 employees
- Annual turnover of less than R64 million
- Capital assets of less than R10 million
- Direct managerial involvement by owners (Du Toit, Erasmus, & Strydom, 2009).

The term SMEs covers a wide range of definitions and measures, varying from country to country and between the sources reporting SME statistics.

SMEs: There is no universally agreed definition of SME; some of the commonly used criteria are number of employees, value of the assets, and value of sales and size of capital. Among them the most common definitional basis used is employees because of the comparatively ease of collecting this information.

Classification of business by size, according to SBA : Very small : under 20 employees , Small between 21 and 99 employees , Medium between 100 and 500 employees , Large enterprise up of 500 employees (Ayyagari, Meghana, Thorsten Beck, and AsliDemirgüç-Kunt. (2003).

In the Unites States and Canada: SME generally include the firms with less than 500 employees. The U E defines a Microenterprises as 1 to 10 employees; Small enterprises between 11 and 50 employees and medium between 51 and 250 employees. The annual turnover of Euro 40 million or less, balance sheet valuation not exceeding Euro 27 million (US Small Business Administration, March, 2008).

According to the World Bank 2004 : Micro enterprise less than 10 employees , total assets of up to \$ 10 000 and total annual sales of up to \$ 100 000 ; Small enterprise up to 50 employees , total assets and sales of up to \$ 3 million and Medium enterprise up to 300 employees, total assets and total sales of up to \$ 15 million (World Bank (2004).

In Japan: SME is defined as a firm with employees of 300 or less and capital size of 300 million Yen or less in manufacturing, a firm with employees of 100 or less and capital size of 100 million yen or less, and a firm with employees of 50 – 100 or less and capital size of 50 million Yen in retail and service sector (Bataa, 2008).

According to Garikai (2011) SMEs are defined by number of workers employed, capital employed and sales turnover.

Petrakis and Kostis (2012) explore the role of interpersonal trust and knowledge in the number of small and medium enterprises. They conclude that knowledge positively affects the number of SMEs, which in turn, positively affects interpersonal trust. Note that the empirical results indicate that interpersonal trust does not affect the number of SMEs. Therefore, although knowledge development can reinforce SMEs, trust becomes widespread in a society when the number of SMEs is greater

2.1.3. Development

According to Todaro (1985), development is defined as multi dimensional process, involving major changes in social structures, popular attitude and national institutions as well as acceleration of economic growth, the reduction of inequality and the eradication of poverty”. The researcher can say that development in its sense must represent the whole or change by which an entire social system turned to the diverse basic needs and desires of individuals and social groups.

This development includes the specification that social groups have access to organizations, basic services such as education, housing, health services, and nutrition, and above all else, that their cultures and traditions are respected within the social framework of a particular country.

2.2. Theoretical framework

This section is based on the theories of related to small and medium enterprises and development.

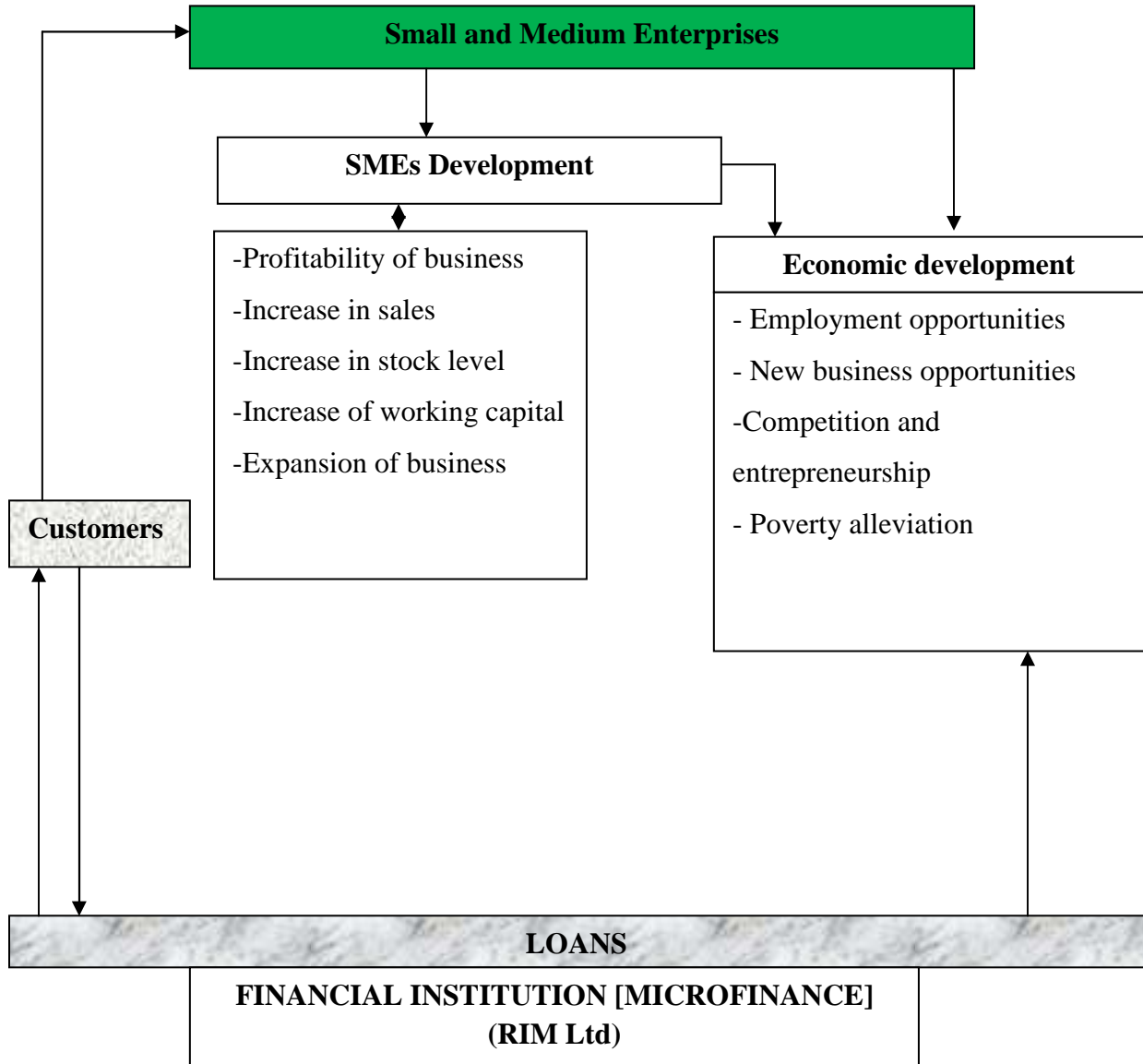


Figure 1: Theoretical framework loans towards SMEs development

Source: Prepared by the researcher, 2016 using data from the literature review.

2.2.1. Theories of Loans

This section is based on the loans, Loans portfolio and contribution of loans in SMEs development.

2.2.1.1. Types of loans

2.2.1.1.1. Accounts receivable loans

Bank may finance up to 80 percent of the value of their accounts receivable. When customers such as government are involved, an entrepreneur can develop a factoring arrangement whereby the bank buys the accounts receivable at a value below the face value of the sale and collects the money directly from the account.

2.2.1.1.2. Inventory loans

Inventory is another of the firm's asset that is often a basis for a loan, particularly when the inventory is liquid and can be easily sold. The bank advances a large percentage of the invoice price of the goods and is paid on a pro rata basis as the inventory is sold.

2.2.1.1.3. Equipment loans

Equipment can be used to secure long term financing, usually from 3 to 10 years. Financing the purchase of new equipment, financing used equipment already owned by the company, sale – leaseback financing, or lease financing. In lease financing, the company acquires the use of equipment through a small down payment and guarantee to make a specified number of payments over a period of time. The total amount paid is the selling price plus the finance charges.

2.2.1.1.4. Real estate loans

This mortgage financing is usually easily obtained to finance a company's land, plant, or another building, often up to 75 percent of its value.

2.2.1.1.5. Cash flow financing

The other type of debt financing frequently provided by commercial banks and other financial institutions is cash flow financing. These conventional bank loans include lines of credit,

installment loans, straight commercial loans, long term loans, and charter loans. Line of credit financing is the form of cash flow financing used by the entrepreneur. In arranging for a line of credit to be used, the company pays a commitment fee to ensure that the commercial bank will make the loan when requested and pays interest on any outstanding funds borrowed from the bank.

2.2.1.1.6. Installment loans

Can obtain by a venture with track record of sales and profits. Is used to cover working capital needs for a period of time, such as when seasonal financing is needed. These loans are usually for 30 to 40 days.

2.2.1.1.7. Straight commercial loans

The funds are advanced to the company for 30 to 90 days. These self-liquidating loans are used for seasonal financing and for building up inventories.

2.2.1.1.8. Long – term loans

This loan is available to strong, mature companies for up to 10 years. The debt incurred is repaid according to fixed interest and principal schedule. The principal start being repaid in the second or third year of the loan, with only interest paid the first year.

2.2.1.1.9. Character loans

When business itself does not have the assets to support a loan, the entrepreneur may need a charter (personal) loan. These loans must have the assets of the entrepreneur or other individual pledged as collateral or the loan cosigned by another individual. Assets that are pledged include cars, homes, land, and securities.

2.2.1.2. Loans portfolio

Loan is a debt. Like all debt instruments, loan entails the redistribution of financial assets over time, between the lender and borrower. The borrower initially receives an amount of money from the lender, which he pays back, but sometimes not always in regular installments, to the lender. This service is generally provided at a cost, known as interest on the debt. One of the principal

duties of financial institutions is to provide loans, this is typically the source of income to banks, bank loans and credit also contribute one of the ways of increasing money supply in the economy.

2.2.1.2.1. Portfolio

The term portfolio refers to any collection of financial assets such as cash. Portfolios may be held by individual investors and /or managed by financial professionals, hedge funds, banks and other financial institutions. It is a generally accepted principle that a portfolio is designed according to the investor's risk tolerance, time frame and investment objectives. The monetary value of each asset may influence the risk / reward ratio of the portfolio and is referred to as the asset allocation of the portfolio. When determining a proper asset allocation one aims at maximizing the expected return and minimizing the risk. This is an example of a multi-objective optimization problem: more efficient solutions are available and the preferred solution must be selected by considering a tradeoff between risk and return (Daniel, 2011).

2.2.1.2.2. Loan Portfolio

The value of the loan portfolio depends not only on the interest rate earned on loans but also on the likelihood that interest and principal will be paid. (Jasson, 2002). Lending is the principal business activity for most commercial banks, the loan portfolio is typically the largest assets and predominate source of revenue. As such, it is one of the greatest sources of risk to financial institution's safety and soundness. This may be due to the poor portfolio risk management or weakness in the economy. Loan recovery has historically been the major cause of bank losses and failures. Loan portfolio constitutes the largest operating assets and source of revenue of most financial institutions. However, some of the loans given out become non-performing and adversely affect the profitability and overall financial performance of the lending institutions. The rise in non-performing loans ratios have also serious consequences not only to microfinance institutions but also to the entire economy, and the level of non-performing loan is a significant determinant of the level of bank costs as well as the estimates of scale economies.

Today, many lending institutions in Rwanda are confronted with the challenge of that rising of non-performing loan portfolios despite efforts at stemming to tide. According to BNR (National

Bank of Rwanda), Financial Stability Report (2008), the total NPLs of the MFIs stood at 6% in 2005 and by 2007, it has shot up to 9%. With loans and Advances making over 50% of the total operating assets of MFIs, if the trend of the incidence of NPLs continues, it will have a huge negative impact on the operations of the MFIs in Rwanda. This issue has gained increased attention in recent years because of its adverse effects on the banking and non-banking financial institutions and the country's economy as a whole. The immediate consequences of NPLs are the reduction in profitability through disposal costs like provisions for credit losses and direct write-offs for bad debts and shrinking of loan able funds.

Large amounts of NPLs in the banking and non-banking financial system have at many times threatened the failure and actually collapsed many banks and microfinance institutions.

2.2.1.2.3. Portfolio Management

Portfolio theory deals with the selection of portfolio that maximize expected returns consistent with the individual acceptable levels of risks the theory provides a framework for specifying and measuring investment risk and to develop relationships between risk and expected returns . Main basic assumption is that investors often want to maximize returns from their investments for a given level of risk (Reilly & Brown, 2011). The basic portfolio model was developed by Harry Markowitz in the 1950 and early 1960 s. Markowitz is considered the father of model portfolio theory since he originated the portfolio model that underlies modern portfolio theory. Markowitz established that under reasonable assumptions, the variance or standard deviation of the expected rate of return of portfolio is the weighted average of the expected return for the individual assets in the portfolio.

2.2.1.2.4. Poor portfolio risk management or weakness in the economy

Loan portfolio problems have historically been major cause of losses and failures. Effective management of the loan portfolio and the credit function is fundamental to a financial institution safety and soundness. Some of the loans given out by those lending institutions unfortunately become non-performing and eventually result in bad debts with adverse consequences for the overall financial performance of the institutions. Nowadays, the issue of loan default (Non-Performing Loans) is becoming an increasing problem that threatens the sustainability of

Microfinance Institutions. As the loan portfolios of the lending institutions are major assets that generate a significant amount of interest income. It plays a critical role in determining the financial performance of the MFI and it can therefore be said that the healthier the loan of the MFI is, the better its financial performance will be. Non Performing Loans (NPLs) are always a source of misery for lenders because if an MFI has too much of it on its balance sheet, it can adversely affect its operations in terms of liquidity, profitability, debt- servicing capacity, lending capacity and ability to raise additional capital (J. Obuobi and G. Polio, 2010).

The rise in non-performing loans ratios has also serious consequences not only to MFI but also to the entire economy and according to Kwack, the level of non-performing loan is a significant determinant of the level of bank costs as well as the estimates of scale economies (Kwack, 2000).

The problem of NPLs has taken attention of many researchers and they provide some ideas on them. For example the research done in Bank Kerjasama Rakyat Malaysia (BKRM), in 2005-2009 shows that their NPLs trend is moving up and down. For instance, they find that the trend for NPLs is not giving any benefit for BKRM because they had slightly decrease the amount of profit. The study has been done by comparing the value of net NPLs of different years. From the differences value, researcher found that the factors contributed towards the NPLs are generally Economic Condition, Interest Rate, and Inflation Rate (De Young and Whalen, 2004).

Researches on the causes of bank failure show that poor quality of loan portfolio is statistically a major predictor of insolvency (Dermigie-Kunt, 2003; Barr and Siems, 1994) with failing banks usually having high levels of non-performing loans prior to failure. Capario and Klingebiel (1996) indicated that non-performing loans represented 75% of total loan assets in Indonesia, which led to the collapse of over sixty banks in 1997. Those various studies have been carried out on non-performing loan, but they do not show sufficiently how non-performing loan affect the Microfinance institution's performance, especially how they have effect on its operations in terms of liquidity and profitability.

Banks and microfinance institutions in Rwanda are not insulated from the problem of NPLs. Those institutions are away to be safe concerning the issue of the loans who become non-performing. For instance, the National Bank of Rwanda reports state that NPLs owed to Microfinance Institutions rose from 3.6 billion dollars in 2010 to 6.8 billion in 2011.

2.2.1.3. Contribution of loans in SMEs development

According to Kolari (2003), availability of credit is an important factor affecting survival of SMEs in entirely all clusters. This is probably because all firms require loans to finance working capital or make new investment that would ensure continuity and growth. Credit process streamlining is the key to improving profitability and expanding Small Business lending. Kolari study revealed that majority of SMEs accepted positive contributions of loans towards increasing their profits, stock and sales, thus placing them on a competitive ground.

For Bernard, (2007), working capital or current assets are those assets, which unlike fixed assets change their forms rapidly. Due to this nature, they need to be financed through short-term funds. Short-term funds are also called current liabilities. Every running business needs working capital. Even a business which is fully equipped with all types of fixed assets required is bound to collapse without (i) adequate supply of raw materials for processing; (ii) cash to pay for wages, power and other costs; (iii) creating a stock of finished goods to feed the market demand regularly; and, (iv) the ability to grant credit to its customers. All these require working capital. Working capital is thus like the lifeblood of a business. The business will not be able to carry on day-to-day activities without the availability of adequate working capital.

Working Capital is a major source for raising short-term funds. Banks extend loans to businesses to help them create necessary current assets so as to achieve the required business level. The loans are available for creating the following current assets: Stock of Raw Materials, Stock of Work in Process, Stock of Finished Goods and Debtors (Bernard, 2007).

Banks give short-term loans against these assets, keeping some security margin. The advances given by banks against current assets are short-term in nature and banks have the right to ask for immediate repayment if they consider doing so. Thus bank loans for creation of current assets are also current liabilities (Bernard, 2007).

As the company grows, it begins to generate capital through its operations, and as it establishes a track record of profitability, it will have more opportunities to obtain outside financing. Capital needed for expansion may be available from external sources, including a greater emphasis on debt financing through commercial lenders or equity financing through private investors and

firms. Loan purposes may include the purchase of commercial real estate, equipment, expansion improvements and working capital. Loans are available for many business purposes, such as real estate, business expansion, equipment, working capital, or inventory (Ashleigh, *et al.* (2013).

Many business owners decided to save capital instead of hiring additional employees and borrowing capital to invest in business expansions and inventory. Access to credit enables the SMEs owner to cover some or all of the cost of capital equipment, expansion, or renovation of buildings. Similarly, UWFT (2005) found that majority of SMEs that accessed adequate funds from microfinance institutions increased their volume of sales and the profit. The study also found SMEs acquired assets using Microfinance's loans.

For Makokha (2006), revealed that inadequacy of capital hindered the expansion of businesses and larger loans enabled SMEs to graduate to medium enterprises. Appropriate loan sizes for clients matching their needs, realistic interest rates, savings as a prerequisite, regular, short and immediate repayment periods and achieving scale can contribute to the sustainability of micro and small enterprises and limited access to finance is a major constraint to business creation and expansion.

2.2.2. Theories of SMEs development

This section is based on Background of SMEs in Rwanda, Enabling Policy Environment and Infrastructure, opportunities provided by SME in Rwanda, SMEs and Access to Finance in Rwanda and roles of SMEs in economic development.

2.2.2.1. Background of SMEs in Rwanda

Rwanda's vision 2020 identifies six priority pillars and three cross-cutting areas, the development of which is crucial for making the necessary long term transformations in Rwandan society. One of the pillars is the development of an efficient private sector spearheaded by competitiveness and entrepreneurship.

SMEs comprise 98% of all the establishments: micro-sized establishments - those employing between 1 and 3 people account for 92.6% of all establishments while enterprises with only one account for 72% for establishments. This indicates that growth in the SMEs sector could be of

strategic importance in addressing the challenge of unemployment in general and youth unemployment in particular. Growth of SMEs sector also has the potential to lower Rwanda's trade deficit, owing to the low export potential mainly driven by traditional crops (coffee and tea) and minerals. Rwanda's vision is to address this trade imbalance by increasing export earnings through value addition. Several initiatives to support of SME development have been undertaken by various actors including the government, development partners, and development finance institutions (Ministry of Trade and Industry, 2016).

The Government of Rwanda (GoR) designed the Small and Medium Enterprises (SME) Policy framework aimed at guiding the implementation of a coherent and coordinated policy to create an enabling environment for the growth of the SME sector.

It is envisaged the growth of the SMEs sector will increase non - farm employment, develop business and technical skills in the Rwandan workforce, support target value –added clusters, grow the tax base, and spur industrial growth. The SME policy is supported by other policies, law and strategies that include the trade policy (2006), industrial policy(2006), National Policy on the Promotion of Cooperatives (2006) , National Microfinance Policy and Implementation Strategy (2007) , Financial Sector Development Plan (2007) , National Savings Mobilization Strategy and SACCO Strategy (2009) and the National Export Strategy (2011). (Republic of Rwanda, July 2000).

2.2.2.2. Enabling Policy Environment and Infrastructure

The Policy environment was oriented towards large companies. The Government has acted by developing an SME development policy under the Ministry of Trade and Industry and the 2011 - 2012 SME development Action Plan in addition to initiatives to improve the ICT infrastructure in the country. The vision of the policy is to create a critical mass of viable and dynamic SMEs, significantly contributing to the national economic development and the mission is to stimulate growth of sustainable SMEs through enhanced business support service provision, access to finance and the creation of a conducive legal and institutional framework. The objective is to foster job creation and an increase in the tax and export base through the promotion of competitive new and existing SMEs. The Government has prioritized cluster development so as spur value addition sectors, increase Rwanda's International competitiveness , create more

employment and the business opportunities , expand the supply of skilled people and technology , expand the local supplier base, increase efficiency and productivity and foster innovation (Trade Industry &trade Industry e-newsletter, 2014).

The SME policy in particular supports the development of SME clusters in particular field especially where backward and forward linkages can be exploited for instance via improving productivity and efficiency , stimulating and enabling innovation , facilitating commercialization and new business formation (Trade Industry &trade Industry e-newsletter, 2014).

2.2.2.3. Opportunities provided by SME in Rwanda

Building a successful SME requires steady access to finance, product and market information, and tips from peers who've been there before and know how tough it is. Entering this knowledge loop is critical but hard for SMEs owners in many developing countries, including Rwanda. Small and Medium Enterprises (SMEs) are an essential focus of Government of Rwanda. SMEs will serve as engines of job creation and growth in emerging markets which are central to the larger equation of development (Trade Industry &trade Industry e-newsletter, 2014).

Supporting SMEs is one of the most important ways the country can achieve its over – arching goal of creating more than 200 000 jobs annually mainly from off-farm services. This cannot be done without encouraging entrepreneurship and facilitating Small and Medium Enterprises, especially among young people ((Trade Industry &trade Industry e-newsletter, 2014).

Literature Review of recent empirical evidence on the contribution of SMEs to employment creation, conducted by International Labor Organization conducted that SMEs provide two – thirds of all formal jobs in developing countries in Africa, Asia and Latin America, and up to 80 percent in low income countries, mainly in Sub- Saharan Africa.

SMEs made a key contribution to the net creation of jobs, especially smaller and young firms, according to the study which noted that 50 percent of total employment creation came from enterprises with less than 100 employees. But SMEs face specific challenges, including the difficult to access finance, greater burden from regulatory frameworks, and cost disadvantage to expand in relation with bigger companies, as the study pointed out (Trade Industry &trade Industry e-newsletter, 2014).

The study called for targeted policies for SMEs since they are key engines of the real economy and the seedbed for bigger enterprises, having recommended improving the business environment, improve access to finance, and stimulate the entry of new enterprises.

SMEs need to be dynamic, fast-moving firms in order to make a special contribution to local economics. This can be measured in many ways –levels of new business formation, job creation and retention, increased productivity , innovation , and value-added. To celebrate of Africa industrialization day, Ministry of Trade and Industry organized a one day awareness workshop on entrepreneurship, key to accelerating industrialization and job creation was celebrated at Agakiriro–Gisozi , a place hosting mainly technical SMEs including carpentry , plumbing etc. Speaking on the contribution of young people, Minister KANIMBA reminded that young and women are the driving force for economic development and innovation in Rwandan communities. He said that the large share of Rwanda’s working force – 61.5% of the population is between 16 and 35 years old. He emphasized that the government is implementing skills development, as well as the promotion of the entrepreneurship programs targeting youth and women with entrepreneurship acumen. Programs include Hanga Umurimo, SME cluster strategy, Proba Scheme, and other programs. In the process of developing the SMEs sector, one important action has been to put SMEs together in clusters according to their area of production or the district where they operate. This has the advantage as it helps the government to know which SMEs exist in every cluster instead of putting efforts in developing all SMEs at the same time in the country. This has enabled them to prioritize and focus on the development of specific areas of production. In order to boost the SME sector, MINICOM launched the Hanga Umurimo program, an initiative in line with SME policies that focuses on creating more and viable SMEs. The objectives of this program are to foster growth and entrepreneurship culture, empower communities with basic business skills and identify individuals with entrepreneurial aptitude and nurture good business ideas. Hanga Umurimo program launched the 29th November 2012 (Ministry of Trade and Industry, 2014).

2.2.2.4. SMEs and Access to Finance in Rwanda

In October, 2013 the East African Development Bank extended as \$10 million (Rwf 6.7 billion) line of credit to Bank of Kigali that will be used for lending to SMEs in various economic sectors of the country. The SMEs proposed to benefit from this fund, are those dealing in agriculture,

tourism, manufacturing, education and health. “The line of credit go a long way in enhancing the capacity of SMEs to innovate , invest in value addition, increase product offerings , generate new jobs, and deepen market access ”, said East African Development Bank Director General , Vivianne Yeda. She added that the financing will help boost the private sector, employment, payment of taxes and foreign exchange earnings in Rwanda, thereby contributing to sustainable economic development. In August 2013, Bank of Kigali also signed another \$ 10 million credit line from the OPEC fund for International Development (OFID), while development Bank of Rwanda also secured \$ 10 million funding from the East African Development Bank (EADB) in July for lending to SMEs. KCB Bank Rwanda also received a six million Euros (Rwf 5.3 billion) tailored loan from the European Investment Bank for SMEs in July 2013. Sector experts are foreseeing the lines of credit having multiple benefits to the nation as well as individual companies especially SMEs operating in the country. The empirical result showed that loans to SMEs and other variables except money supply and deficit financing exert a positive impact on GDP Growth. The study thus recommends that government should find a way to encourage financial institution to lend to SMEs to guarantee their development (Gasore, 2013).

Beck (2007) equally researched on financing constraints of SMEs in developing countries. Using the concept of the access possibilities in managing risk and transaction costs involved in SMEs lending. The empirical research shows that SMEs are more constrained by financing and other institutional obstacles than larger enterprises, exacerbated by weaknesses in the financial system of many countries.

2.2.2.5. Roles of SMEs in economic development

SME are considered to have a crucial role in an economy and are key source of economic growth, dynamism and flexibility and can adapt quickly to changing market demand and supply situations. They are also deemed to generate employment, help diversifying economic activity and make significant contribution to exports and trade.

SME enhance competition and entrepreneurship and therefore have the external benefits on economy wide efficiency, innovation, and aggregate productivity growth. From this perspective, supporting of SME will help countries to exploit the social benefits from greater competition and entrepreneurship.

SMEs support frequently claim that SMEs are more productive than large firms but financial market and other institutional failures impede SME development. Some argue that SME expansion boosts employment more than large firm because SMEs are more labor intensive. SME may represent poverty alleviation tools in developing countries. SME sector's contribution to employment and GDP across countries (World Bank, 2004).

The performance of Small and Medium Enterprises is important for economic and social development of country (Abor and Quartey 2010).

The SME contributed to more labor intensive than larger firms and therefore has lower capital costs associated with job creation. They thus according to these writers perform useful roles in ensuring income stability, growth and employment (Anheier and Seibel, 1987).

Small and Medium Enterprises improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula and Quartey 2000).SME contributed to a country's national product by either manufacturing goods value, or through the provision of services to both consumers and other enterprises (Abor and Quartey 2010).

The ways in which SMEs have been supported historically have been influenced by an important thematic issue: Dating to the early '80's, the development community focused on economic development with business creation and access to capital being of paramount importance. Emerging in the 90's, however, was an important shift toward social development with health, good governance, expanding access to education, regulation, and policy taking priority. While still oriented toward addressing populations in poverty, the tools applied differed. Along with the move toward the social dynamics of development, came a reduced attention to small business creation. It is only within the last several years that significant efforts have been made to combine the two approaches, with equal weighting toward fostering private sector/small business development and attention to how a robust SME sector facilitates achieving the social objectives as well. This new paradigm for development has seen a reemergence of a focus on developing SMEs as a means of achieving both economic and social development, with accentuated potential to reduce poverty (OECD, 2002).

Much of the more recent debate regarding how SMEs affect economic growth and poverty reduction can be divided into two bodies of thought:

A “pro-SME” approach has been based on three core arguments that SMEs enhance competition and entrepreneurship resulting in economy-wide efficiency, innovation, and aggregate productivity growth; SMEs are more productive than large firms but market failures (financial and institutional) impede SME development; and SME expansion boosts employment more than large firms as SMEs are more labor intensive, thus SMEs may represent a poverty reduction tool (OECD, 2002).

Gebremariam *et al.* (2004) examined the impact of SMEs in economic growth and poverty alleviation. Generally the study found that there is a strong relationship between SMEs, economic growth and poverty reduction. The study further shows that an increase in the percentage share of SMEs’ employment had a positive impact on economic growth, thereby reducing poverty. Furthermore, in agriculture-based economies, SMEs provide livelihood opportunities and nurture entrepreneurship. Other advocates of SMEs, such as Todaro and Smith (2003), are of the opinion that SMEs operating in the informal sector can generate surplus income under hostile economic policies such as the denial of access to credit facilities, foreign exchange and tax reduction. Pertaining to SMEs’ potential to reduce poverty, Gebremariam *et al.* (2004) suggested that small businesses contribute to poverty reduction through job creation and economic growth. Robins *et al.* (2005), also proponents of SMEs, stated that these enterprises have the ability to enrich workers’ talents and capabilities. These benefits are directly relevant to any effort to eradicate poverty in developing countries, especially in Africa.

SMEs can place innovative activity at the center of their competitive strategy and the ability of SMEs to create, access and commercialize new knowledge on global markets is fundamental to their sustained competitiveness (Scherer, 1991). For IFC/GPFI, (2014), SMEs are a good business opportunity and a profitable market segment.

According to United Nations Industrial Development Organization (UNIDO), WSIS Report (2003) SMEs are very important. The only way to reduce poverty in a sustainable way is to promote economic growth, through wealth and employment creation in the developing countries.

SMEs are the major source of income, a breeding ground for entrepreneurs and a provider of employment.

2.3. Empirical studies

There are lots of scholars conducted to loans and SMEs development. In their study, Olowe F.T *et al.* (2013) on “Empirical Study of the Impact of Microfinance Bank on Small and Medium Growth in Nigeria”, they showed that financial services obtained from MFBs have positive significant impact on MSEs growth in Nigeria. The results also revealed that duration of loan has positive impact on SMEs growth but not statistically significant. The results also showed that high interest rate, collateral security and frequency of loan repayment can cripple the expansion of SMEs in Nigeria. The paper recommended that MFBs should lighten the condition for borrowing and increase the duration of their customers’ loan and also spread the repayment over a long period of time.

In addition, in his study Trisha Kweenua Quainoo, B.A ECONS (2011) on “examining the impact of loans on SMEs in Ghana”, the findings of the study reveal that significant number of the SMEs benefitted from the loans even though only few of them were capable enough to secure the required amount needed. Interestingly, majority of the SMEs acknowledge positive contributions of loans towards increasing their returns and sales thus placing them in the competitive arena.

Moreover, Lawal Babatunde Akeem MBA, BSc (2014) in his research on “*Banking Sector and the Development of SMEs in Osun State*”, his findings revealed that there is a positive correlation between loans granted by banks and the growth and development of SMEs in Osun State also, that SMEs cannot be concentrated in Osun State if they are not effectively financed due to the relationship that exists between the banks and SMEs.

Furthermore, DADA, Richard Mayowa (2014) in his research on “Commercial Banks’ Credit and SMEs Development in Nigeria: An Empirical Review”, he founded that commercial banks credit to SMEs and the saving and time deposit of commercial banks exert a positive influence on SMEs development proxy by wholesale and retail trade output as a component of GDP, while exchange rate and interest rate exhibit adversative effect on SMEs development.

Clotilde MUKAMUGANGA (2011) conducted the research on “the role of SMEs in Rwanda from 1995 to 2010” with the objective to find out whether small and medium enterprises contribute positively on rural development in Rwanda. She founded that that small and medium enterprises accompanied by other approaches like infrastructure improvement can lead to rural development in Rwanda.

In 2013, Valens NYANDWI conducted a research on “Contribution of small and medium enterprise to the economic development of Rwanda” and he founded that SMEs employ 22% of the adult population in developing countries (UNIDO, 1999). The United Nations Industrial Development Organization (UNIDO) estimates that SMEs represent over 90% of private business and contribute to more than 50% of employment and of gross domestic product (GDP) in most African countries (UNIDO, 1999).

The empirical review shows the practicability of theoretical review as the researchers have to be guided by theories on the field of which they are conducting their research but did not show the relationship between loans and SMEs development meaning that the existing literature failed how the loans may enhance the SMEs development. The gap in this literature review turn around the Loans towards SMEs’ development in Rwanda.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

The research methodology refers to a set of methods and principles that are used when studying a particular kind of work.

According to Bailey (1978), methodology is philosophy of the research process. It includes assumptions and values that serve a rationale for research and standards of criteria the researchers use for interpreting data and reaching conclusions. A methodology determines such factors as how to write hypothesis and what level of evidence is necessary to make the decision whether or not reject a hypothesis.

In order to collect useful information which allows discussing and answering the research question, the researcher must use various techniques and methods. This chapter presents a detailed description of the research methodology that was used in gathering, and analyzing the data on the Evaluation of loans towards SMEs' development at RIM Ltd–Huye Branch.

The major items dealt with include research design, study population, Simple size selection and calculation, data collection techniques, data processing and data analysis.

3.2. Research design

The research design adopted for this study is a case study design. The reasons why I chose this case study is because RIM Ltd is near of the job and home and it has the customers who received the loans for doing business. Case study is a method of studying elements of the social through comprehensive description and analysis of a single situation or case, for example, a detailed study of an individual, family, group, club, community, social institution, episode, event, or any other unit of social life organization (Ary, *et al.*, 2002; O'Leary, 2004).

3.3. Study population

According to Grinnell and William (1990), a population is defined as the totality of persons or objects with which a study is concerned. Study population consists of the customers of RIM Ltd grouped in 22 associations named ASSOFIs (*Association de Solidarité Financières*: Financial

Solidarity Associations) ASSOFI (*Association de Solidarité Financière*) groups. In order To access the data about the Evaluation of Loans towards SMEs development, the researcher selected 2349 customers (ASSOFI members) and 4 staff members of RIM Ltd. The study population size is 2353 people.

3.4. Sample size selection and calculation

The simple random sampling technique has been used. The simple random sampling is the basic sampling technique where we select a group of subjects (sample) for study for larger group (a population). Each individual is chosen entirely by the chance and each member of the population has an equal chance of being included in the sample. And Taro Yamane's simplified formula for proportions as presented below has been used to determine the sample size.

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

n = Sample size

N = Population size

e = Acceptable sampling error

Using the confidence level of 95% and 10% sampling error, the sample was:

$$N = \frac{2349}{1+2349*(.10)^2} = 95.9 \approx 96$$

By applying Yamane formula, a sample of 96 Customers from 2 349 customers has been chosen. From the information provided by the loan officer of RIM Ltd related to loan application and granting, the 2349 customers received loan to support their economic activities. As their names are whiten in computer by Microsoft excel, to determine the sample, the researcher selected among the electronic list of loan granted to finance their business during 2010 – 2015 period, 96 peoples by ticking the names the ordering number with the interval of 24 customers (e.g.: 24,

48,96,120,144,168,192,216,240,264,288,312,336,360,.....2304) and 4 staff members of RIM Ltd. The total number was 100 respondents.

3.5. Data collections techniques

3.5.1. Sources of data

3.5.1.1. Primary data

During the research, primary data were used to obtain from the sample elements relevant information concerning the whole people under the study. The technique used was questionnaire, interview and documentation. The questionnaire was addressed to the Staff members of RIM Ltd and Customers (ASSOFI members) who received the loans for doing business and contained both close-ended and open ended questions.

3.5.1.1.1. Questionnaire

According to Richard and Willams (1990) questionnaire is a method used for collecting data. Where a set of written questions which calls for responses on the part of the clients; it may be either self administered or group administered.

A questionnaire is simply a ‘tool’ for collecting and recording information about a particular issue of interest. It is mainly made up of a list of questions, but should also include clear instructions and space for answers or administrative details. Questionnaires should always have a definite purpose that is related to the objectives of the research, and it needs to be clear from the outset how the findings were used.

Survey research involves the collection of information from a sample of individuals through their responses to questions. During the research, a questionnaire has been used to collect data from RIM Ltd Customers (ASSOFI) on how they perceive the Evaluation of loans towards SMEs development.

3.5.1.1.2. Reliability and validity of questionnaire

❖ Reliability

In order to ensure the reliability of the research instrument, the researcher herself, after comparing her questionnaire with other assessment tools, conducted a pilot survey on a group of 96 respondents in Huye region on the 8th April 2016 in order to see whether the proposed items of the questionnaire could really help measure the evaluation of loans towards SMEs development of the RIM Ltd customers and be analyzed through SPSS. This testing phase has proved the reliability of the research instrument and its applicability to SPSS except some needed improvements related to the reformulation of some vague items and avoidance of repetitions.

❖ Validity

For measuring the validity of research instrument, the experts in research play a major role. Trough this research, the researcher used the method of duties judgment, whereby after making the questionnaire, I gave it to experts in research to ensure its validity. Then after, the researcher made necessary adjustments. In so doing, the researcher made the questionnaire clearer, more specific, relevant and logical.

3.5.1.1.2. Interview

Interview is a qualitative research technique that allows an interviewer to interviewee for discussion. Such discussion provides the opportunity to have a deeper understanding of one's beliefs, feelings, and behaviors on important issues (Jane, 2003). The researcher used in depth-interview in order to acquire the information related to the research objectives. Before interview, the researcher clearly explained to the informants the subject of the study and its purpose and researcher started to guide the conversation. The interview was conducted to 4 respondents.

The research interview was used in situations where the respondents claimed to have no time of attending to the questionnaires. The researcher record and interpreted the answers for drawing conclusions about the research problem. Therefore interviews led to emergency of new ideas, which were helpful to the researcher and also enabled the researcher to get detailed responses hence getting good quality data as interviewee were free to talk and express their feelings.

Table 1: Socio-demographic characteristic of key informants

Participant code	Gender	Occupation	Education level	Marital status	Workplace
MG	F	Loan officer	University	Married	RIM Ltd
NE	F	Manager	University	Married	RIM Ltd
MJ		Cashier	Secondary	Single	RIM Ltd
RG		Cashier	Secondary	Single	RIM Ltd

Source: Primary data, 2016

The interviews with four staff members were conducted in the RIM Ltd, Financial institution where they were working and still work as employees.

As regards the employees, the strategy to interview them was to meet them in the office where they were working at the time of interviews. Individual interview was organized for each question. Furthermore, participants voluntarily accepted to take part in the interviews. The informed consent was obtained from all of them in agreement with their supposed responsible surrogates from the mentioned financial institution.

The interviews with four employees of RIM Ltd took place in March, the 10th-20th April 2016. The four interviews with employees were conducted in the mother tongue Kinyarwanda and recorded and were then transcribed verbatim.

3.5.1.2. Secondary data

The sources of secondary data for this study were the main library of the University of Rwanda and the documents from Rwandan financial institutions mainly BNR, RIM Ltd Huye Branch and review of published and unpublished documents, reports, journals, magazines and policy reports relevant to the study was done.

3.5.1.2.1. Documents study

This is data collection method used on reading books and other document having information related to the topic.

Library search is the data collection process that is based on reading books and other documents relevant to the study. This was employed in the research whereby most of the documents that contain risk: books, banks reports were used. According to Ntare, (2005), documentation is system that formally acknowledges the resources you consult for the research paper and to the full bibliographical entries at the end of paper. It offers the reader to retrace the steps as the researcher and writer of the research too.

Ntare, (2005), states “documents here referred to any written material that may be used as a source of information about the subject.” He further points out that, though written materials is involved in experiments, surveys and observation studies, attention was focused on those materials the recording of which has not been the result of any special effort on the part of investigator. This includes for example population censuses, previous survey by social scientists, court records and economic statistics among others. The researcher used the documentation method as a secondary source of information to collect data from different financial documents of banks. It serves the purpose of attaining study objectives. The method helped the researcher to compare and verify the validity of information obtained from interview and questionnaire.

The researcher collected data from the books, electronic sources, journals, and other documents from RIM Ltd.

3.6. Data processing, analysis and interpretation

After getting recommendation from University of Rwanda, I went to RIM Ltd Huye branch, where I met Manager for asking him the permission to conduct the research. After receiving the authorization of Manager I distributed the questionnaires to the customers of RIM Ltd who are receiving loans for doing business and the Staff members.

Data processing means the transformation of respondents view into meaningful form. In processing data, the one relevant to the objectives of the study was considered and transformed into meaningful information for interpretation and understanding. This process was done through editing, coding and tabulation (William, 1990).

After completing the questionnaire, I gave thanks to the respondents for their information and great collaboration.

After collecting the data, the researcher went on to process raw data so as to transform it into meaningful information for easy interpretation and understanding. Irrelevant information was left out and only meaningful information was considered. Data collection was followed by data analysis using SPSS version 16. And after completing the analyses and interpretations, I presented a report with recommendation to RIM Ltd, Customers, Governments and others researchers.

Data were analyzed using the SPSS through chi-square to find the influence of independent variable (**loans**) on dependant variable (**SMEs development**). In this regard, the researcher used Statistical Package of Social Sciences (SPSS) where descriptive statistic was used to present frequency and percentages and inferential statistics by using chi-square.

After collecting data, the researcher process to the step of highlighting the meaning of information given by respondents. In this study, the research selected to use frequency tables, and graphs to show the Evaluation of Loans towards SMES's economic development.

3.6.1. Editing

Ntare, (2005), states that editing of the study is intended to detect and as far as possible eliminate errors in the completed questionnaire. It is a routine work that involves correcting and detecting errors done in the questionnaire and through the process of interviewing respondents on the interview schedule. The major aim of editing is to discover mistakes made during the field of the study. For this research after data collection the exercise of inspection and editing followed in order to discover items that are misunderstood by the respondents, to detect gaps and other weaknesses in the data collection method.

Editing was also done to ensure completeness, accuracy, uniformity and legibility in the questionnaires. After data collection, the exercise of inspection has followed in order to discover items that would misunderstood by respondents to detect gaps and other weakness in data and collection methods.

3.6.2. Coding

According to Kendall (1992), coding refers to the process of classifying alternative answers to a question into meaningful categories. This was used in the research to summarize data by classifying the different responses given into categories for easy manipulation. The answers acquired were coded to determine the frequencies of each response.

3.6.3. Tabulation

Tabulation deals with putting data into some kind of statistical tables showing the number of responses to particular questions. Tables presented with corresponding calculations. Grinnell, R. & William, (1990), defined tabulation as putting data into some kind of statistical tables such as percentages and frequency occurrence of the responses to particular questions. The tabulation process involved putting into statistical tables and determination of the frequency of the responses to particular questions and their percentages. This involves putting data into some kind of statistical table with percentages used to express data in a ratio form. Tabulation was considered and involved putting into statistical tables such as percentages.

3.7. Ethical consideration

To ensure confidentiality of the information provided by the respondents, the following was done by the researcher:

1. The respondents was not required writing their names;
2. Permission was asked to RIM Ltd manager, Huye branch;
3. All the authors cited in the work were acknowledged in the reference section.

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter discusses the findings and results based on collected primary data and information from the interview. The primary aim and goal of this study is directed towards the evaluation of loans towards SMEs development, case study: RIM Ltd, Huye branch. The methods of analyzed were qualitative and quantitative. This study has been divided into four parts which include: characteristics of respondents, findings of research, discussion of findings, hypothesis test and objectives achievement.

4.1. Presentation of RIM Ltd

4.1.1 Introduction

In order to give its contribution to the poverty reduction and sustainable development of the population, the Catholic Church in Rwanda decided to turn his action towards the sector of the micro finance. It is within this framework that the Catholic Dioceses of Rwanda and Caritas Rwanda set up the *Réseau Interdiocésain de Micro finance*, as a result of the actions undertaken in each diocese on the level of the parishes.

RIM Ltd is the fruit and the result of several stages of institutional development. At the beginning, in 1998, the activities of micro finance were carried out in the form of project named “Poverty Lending Pilot Project” (PLPP) supported technically and financially by Catholic Relief Services (CRS) in the Archdiocese of Kigali. In November 2000, the experience of this project generated a durable program of development called *NKUNGANIRE*. In parallel, under the *Nkunganire* model, other programs were created in other 7 dioceses (*WISIGARA* in diocese of *Kabgayi*, *BARUMANA* in the diocese of *Kibungo*, *NGWINO Ukore* in the diocese of *Nyundo*, etc).

In March 2004, to harmonize its activities of micro finance an idea to create a co-operative on the level of each diocese and national union was concretized. Thus, the statutes of the various *Co-operatives Diocésaines de Solidarité Financière* (CODISOFI) and *Réseau Interdiocésain de Micro finance* (RIM) were established and were subjected to the Ministry having the co-operatives in its attributions for legal application. The request unfortunately did not find a positive response because of the legal requirements.

Indeed, the law in force on the co-operatives does not accept that the companies put themselves together with individuals to form a co-operative legally. Thus the 9 catholic dioceses of Rwanda and Caritas Rwanda decided in May 2004 to create a legal institution of the shape of limited company, RIM Ltd. The mission of seeking to raise the dignity of the people remains always assigned at the new company. RIM ltd was created legally by Constitutive Assembly on 6th may 2004 according to law n0 06/2002 of 09/07/2002 and 05/2003 establishing organization of microfinance activities in Rwanda, law establishing banks and other financial institutions, and law no 06/88 of 12/02/1988 establishing commercial societies.(status of RIM Ltd, p.2). RIM ltd was agreed on 08th October 2004, with capital of 140,000,000Rwf and its headquarter is established at Kigali. The capital at 31st December 2010 was 942,600,000Rwf.

4.1.2 Mission of RIM Ltd

According to its status, RIM Ltd was created primarily to provide the services of savings and credit adapted to the capacities of the poor economically active. As an institution of micro finance, RIM Ltd has the following missions:

- To contribute to the of poverty reduction by the activities of saving and credit;
- To contribute to the economic growth of the country by reinforcing the idea of entrepreneurship among customers;
- To promote human dignity.

4.1.3. Objectives of RIM Ltd

RIM Ltd has the objective of promoting social and economic welfare of its members by reducing durably the poverty of the people which are economically active by providing them the services of saving, credit and promoting their human dignity. The specific objectives of RIM Ltd are to promote the spirit of initiative and entrepreneurship to its customers, to support education by saving and use of the credit as an instrument of poverty reduction to reinforce the socio-economic welfare of the customers, to privilege the application and the respect of the principles of viability and durability, and to reinforce the culture of the saving and several guarantee through associations of the customers.

In addition to that, RIM Ltd develops the new products with the size of the customers, sensitize the customers by offering them the services of saving and credit, render the services to the customers, promotion of the new products and finally reinforce the partnership with the official institutions and the professional organizations of micro finance.

4.1.4. Loan activities and Products

RIM Ltd targets the small and micro entrepreneurs especially economically active poor people serving them with various products: RIM Ltd's product is a convenient, simple and reliable loan product that gives access to working capital funds and financial support to the low income entrepreneurs. RIM Ltd offers a development-intensive group lending product designed to cater for the micro-entrepreneurs. These are small loans offered to smallest businesses, typically owned by low income women, with household incomes well below the poverty line. Clients are organized into groups in order to access the service. The main loan products can be resumed as:

ASSOFI loans: for this product, clients are organized into solidarity groups (*ASSOFI: Association de Solidarité Financière*) in order to access the service. It is an easy, flexible, convenient and reliable loan product for successful matured RIM Ltd clients and smaller business entrepreneurs to help them grow and sustain their business.

Individual Loan Product (Physical person loan): Individual Loan Product is a flexible, simple and reliable working capital loan for individual small and micro entrepreneurs who are capable of obtaining loan individually. This product is to aid small and micro entrepreneurs grow their businesses steadily and progressively.

Enterprise Loan (Moral Person loan): is a loan product for client that has grown and expanded their businesses over time and need quite bigger loans to further expand their businesses. It can be provided to the institutions, like companies, schools and Associations which have a juridical personality.

4.2.5. The organizational structure of RIM Ltd

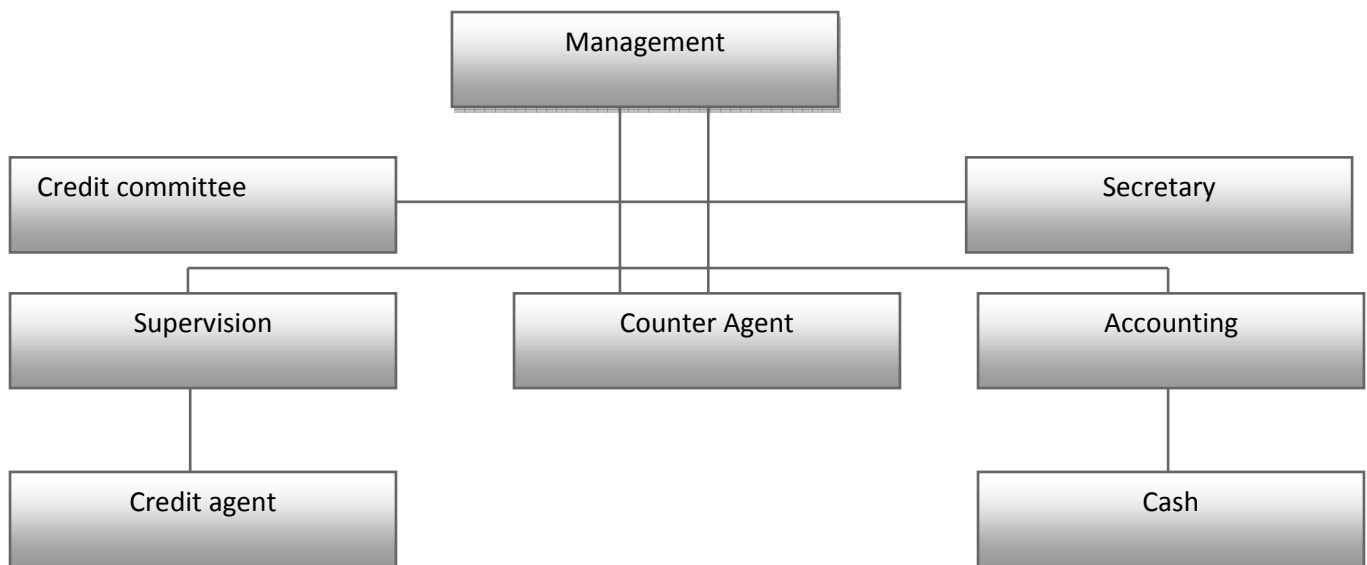
The organization of RIM Ltd is built on the principles allowing the achievement of the mission which the institution is assigned. The RIM Ltd has the following principles:

- The principle of hierarchical authority,
- The principle of segregation of duties
- The principle of collegial structure in the decision-making,
- The principle of decentralization of the personalities
- The principle of administrative and financial control.

The organization structure of the RIM Ltd at the central level is different from that of the level of the agencies. The organizational structure of RIM Ltd. at agency level is divided into the following main units as follows: Management, the Secretariat, Accounting, the petty Cash, the Supervision, the post of credit Agent and the post of counter Agent. Its organization chart is as follows:

4.2.6. Organization chart of RIM Ltd at agency level

Figure n° 1: Organization chart of RIM Ltd at agency level



Source: Administrative and Finance manual procedure, 2004.

4.2.7. Services and tasks in RIM Ltd

4.2.6.1. The Management of RIM Ltd

The daily management of RIM Ltd at agency level is ensured by a Manager. He exerts powers which are delegated to him by the Director General of RIM Ltd. He follows the whole technical

and administrative services. On the level of the agencies, Management is in charge with the execution and the condition of the activities as well as implementation of the action plans and programs of the RIM Ltd in general. As a manager of all the activities of the agency, the Manager has the following attributions:

- To coordinate all the activities envisaging to help and achieve the goal assigned to RIM Ltd;
- To ensure daily management of the agency;
- Distribution of duties to the personnel at agency level;
- To take care of the discipline and the good climate of work between the agents of the agency;
- To ensure weekly, monthly, quarterly and annual planning of the activities of the agency;
- To follow the execution and the advance of the action plans of RIM Ltd to the level of the agency;
- To ensure the implementation of the budget of the agency
- To guarantee and ensure the regular accounting
- To present on time monthly, quarterly, semi-annual and annual; management and financial reports
- To ensure the implementation of an effective plan of recovering;
- To ensure by respecting the regulation in force and the rules of use on the matter of management of RIM Ltd ;

4.2.7.2. The committee of credit

The members of the committee of credit are:

- The manager who is at the same time the president of the committee,
- The supervisor who is at the same time the secretary of committee,
- The agent of credit as well as the accountant.

This committee often meets when there is an application for credit and the amounts not exceeding five hundred thousand Rwandan francs (500,000 Rwf). For the study of the files of application for credit of 500 000 to 1,000,000 Rwf, the intervention of delegated board of directors to the level of the Diocese is obligatory. If the request exceeds 1,000,000 Rwf, the files must be transmitted to the head office of the RIM SA for the examination and the decision. The files of application for credit can be presented individually or by associations of the customers under the name of Association of Financial Solidarity (ASSOFI).

4.2.6.3. The accounting department

The responsibilities assigned at the post of accountancy are:

- The regular follow-up of the accounting operations on the level of the agency;
- Daily record of operations of the agency;
- Examination and transmission of any request for funds to the manager for approval;
- The monthly control of financial statement of bank reconciliation;
- The filling of all the documents and the justification of the financial transactions on the level of the agency;
- Book keeping
- The regular checking of petty cash
- The regular control of accounting entries;

4.2.6.4. The post of supervisor

The principal activities related to this post are the following:

- Reception and the recording of the applications for credit in the ad hoc register;
- Analysis of the applications for credit:
 - ✓ ensuring the object of credit;
 - ✓ checking in an arithmetic way the value of the requested amount;
 - ✓ ensuring the honesty of the applicant;
 - ✓ evaluating the guarantee and the capacity of refunding of the borrower;
 - ✓ checking the condition of former debt in other financial institutions of credit;
 - ✓ Ensuring the profitability of the project to be financed.

4.2.6.5. The post of credit agent

The principal attributions which are related to this post are the following:

- The supervision of the activities on the field;
- The centralization of information of the field for the supervisor;
- The applications for credit towards the agency;

- Analysis and processing data from the field and the proposal of the activities for the promotion of the agency;
- The organization and direction of the meetings on the field
- The participation in the meetings organized on the level of associations of the customers;
- The follow-up of the activities of the field;
- The close cooperation with other services with regard to the data and the documents on management of the funds on field
- Preparation and weekly direction of the meetings in its place of affectation;
- The connection between the office and the field;
- Reception and establishment of the comments on the veracity of the reports
- The supervision of associations of the customers include the ASSOFI in the area of affectation;
- The participation in the meetings organized by the hierarchical supervisor;
- Establishment of the needs in its area of affectation by estimating, monthly the requirements of credits need; materials and furniture.

4.2.6.6. The post of the Secretary

The attributions of the secretary are as follows:

- Reception, recording and orientation of the mails and the visits;
- Report of the meetings of services;
- The classification of the mail and the reports of the agency;
- Recording and sending of all the correspondences intended for the thirds;

4.2.6.7. The post of Cashier

The cashier is charged to hold the cash and the cash books, to make the requests for provisioning of the cash, to draw the reports of use of the funds.

4.2.6.8. The post of the counter Agent

The counter agent is in charge of recording of new customers and receiving the savings and record in the book of the counter. It does the activities of withdrawal and passes the ad hoc entries the accounting document of the counter.

4.2.6.9. Target clients

The target clients under this study is composed by all clients of RIM Ltd who were longer vulnerable of formal financial institutions and who currently receive micro loans to finance their small projects and who are grouping in financial solidarity groups. These include women, incomplete families and families with many dependents.

4.2. Demographic information of respondents

The profile of respondents is based on gender, age, occupation, education and marital status.

Table 2: Demographic information of respondents

No	Characteristics	Frequency	Percentage (%)
1	Gender of respondents		
	Male	36	37.5
	Female	60	62.5
	Total	96	100.0
2	Age of the respondents		
	21-30	5	5.2
	31-40 and over	91	94.8
	Total	96	100.0
3	Occupation		
	Commerce	96	100.0
	Total	96	100.0
4	Educational level		
	Primary	5	5.2
	Secondary	89	92.7
	University	2	2.1
	Total	96	100.0
5	Marital status		
	Single	5	5.2
	Married	90	93.8
	Widowed	1	1.0
	Total	96	100.0

Source: Primary data, 2016

In analyzing the information gathered from different respondents of different sex, the table (1) above shows that 62,5% of all respondents are female while 37,5% are male. This indicates that

a big part of RIM Ltd customers under this study are female. This also means that female participate more than male in working in groups. This explains that many people who took responsibilities in households were men.

The information shows that 94.8% are aged of [31-40] years and above while 5.2% have [21-30] years. This implies that the majority of respondents are aged between [31-40] years meaning that they are mature for exercise business and this justifies that they have a habit and experience in business. In addition, this age interval shows that those respondents have still strengths of doing business.

For the occupation of respondents, it was revealed that all respondents occupied the commerce activities. This indicates that our respondents have not other activities except commerce and this research was emphasized on commerce activities.

From the table n^o1, it shows that 92.7% of respondents have secondary level of education; 5.2% have primary level while 2.1% have university level. This corroborates with results of John (2014) showing that the primary level of education can influence the underdevelopment in the following manner:

- ✓ Poor management of different opportunities related to loan ;
- ✓ Lack of knowledge and skills to start up entrepreneurship;
- ✓ Poor access to financial services (saving and credits);
- ✓ Limited information due to financial services ;

From the table n^o 1, it is clear that 93.8% of the respondents are married, 5.2% are single while 1.0% was widowed. Therefore, this implies that many respondents were married. This is because the issue of economic development touches all people, male and female, single and married *etc.* But particularly women heading families are mostly concerned with family development. In addition, this implies that the celibacy was unlikely not to be there and some of the factors are associated with like: early marriage, poverty and informal business where people deled with dairy life.

4.3. Findings of research

This section has been divided into four major parts which include: categories of loan amount applied and received by the customers, contribution of loans in SMEs development.

4.3.1. Categories of loans amount applied and received by the customers in RIM Ltd Huye branch

During this study, the loan manager informed the researcher, by interview, categories of loan amount applied and received by the customers from 2010 to 2014. The researcher put the information in the table below.

Table 3: Categories of loans amount applied by the customers

Period	Categories of loans					
	SMES	Salary advance	Agriculture and farming	Equipment	Social loans	Total amount
2010	60 774 500	30 500 700	16 500 300	10 500 305	2 500 300	120 776 105
2011	51 065 280	22 700 500	10 300 450	17 500 765	2 756 350	104 323 345
2012	87 000 500	40 300 450	21 800 500	22 835 800	2 950 500	174 887 750
2013	60 400 560	26 000 500	21 375 630	14 500 750	2 500 750	124 778 190
2014	70 000 400	29 500 800	23 500 200	21 600 750	2 100 500	146 702 650
Total	329 241 240	149 002 950	93 477 080	86 938 370	12 808 400	671 468 040

Source: Secondary data, Report of RIM Ltd, 2010-2014

The observation of table 3 shows that the request of loan by SMES from RIM Ltd varied year by year from 2010-2014. This means that the business run well and customers were able to repay loan so that they can take another. The table also means that there is a good collaboration of RIM Ltd with its clients in terms of credits granting. Given that there is variation of application loans meaning that there were customers who had not fulfilled the credit conditions/criteria necessary or according to their capacity or their business met some obstacles such as loss, slowness of

business. For the amount of loans granted by RIM Ltd to its customers, the table 4 illustrated more the variation.

Table 4: Categories of loans amount offered by RIM Ltd Huye branch

Period	Categories of loans					
	SMES	Salary advance	Agriculture and farming	Equipment	Social loans	Total amount
2010	51 774 570	24 567 600	15 600 500	9 500 000	2 106 465	103 549 135
2011	48 065 275	20 700 850	8 345 165	16 345 165	2 674 095	96 130 550
2012	85 102 110	38 700 675	20 765 500	20 835 260	2 800 675	168 204 220
2013	55 428 800	25 000 450	19 235 400	13 290 876	1 900 650	114 856 176
2014	67 277 370	27 500 350	21 400 700	20 376 300	2 000 013	138 554 733
Total	307 648 125	136 469 925	85 347 265	80 347 601	11 481 898	621 294 814

Secondary data, Report of RIM Ltd, 2010-2014

As presented above, as loans applied, the loans offered vary year by year because of different reasons notably reasons of institutions in example the system of deposit which prevails over the loans granting system.

4.3.2. Trend lines of loans applied and received by customers

During this study, the researcher analyzed the trends of loans applied and received by customers year by year.

Table 5: Variation of loans applied for SMEs

Period	SMES	Variation	%
2010	60 774 500	0	0
2011	51 065 280	-9 709 220	-16,0
2012	87 000 500	35 935 220	70,4
2013	60 400 560	-26 599 940	-30,6
2014	70 000 400	9 599 840	15,9
Total	329 241 240	-9 709 220	-16,0

Source: Primary data, 2016

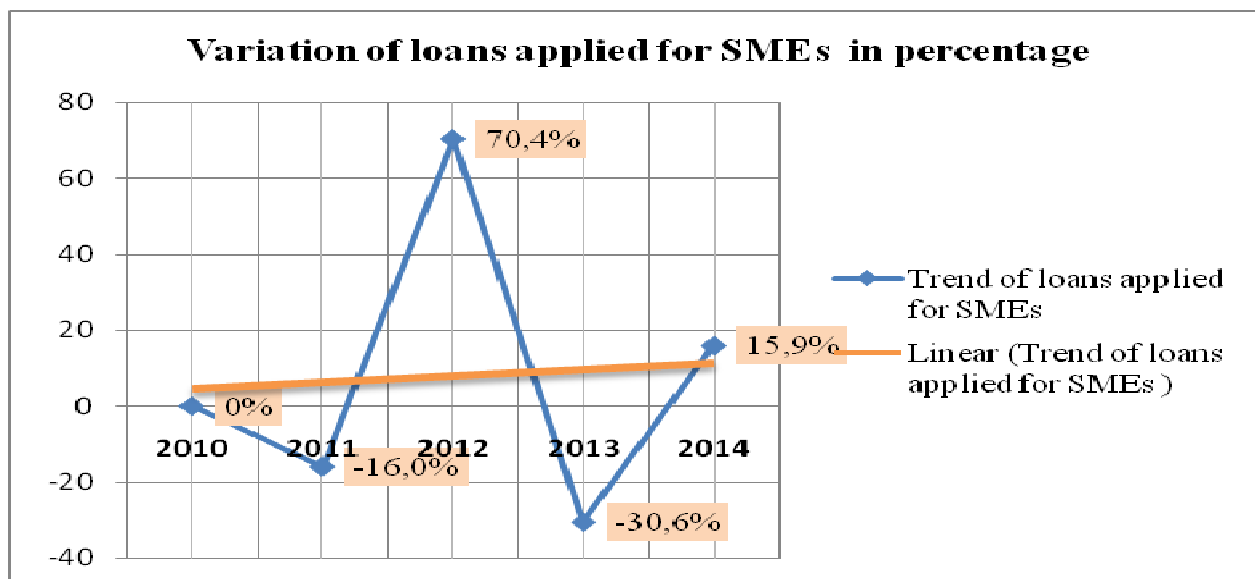


Figure 2: Trend of loans applied for SMEs from 2010-2014
Source: Primary data, 2016

The observations of table 5 and the figure 2 revealed the variation of loans applied for SMEs. In this regard, the sign (-) shows that there was a decrease of loan applied comparing the loans applied in previous year. It means that the loans increased or decreased in percentage in relation in comparison with the loans applied in previous year. In example, the was a decrease of 16.0% in 2011 in comparison with loans applied in 2010 while there was an increase of 70.4% of loans applied in 2012 comparing the loans applied in 2011. The trend line shoed that there is an increase of loans applied linearly.

Table 6: Loans offered to SMEs

Period	SMES	Variation	%
2010	51 774 570	0	0
2011	48 065 275	-3 709 295	-7,2
2012	85 102 110	37 036 835	77,1
2013	55 428 800	-29 673 310	-34,9
2014	67 277 370	11 848 570	21,4

Source: Primary data, 2016

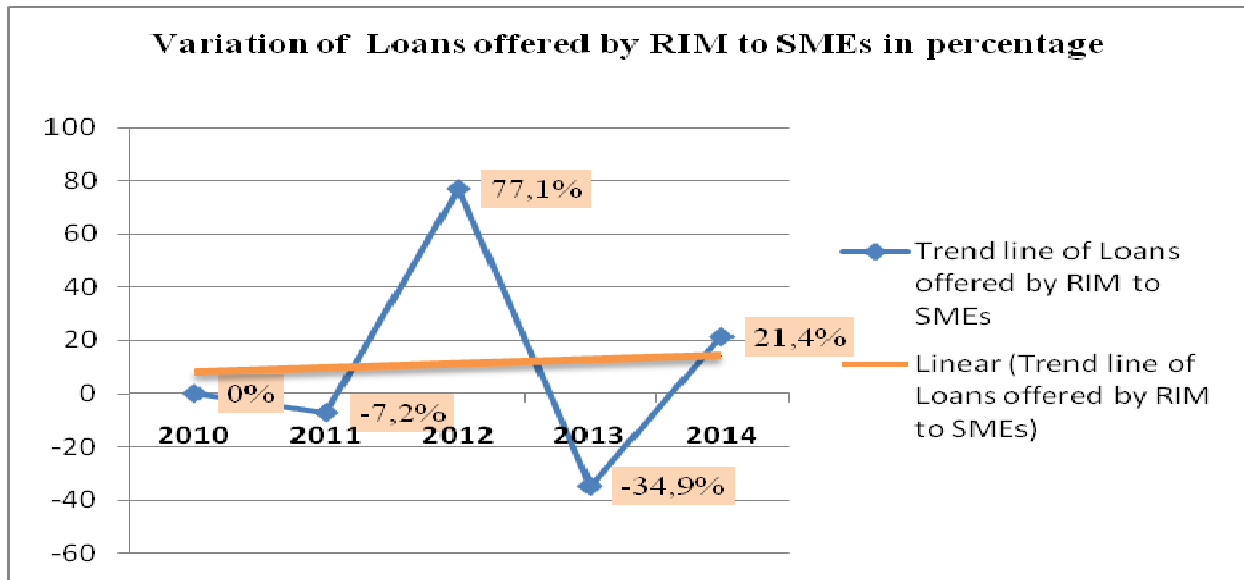


Figure 3: Loans offered to SMEs from 2010-2014

Source: Primary data, 2016

The observations of table 6 and figure 3 showed that in 2011 and 2013, the loans offered for SMEs were less in comparison with other years. As this kind of loans is the key of this study, the researcher drew that more loans applied for SMEs diminished or increased, more loans granted decreases or increased. This did not affect the development of SMEs because customers applied for loans according to their financial capacity and other business constraints.

Table 7: Salary advance applied as loans

Period	Salary advance	Variation	%
2010	30 500 700	0	0
2011	22 700 500	-7 800 200	-25,6
2012	40 300 450	17 599 950	77,5
2013	26 000 500	-14 299 950	-35,5
2014	29 500 800	3 500 300	13,5

Source: Primary data, 2016

The observations of table 7 showed that when the application for loans for salary advance increases, during the following year, the application decreases meaning that there is variation of loans application in terms of salary advance.

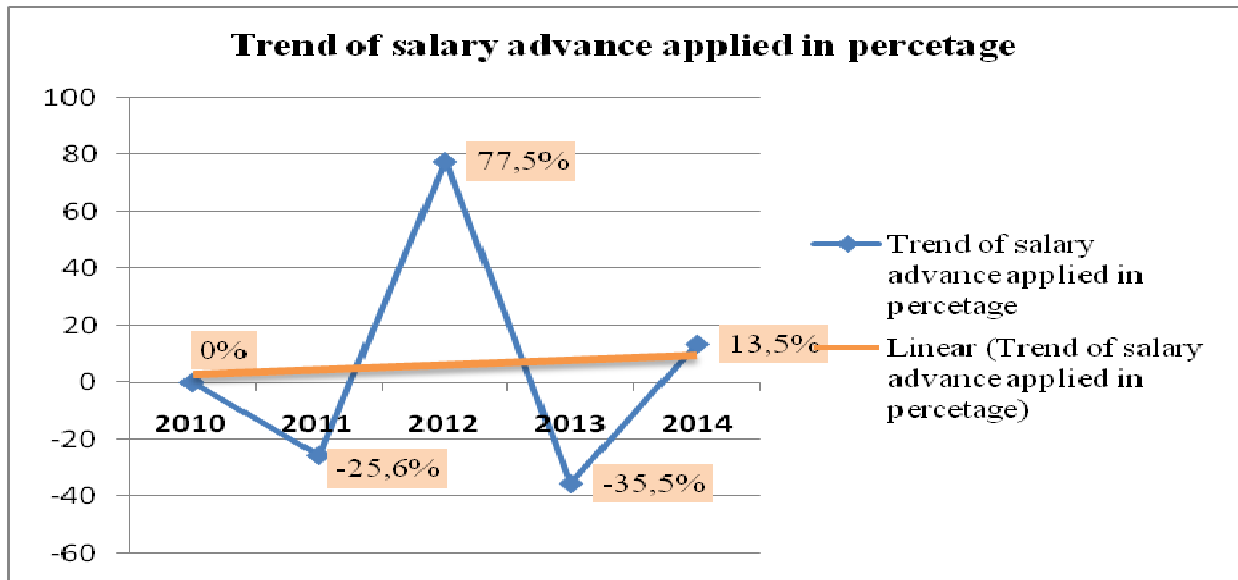


Figure 4: Loans applied to in terms of salary advance from 2010-2014

Source: Primary data, 2016

The observation of trends above revealed that there is a linear trend and the application increase in general even if in 2011 and 2013 there was increase of application of salary advance loans comparing the previous years.

Table 8: Salary advance offered

Period	Salary advance	Variation	%
2010	24 567 600	0	0
2011	20 700 850	-3 866 750	-15,7
2012	38 700 675	17 999 825	87,0
2013	25 000 450	-13 700 225	-35,4
2014	27 500 350	2 499 900	10,0

Source: Primary data, 2016

As table 8 showed the variation of loans in terms of salary advance offered, it is clearly that the years 2011 and 2013, the offering of salary advance loans varied. This means that there was fluctuation of salary advance loans.

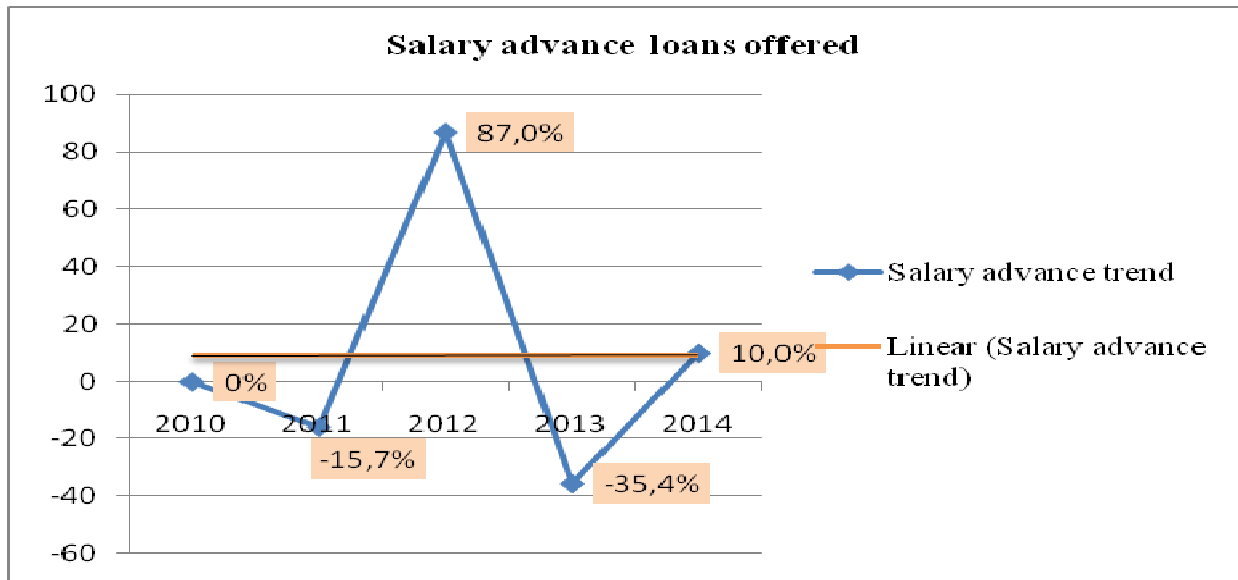


Figure 5: Salary offered by RIM Ltd as salary advance from 2010-2014

Source: Primary data, 2016

Observation of trend line showed that there was a high increase of offering of salary advance in 2012. In general, there is standard increase and linear augmentation of salary advance loans offered.

Table 9: Agriculture and farming loans applied

Period	Agriculture and farming	Variation	%
2010	16 500 300	0	0
2011	10 300 450	-6 199 850	-37,6
2012	21 800 500	11 500 050	111,6
2013	21 375 630	-424 870	-1,9
2014	23 500 200	2 124 570	9,9

Source: Primary data, 2016

Like other loans, the observation showed that there was a high increase of loans in terms of agriculture and farming in 2012. Comparing with other years, the percentage decreased is slow and it means that there is an increase of application of loans in terms of agriculture and farming.

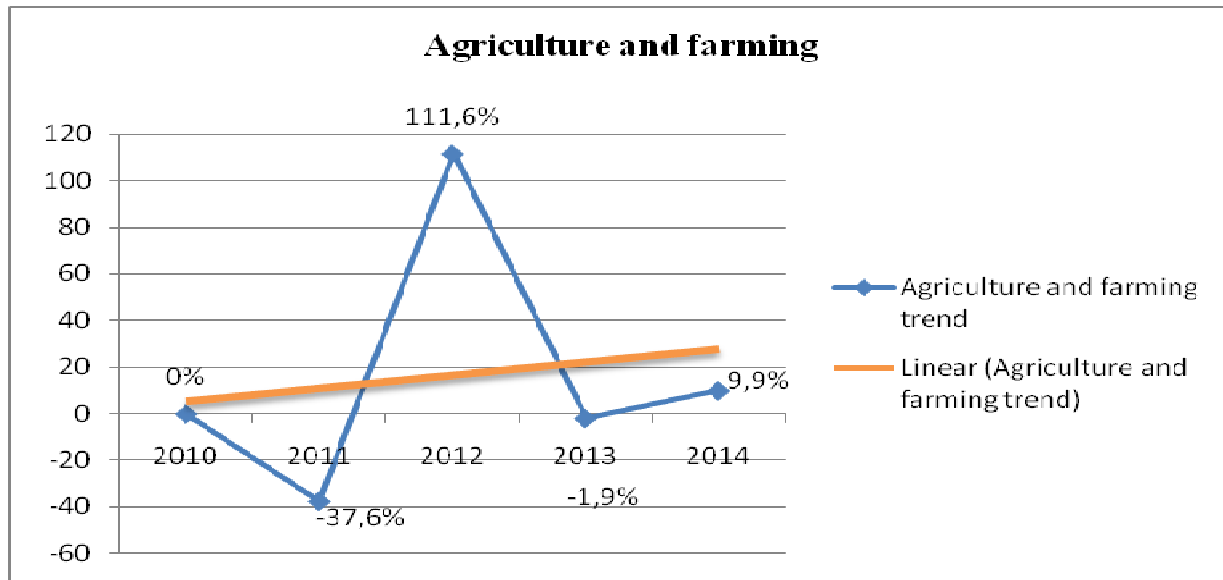


Figure 6: Loans applied to RIM Ltd in terms of agriculture and farming from 2010-2014

Source: Primary data, 2016

The trend line showed that there is a linear increase of loans applied for agriculture and farming. This increase is justified by the fact that there was a high increase of agriculture and farming loans in 2012 meaning that this trend filled the gap of other years.

Table 10: Loans offered for Agriculture and farming

Period	Agriculture and farming	Variation	%
2010	15 600 500	0	0
2011	8 345 165	-7 255 335	-46,5
2012	20 765 500	12 420 335	148,8
2013	19 235 400	-1 530 100	-7,4
2014	21 400 700	2 165 300	11,3

Source: Primary data, 2016

The observation of table 10 showed that there is a high increase of loans offered for agriculture and farming in 2013.

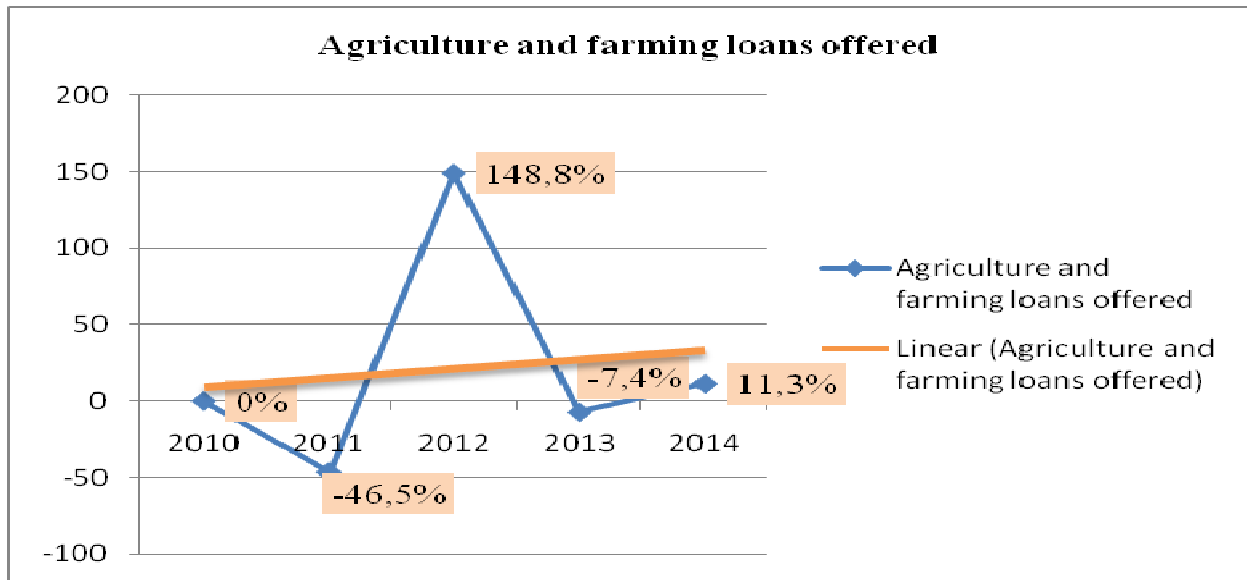


Figure 7: Loans offered in terms of agriculture and farming from 2010-2014

Source: Primary data, 2016

The trend above showed that there was a high increase of loans offered for agriculture and farming comparing the loans applied in this regard meaning that loans offered prevailed over the loans applied in this regard.

Table 11: Loans applied for equipment

Period	Equipment	Variation	%
2010	10 500 305	0	0
2011	17 500 765	7 000 460	66,7
2012	22 835 800	5 335 035	30,5
2013	14 500 750	-8 335 050	-36,5
2014	21 600 750	7 100 000	49,0

Source: Primary data, 2016

Comparing with other loans, there was no diminution of loans applied in 2011 and 2012. On in 2013, there was a decrease of loans at 36,5%. This shows that loans for equipment are different comparing with other loans.

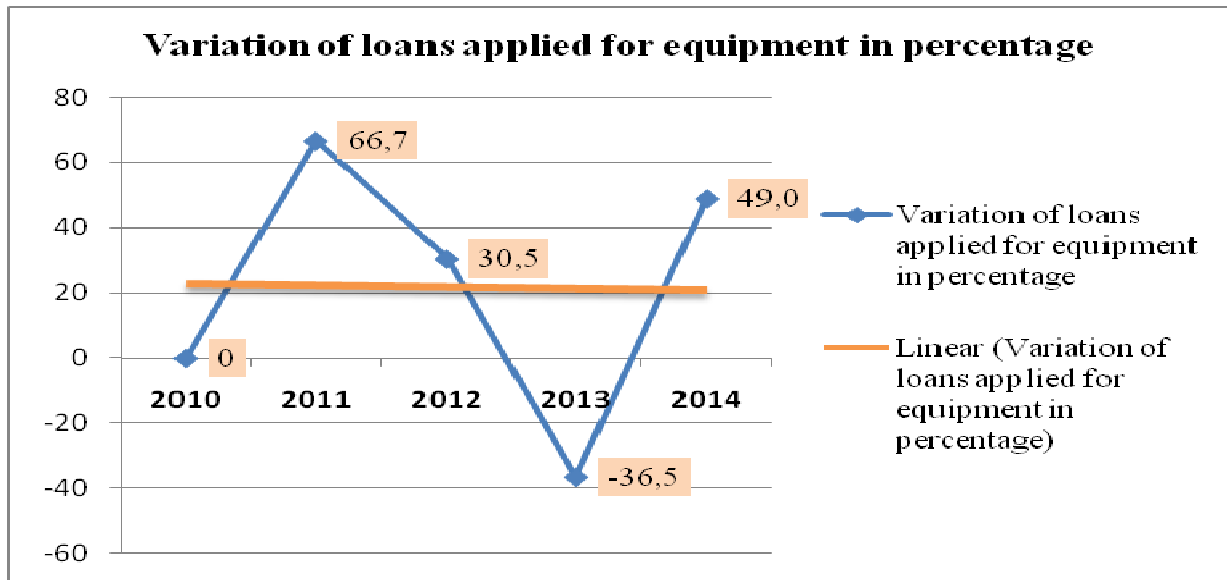


Figure 8: Loans applied in terms of equipment from 2010-2014

Source: Primary data, 2016

The trend line shows that the loans applied for equipment increases at 20% as highlighted by linear trend line.

Table 12: Loans offered for equipments

Period	Equipment	Variation	%
2010	9 500 000	0	0
2011	16 345 165	6 845 165	72,1
2012	20 835 260	4 490 095	27,5
2013	13 290 876	-7 544 384	-36,2
2014	20 376 300	7 085 424	53,3

Source: Primary data, 2016

Comparing with applied loans for equipments, there is no a great difference of loans offered in terms of equipment. There is a great variation from 2011 and 2012 where there was an increase of 72,1% (2011) and 27,5% (2012).

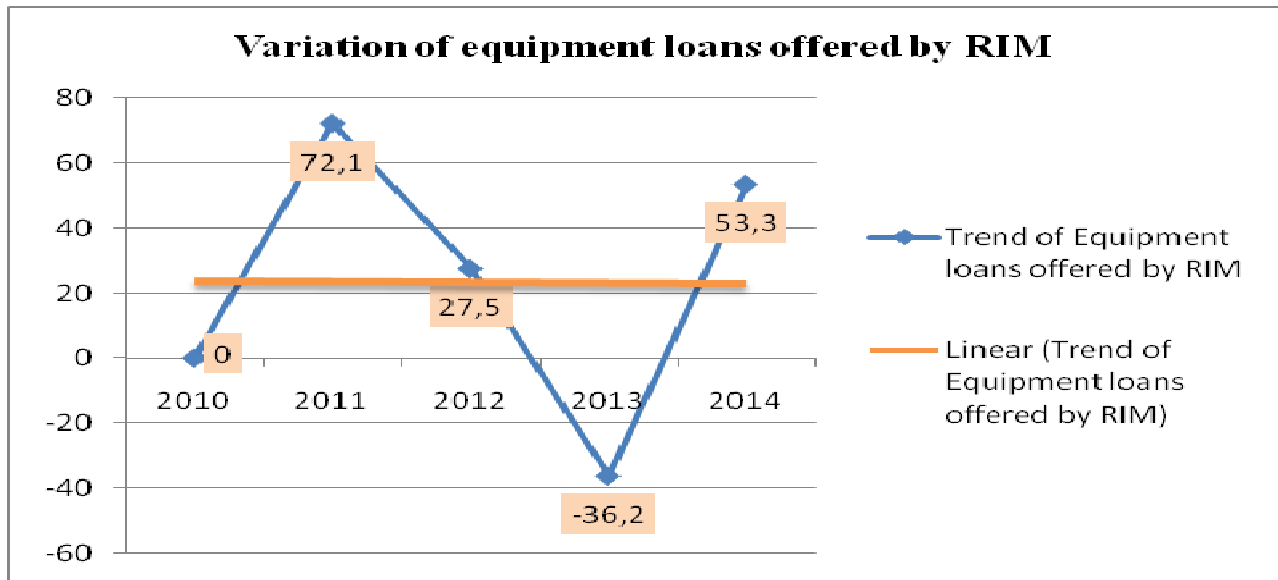


Figure 9: Loans offered in terms of equipment from 2010-2014

Source: Primary data, 2016

Following the linear trend line above, there was a positive increase and the variation is great positive.

Table 13: Social loans applied

Period	Social loans	Variation	%
2010	2 500 300	0	0
2011	2 756 350	256 050	10,2
2012	2 950 500	194 150	7,0
2013	2 500 750	-449 750	-15,2
2014	2 100 500	-400 250	-16,0

Source: Primary data, 2016

The table 13 shows the new situation which underlines the two successive years of decrease (2012 and 2013). The observation showed that there was no great increase of social loans applied but there was a great of decrease of loans application which means that the application of social loans decreased.

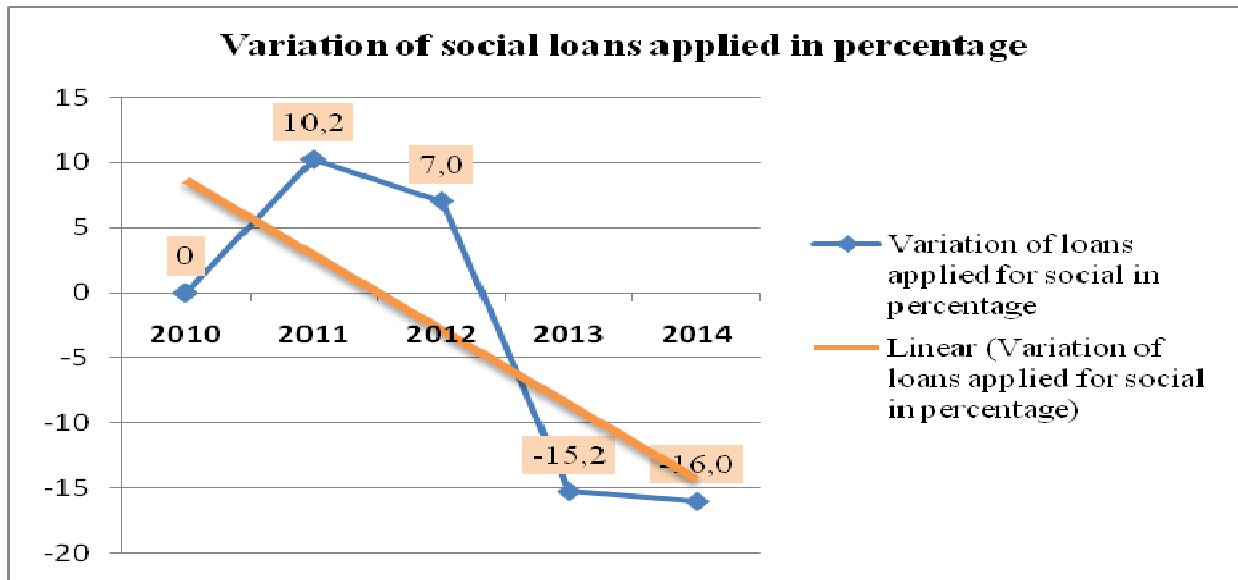


Figure 10: Loans applied to RIM Ltd in terms of social loans from 2010-2014

Source: Primary data, 2016

The trend line showed that there was great decrease of social loans applied meaning that the social loans were not requested and customers were not interested in the social services.

Table 14: Social loans offered

Period	Social loans	Variation	%
2010	2 106 465	0	0
2011	2 674 095	567 630	26,9
2012	2 800 675	126 580	4,7
2013	1 900 650	-900 025	-32,1
2014	2 000 013	99 363	5,2

Source: Primary data, 2016

The table 14 showed the social loans offered in 2013 highly decreased at 32,1% and the reason of this was that the application of loans was decreased also.

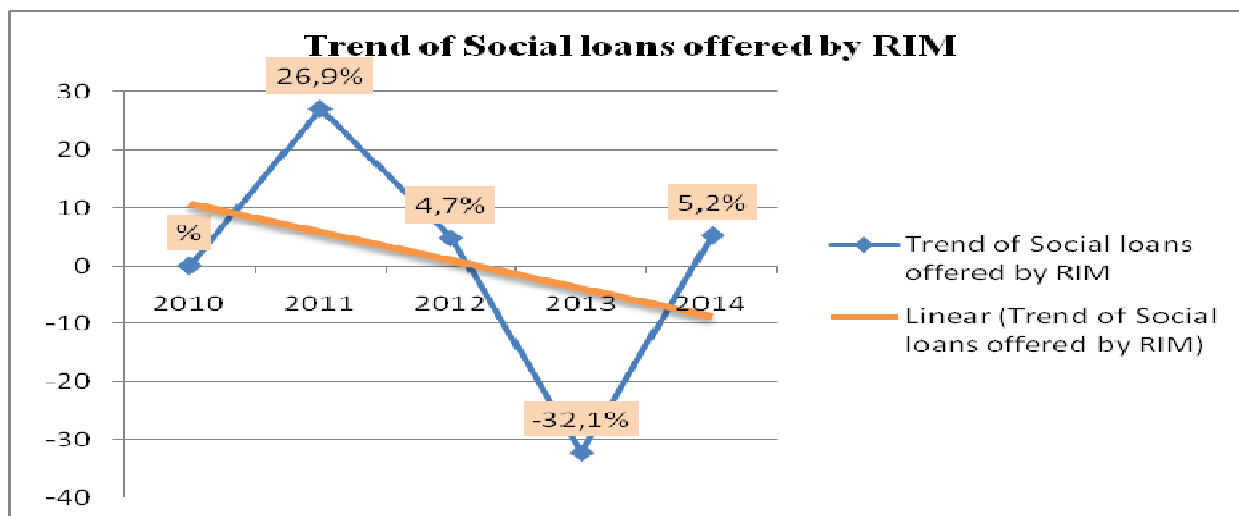


Figure 11: Loans offered by RIM Ltd in terms of social loans from 2010-2014

Source: Primary data, 2016

The trend line showed that there was a decrease of social loans from 2011 till 2013 and a small increase of 5,2% in 2014. The overview of this trend showed that there was a decrease of social loans offered by RIM Ltd from 2010-2014.

After recognizing the customers applied for and received loan and their trends, the research sought to know the category of respondents' business. In this regard, the results related to category of business are presented in the table 15

Table 15: Category of respondents' business and its employees

1. Business category	Frequency	Percent
Micro enterprise	40	41.7
Small enterprise	52	54.2
Medium enterprise	4	4.2
Total	96	100.0
2. Number of employees	Frequency	Percent
Less than 10 employees	40	41.7
Between 11-50 employees	52	54.2
Between 51-250	4	4.2
Total	96	100.0

Source: Primary data, 2016

During the course of this study, the researcher conducted the research to three categories of business notably micro enterprise, small enterprise and medium enterprise. In this regard, respondents who were in micro enterprise were 41.7%, those who were categorized in small enterprise were 54.2% while respondents categorized in medium enterprise were 4.2%. This implies that many customers of RIM Ltd exercise the business as smaller enterprisers.

The observation of those findings reinforces the statement of European Union where Micro enterprise: are enterprises with 1 to 10 employees; and small enterprise: Small enterprises between 11 and 50 employees while Medium enterprises are those which have between 51 and 250 employees. This means that 58.4% are the small and medium enterprises with 11 to 50 employees and more. As presented above, the researcher also sought to know the employees of respondents' enterprises and the table 4 illustrates more. These findings go with Petrakis, P.E. Kostis P.C. (2012) who said that SMEs are enterprises whose 50-250 employees and they explore the role of interpersonal trust and knowledge in the number of small and medium enterprises. They conclude that knowledge positively affects the number of SMEs, which in turn, positively affects interpersonal trust. Note that the empirical results indicate that interpersonal trust does not affect the number of SMEs. Therefore, although knowledge development can reinforce SMEs, trust becomes widespread in a society when the number of SMEs is greater.

The information on employees of customers' enterprises shows that the enterprises of 11-50 employees have 54.2% and 41.7% confirmed that they have employees less than 10 employees while 4.2% have between 51-250 employees. Comparing with findings of table 3, the researcher drew that small enterprise owners have lots of employees comparing with other categories of enterprises. These findings corroborate with the World Bank (2004) which states that Micro enterprise has up to 10 employees, Small enterprise up to 50 employees and Medium enterprise up to 300 employees. It is obviously that the SMEs as customers of RIM Ltd have enough employees between 10 and 250 employees with percentage of 58.2.

The findings on employees of customers' enterprises impel the researcher to seek the length of customers' business which is illustrated in table 16.

Table 16: Length of customers' business

Period of doing business	Frequency	Percent
Up to 1 year	5	5.2
Up to 2 years	91	94.8
Total	96	100.0

Source: Primary data, 2016

Regarding the table above, 94.8% of respondents exercised business during upper two years while 5.2% have business up to one year. This implies that the majority of enterprises could have been developed in terms of social or economic which is aim of this research. It means that more customers do business a long time, more their business becomes developed.

As resources of all customers' investment is from RIM Ltd, more they collaborate with Financial institution (RIM Ltd), it continue having trust them and provides them loan for reinforcement of their business. The length of business provides the experience of businessmen / business women either little or large in business.

By the observation of these findings, it is obviously that the development of SMEs cannot appear during one year but over. From this, the researcher also noted that the length of business like up to 2 years facilitates the businessmen/women to note development.

During the course of this study, the researcher also coped with seeking to know the criteria required by financial institution (RIM Ltd) for giving the loan. The table 17 illustrates more.

Table 17: Criteria required by RIM Ltd for giving the loan

Criteria	Frequency	Percent
Business plan	3	3,1
Collateral security	4	4,2
Cash flow statement	-	-
Audited financial statement (account)	-	-
All answers are true	89	92.7
Total	96	100,0

Source: Primary data, 2016

As presented in table above, 92.7% of respondents confirmed that before providing loan to customer, some criteria have to be fulfilled by clients. As highlighted in table above, those criteria include business plan, collateral security, cash flow statement and audited financial statement.

For the business plan, Pinson, (2004), said that it is a formal statement of business goals, reasons they are attainable, and plans for reaching them. It may also contain background information about the organization or team attempting to reach those goals. Business plans may target changes in perception and branding by the customer, client, taxpayer, or larger community. When the existing business is to assume a major change or when planning a new venture, a 3 to 5 year business plan is required, since investors will look for their investment return in that timeframe.

Regarding the business plan, the researcher evidenced that a business plan explains and illustrates the vision that customers have for their business, and to persuade others to help customers to achieve that vision. To accomplish this, the plan will need to demonstrate on paper that customers have a firm visualization of what their business is going to be. It needs to convince others that their business concept can be successful and that they possess the expertise-alone or collectively-to assure that it will be both successful and profitable.

According to collateral security, customers have to possess some property or other assets to offer a financial institution to secure a loan. If the borrower (customers) stops making the promised loan payments, the lender can seize the collateral to recoup its losses (Garrett, Joan F. (1995).

During the interview conducted to the RIM manager, he stated the following: *“when the customers come requesting the loan, we examine the following: business plan, collateral, income statement, account opened with 3 months, 10% loans compulsory saving. Certification of marriage or single and photocopy of identity card”*.

On the other side, the loan officer stressed the following: *“the institution rejects the application of loan based on the over debtless, lack of experience in the project, weak business plan and lack of collateral”*.

Therefore, it is clearly that customers knew the criteria imposed by RIM for loan provision and enumerated the major of them.

Regarding the cash flow statement, customers have to shows how changes in balance sheet accounts and income affect cash and cash equivalents, and break the analysis down to operating, investing and financing activities. Essentially, the cash flow statement is concerned with the flow of cash in and out of the business. For Helfert, E.A. (2001), the statement captures both the current operating results and the accompanying changes in the balance sheet. As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills.

During the course of this study, the research sought to know the project in which customers invested the loan received from RIM Ltd and all (100%) confirmed that they invested in small and medium enterprises. In fact, the SMEs comprise the activities related to commerce.

By receiving loans, the financial institution (RIM Ltd) imposes to customers the interest rates. In this regard, the researcher sought to know the position of customers about the interest rate.

Table 18: Respondents' opinion on interest rates required by RIM

Level of interest rates	Frequency	Percent
High	10	10.4
Moderate	86	89.6
Low	-	-
Total	96	100,0

Source: Primary data, 2016

The majority of respondents considered the interest rate imposed by RIM Ltd as moderate. The term “moderate”, in this research, refers to neither high (intensive, extreme) nor low but normal or tolerable. This means that it is easy for customers with SMEs to repay the loan received. In addition, this indicates that customers are able to repay the sum agreed on time and they are encouraged to request another after the discharge of the first loan. The researcher sought to know whether customers of RIM Ltd have problem for repayment of loan to the financial institution and results are presented in table 19.

Table 19: Respondents' opinion on existence of problem for repayment a bank loan

Answer	Frequency	Percent
Yes	6	6.2
No	90	93.8
Total	96	100.0

Source: Primary data, 2016

Comparing the information related to the interest rate, there is no problem for repayment the financial institution loan. This is confirmed by 93.8% of respondents that there is not problem because the rate is moderate means that it is easy for customers to repay loan. It is obviously that customers repay loan without any difficulty meaning that their business run well and they are developed. However, there were some small enterprisers who said that they had problem of loan repayment. This means that in their business there are some issues of business management or other problem associated to the rate related to loan received or their capital. But, in the following, customers highlighted the problem met in repayment. Following the information from the interviewee, the loan officer said that some customers do not repay loan because of *loan management, customer's attitude towards loans (like a gift), loan underwriting*.

Table 20: Problems of repayment of financial institution loan

Problems	Frequency	Valid Percent
Short duration	-	-
High monthly repayment amount	3	50.0
High interest rate	1	16.7
Low turnover	2	33.3
Total	6	100.0

Source: Primary data, 2016

Among the 96 respondents, there were 6 respondents having the problem related to repayment of financial institution loan. Taking this issue, the majority of 50.0% confirmed that they have problem of high monthly repayment amount to the financial institution (RIM Ltd); 33.3% have the problem of low turnover while 16.7% have the problem related to high interest rate. Following this information, it is obvious that the greater part of those respondents probably took great loan to such point that they are imposed to pay for the big monthly sum. In addition, it could be probably, in the business plan, calculated and admitted high interest monthly.

Moreover, these people could have promise that they would pay the amount promised on time so that they get loan and unfortunately they got low interest. Other two people had the low turnover. This implies that more someone invests many; more you get a lot; meaning that in the investment, those respondents, with fewer turnovers, they are not able to repay the sum promised. The findings show that among 96 respondents, 90 (94%) have not problems of loan repayment while 6% had the problem of loan repayment to financial institution.

Table 21: Length of obtaining loans from RIM Ltd

Period of obtaining loan from RIM Ltd	Frequency	Percent
Less than one month	84	87.5
Between 1 and 2 months	12	12.5
Over three months	-	-
Total	96	100.0
Average	48	66.7

Source: Primary data, 2016

The study findings show that the majority of respondents (87.5%) get loan less than one month while 12.5% it is for between 1 and 2 months to receive loan. From the information provided by loan officer, she informed that the institution delivers loan to customer during 15 days. This expresses the similarity of customers' information who said that the period is less than one month. The fact that customers get loan in different time means that the conditions required are not fulfilled. Furthermore, it is under other requirement of financial institution like to explore the collateral, the activities proposed. As presented in the table, the average period of taking loan from RIM Ltd is between one and two months.

Table 22: Repayment of loan on conventional time and requesting of another loan

1. Repayment of loan on conventional time		
Answer	Frequency	Percent
Yes	87	90.6
No	9	9.4
Total	96	100.0

2. Requesting of another loan after repayment loan		
Answer	Frequency	Percent
Yes	93	96.9
No	3	3.1
Total	96	100.0

Source: Primary data, 2016

The table above determines that more than 90% of respondents repay loan on conventional time and request another. This indicates that SMEs owners have a good line of running mean that they are developed.

During the interview, the loans officer said the following: “*sometimes, customers do not repay loans on conventional period. If we take an example, there was a portfolio for loans over time equals to 621 294 814 Rwf during the last four years. You see that this amount is high! But the majority of our customers repay on time!*”.

Given that customers who repay loan are less than those who request means that there are some of them who need to improve their business and increase their turnover.

4.3.2. Contribution of loans in SMEs development

One of the aims of this study was to evaluate the contribution of loans in SMEs development, the researcher sought to know the performances of business after getting the loans and the results are presented in table below.

Table 23: Position of respondents on contribution of loan in SMEs development

Contribution	Frequency	Percent
Increase of Profitability of business	32	33.3
Increase in sales	2	2.1
Increase in stock level	-	-
Increase of working capital	6	6.2
Expansion of business	8	8.3
All responses are true	48	50.0
Total	96	100.0

Source: Primary data, 2016

Once asked to determine the performance of business after getting loan, 50.0% confirmed that profitability of business, increase in sales, and increase in stock level, increase of working capital and expansion of business are performances achieved by SMEs owners. Particularly, profitability of business comes at the 1st rank of others items evoked by respondents with 33.3%, expansion of business comes the second while the attitude of increasing of sale comes the third. Other contribution is the increase in sale, in stock level and working capital.

These findings corroborate with the study of Kolari (2003) where he said that credit process streamlining is the key to improving profitability and expanding Small Business lending and revealed that majority of SMEs accepted positive contributions of loans towards increasing their profits, stock and sales, thus placing them on a competitive ground.

These findings are also related to the study of UWFT (2005) which found that majority of SMEs that accessed adequate funds from microfinance institutions increased their volume of sales and the profit.

It is also obviously true that loan facilitate in increase of working capital. In fact an organization's working capital refers to its current assets less its current liabilities. It is also often referred to as the fluctuating capital of an organization, as it will typically change on a day to day basis (as distinct from non-current assets and liabilities). Moreover, Ashleigh, *et al.* (2013) said that loans are available for many business purposes, such as real estate, business expansion, equipment, working capital.

In regard to know the number of SMEs developed by RIM Ltd, the loan officer said that there 1,700 small and medium enterprises developed from 2010 until 2014. This shows that with the performance below, there is an extension of SMEs due to RIM Ltd.

During the interview, two cashiers underlined the following: “*RIM Ltd contributes in development of business by training in financial education & entrepreneurship, Full follow up and advisory to group, pre- training for loans group and enhancement of social activities between group*”.

4.3.3. Roles of SMEs in economic development due to loans provided by RIM Ltd

Table 24: Roles of SMES in economic development due to loans provided by RIM Ltd

Roles	Frequency	Percent
SMEs provide the employment opportunities	13	14
Opening up the new business opportunities	14	15
SMEs enhances the competition and entrepreneurship	7	7
SMEs contributes to poverty alleviation by creating the jobs	19	20
SMEs improves income of people	10	10
SMEs contribute to the growth of existing business	15	16
Increase of people’s income and overall living standards	18	19
Total	96	100.0

Source: Primary data, 2016

The findings show that SMEs when SMEs are developed because of loans, they play a role in economic development. This was indicated by scores rated by respondents. These indicators include the poverty alleviation by creating the jobs, increasing of people’s income and overall living standards, SMEs contribute to the growth of existing business, opening up the new business opportunities, SMEs provide the employment opportunities, SMEs improves income of people and enhancement of competition and entrepreneurship.

During the key informant interviews’ data analysis, the loan manager declared the following: “*the categories of loans offered by RIM Ltd helps customers to enhance economic development activities because they get loans related to commerce, agriculture &, salary advance, house rehabilitation and cleaning, equipment and social loans (School fees,...)*”.

The loan officer also informed the researcher the number of customers who took loan for below activities “*commerce: 1 700, agriculture & Farming: 415, salary advance: 105, house rehabilitation and cleaning: 60, equipment: 39 and social loans (School fees,...)*”.

It is noticeably that the commerce, agriculture and farming can boost the economic development in case they generate income to the customers.

The research can say that SMEs are considered to have a crucial role in an economy and are a key source of economic growth, dynamism and flexibility and can adapt quickly to changing market demand and supply situations.

In the literature, there are many supporting arguments on the importance of SMEs for the economic development. Conceptually supporters are mostly based on following three core arguments (World Bank, 2004). First, SMEs advocate argue that SME enhance competition and entrepreneurship and therefore have external benefits on economy-wide efficiency, innovation, and aggregate productivity growth. Finally, some argue that SME expansion boosts employment more than large firm because SME are more labor intensive.

4.4. Discussion of research findings

In quantitative data analysis and in an in-depth interview, findings were analyzed and interpreted based on the following objectives: customers applied for loans and received, contribution of loans in SMEs development, roles of SMEs in economic development and challenges faced by SMEs’ performance.

4.4.1. Loans requested and received by SMES

Findings revealed that the application of loans varied differently from the years as well as the loans offered. This means that the amount requested by customers decreased or increased because of some reasons and for granting loans, it depended on the judgment of the financial institution. This goes with the fact that customers had not fulfilled the requirements notably, over in debtless, lack of experience in the project, loss, business constraints, weak business plan and lack of collateral. It was revealed that the customers needed loans increased meaning that the business was development and the collaboration with financial institution was fair.

4.4.2. Contribution of loans in SMEs development

Findings revealed that there was a contribution of loans to SMEs development. This was indicated by 50.0% of respondents confirming that profitability of business, increase in sales, increase in stock level, and increase of working capital and expansion of business were performances achieved by SMEs owners. These findings demonstrate that loans play a significant role for SMEs development because profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important.

4.4.3. Roles of SMEs in economic development due to loans provided by RIM Ltd

Findings revealed that SMEs play a role in economic development. This was indicated by scores rated by respondents. These indicators include the increase of Gross Domestic Product (GDP) and Nation economy, provision of employment opportunities, open of new business opportunities, enhancement of competition and entrepreneurship, contributes to poverty alleviation by creating the jobs, stimulates development of the economy, improves income of people, contribute to the growth of existing business and increase of people's income and overall living standards. These findings corroborate with the World Bank, (2004) findings where it showed that *"SMEs support frequently claim that SMEs are more productive than large firms but financial market and other institutional failures impede SME development .Some argue that SME expansion boosts employment more than large firm because SMEs are more labor intensive. SME may represent poverty alleviation tools in developing countries. SME sector's contribution to employment and GDP across countries"*. The findings also go with Abor and Quartey (2010) findings that showed the following: *"SME contributed to a country's national product by either manufacturing goods value or through the provision of services to both consumers and other enterprises"*.

4.5. Hypothesis test and objectives achievement

In order to achieve the objectives designed for this study, the following research hypothesis was stated: -H₀: The loans contribute to the SMEs development and H₁: The loans do not contribute to the SMEs development.

Table 25: Hypothesis test

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	29,450^a	24	,204
Likelihood Ratio	30,339	24	,174
Linear-by-Linear Association	2,654	1	,103
N of Valid Cases	96		

Source: SPSS 16.0 results based on the primary data 2016

The table below provides the summary statistic information of “**Pearson chi-square**”. The chi-square value is under “value” and the p-value is under “Asymp. Sig”. Here the observed chi-square statistic is 29,45 which is associated with a 20.4% risk of being wrong in rejecting the null hypothesis. This is too great a risk (far exceeding our standard of 5% risk), so the researcher is enabled to reject the null hypothesis (The loans contribute to the SMEs’ economic development). The researcher therefore concluded that loans contribute to the SMEs’ development and rejects the alternative hypothesis (The loans do not contribute to the SMEs’ development).

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

This chapter contains the conclusions and recommendations based on the study findings, based on the objectives of the study. The following conclusions and recommendations have been drawn:

5.1. Conclusions

This research on “the evaluation of loans towards SMEs development, case study: RIM Ltd Huye branch” has the general objective to Evaluate the Loans portfolio towards SMEs development. The specific objectives were to find out how many applied for loans and received, to evaluate the contribution of loans in SMEs development, to examine the roles of SMEs in economic development and to identify the challenges faced by SMEs’ performance.

Based on the findings related to the research first objective on customers requested for and received loan, it was found that there were some customers who had not received loans because of incomplete requirements. The researcher concluded that the granting of loan in order to ensure auto-development, the requirements are necessary to be fulfilled.

Based on the findings related to the second objective on contribution of loans in SMEs development, it was revealed that 50.0% confirmed that profitability of business, increase in sales, and increase in stock level, increase of working capital and expansion of business are performances achieved by SMEs owners. Particularly, profitability of business comes at the 1st rank of others items evoked by respondents with 33.3%. With these findings, the researcher concluded that to get loan from financial institution is significant and necessary for ensure the development of SMEs.

Regarding the third objective on roles of SMEs in economic development, findings revealed that SMEs play a role in economic development through the poverty alleviation by creating the jobs, increasing of people’s income and overall living standards, SMEs contribute to the growth of existing business, opening up the new business opportunities, SMEs provide the employment opportunities, SMEs improves income of people and enhancement of competition and entrepreneurship. By these findings, the researcher concluded that the collaboration of people with financial institution is vital because they facilitate to access to finance.

Lastly but not least, one can conclude that loans lead to small and medium enterprises development, by using factors that greatly influence development like income of people, education level, investment level and so on.

In addition, it can be said that the objectives of the study were successfully achieved. Findings and conclusions were found in line with the interpretation of the data.

The research was carried out on the role loan in small and medium enterprises development with reference to RIM Ltd customers. The study established a positive significant relationship between amount of loan and SMEs achievement of goals.

Thus the researcher brought certain recommendations:

5.3. Recommendations

Depending on data analysis, interpretation, both qualitatively and quantitatively, the hypothesis was accepted and it is important to recommend some advices to different kinds of people and institutions, in order to promote the SMEs development:

To the government

Reinforce the capacity of Microfinance in culture of providing loans, to maintain commerce and other income generating activities of financing small and medium enterprises which are commercial-based enterprises.

Government should encourage small scale enterprise through their micro credit scheme to give soft loans.

Government should also re-introduce small business credit scheme so as for the beneficiaries to use them to run the small scale enterprises.

Government, chamber of commerce and industries and other non-governmental organization should regularly organize seminars for potential and actual small and medium enterprise operators where they should be educated on how to plan, organize, direct and control their businesses to foster the Rwandan economy.

To RIM Ltd

- To negotiate with funds donors favorable conditions for financing projects, to inspire or follow example of innovative enterprises of developed countries for being competitive in the region, to maintain its politic for products of quantity and quality, to maintain and increase quality services where is possible;
- To reduce the interest rate charged on loans and increase interest enumerated to the fixed term;
- To train the client how to create rentable project related to SMEs;
- To minimize the constraints hindering the people to joint bank services like collateral security;
- To form its members regularly especially concerning to elaborate the SMEs projects and loans management;
- To reduce the conditions of concession of loans;
- To increase the period of repayment;
- Increase the period of application for loan;
- Reducing the period of receiving loans;
- Training on project management;
- Increase the amount of loans.

To customers

- To diversify their cultures for gaining more money and to continue well utilization of gained money for their development;
- To be honest and respect the agreed conventions of repayment;
- To repay their loans as per schedule;
- To hold some good relations with the staff of the micro-finance;

5.4. Suggestions to further researchers

Time and resource are always a problem to researchers. It is on this case therefore, that the searcher could not cover the whole field and this call for other researchers to take parts and

involve in investigating some of the rest parts in this field of study. This could help in expanding of the knowledge in field of study.

However, a few areas for further research have to be identified and these include

- A study on the challenges faced by microfinance institutions in raising adequate SMEs loans in Rwanda;
- A study on the importance of microfinance in economic development of population.

REFERENCES

- Abor, T. & Quartey, J. (2010) "Access to Credit and Growth of SMEs in Ghana".
- Abor, J and Quartey, P. (2010).Issues in SMEs in Ghana and South Africa International Research, Journal of Finance and Economics Issue 39 218 -228.
http://www.eurojournals.com/irjfe_39_15.pdf.
- Amin, M.E. (2005). *Social Science Research; Conception, Methodology and Analysis*. Makerere University, Kampala.
- Anheier, H. K. and H. D. Seibel, 1987. "Small Scale Industries and Economic Development in Ghana", Business Behaviour and Strategies in Informal Sector Economies, VerlagBreitenbech, Saarbruckh, Germany.
- Anheir, H.K and Seibel, HD (1987) "Small -Scale Industries and Economic Development in Ghana".
- Arlinda, M. (2015). Entrepreneurship and Small Business Development in Kosovo. Research report.
- Arlinda, M. (2015)" Access to Bank loans of SMEs in Kosovo "
- Ashleigh, C. *et al.* (2013). Small Business and Technology Development Center.The University of North Carolina. West Hargett Street.
- Ayyagari, M.; Thorsten, B., and Asli, D.-K. (2003). "Small and Medium Enterprises cross the Globe. A New Database," Policy Research Working Paper 3127, Washington, D.C.: World Bank. US Small Business Administration, March, 2008.
- Bataa G. (2008). Improving Access to Finance for SME: International Good Experiences and Lessons for Mongolia, Tokyo, Japan No 438, October 2008.
- Beck, T. (2007). "The Basic Analytics of Access to Financial Service," Financial Markets, Institution and Instruments 17, 79-117.
- Bernard, V. (2007). Working Capital Management. Professional 1 Managerial Finance & Professional 2 Financial Management. CPA.

- Clotilde MUKAMUGANGA (2011). The role of SMEs in rwanda from 1995 to 2010. National University of Rwanda. Huye.
- DADA, Richard Mayowa (2014). Commercial banks' credit and smes development in nigeria: an empirical review. *International Journal of Research (IJR)* Vol-1, Issue-8, September 2014 ISSN 2348-6848. Commercial Banks' Credit and SMEs Development. Kogi State University.
- Daniel, O. O. (2011) "Optimum Loans Portfolio Selection"
- Douglas, J. Elliott, (2013). Regulating Systemically Important Financial Institutions That Are Not Banks. Paper.
- Du Toit. Erasmus.&Strydom "Definition of a small business" *Introduction to business management, 7th Edition* Oxford University press,2009, p. 49.
- Garrett, Joan F. (1995). Banks and Their Customers. Dobbs Ferry, NY: Oceana Publications. p. 99. ISBN0-379-11194-2.
- Gasore, B. (2013). The New Times. SMEs, creation of needed opportunities. EADB. At <http://www.newtimes.co.rw/section/Printer/2013-10-24/70232/>.
- Gilbert A. Churchill, 1992, Basic Marketing Research, 2nd edition, the Dryden Press, U.S.A
- Grinnell Richard M. Jr. and Williams Marget, (1990). Research in social research, Peacock publishes inc. U.S.A.
- Hamuranek, P.M., C.F. Lettonayr, J.H. Picher, (1994). *Manual for small industrial business*. (UNIDO, Vienna.
- Helfert, E. A. (2001). "The Nature of Financial Statements: The Income Statement". Financial Analysis - Tools and Techniques - A Guide for 24 KB (2,625 words) - 14:50, 12 March 2016.
- International Finance Corporation (2014). Women-Owned SMEs: A Business Financial Institutions. Opportunity for F. World Bank Group.
- Jane, L., (2003). Qualitative Research Practice. London: SAGE Publications Ltd.

- John, A. and Vuvor, S. (2014) “The challenges faced by Small & Medium Enterprises in obtaining Credit in Ghana”.
- John, I., (2014). Expanding Women’s Access to Financial Services. Journal of Working for a World Free of Poverty. World Bank. At <http://www.worldbank.org/en/results/2013/04/01/banking-on-women-extending-womens-access-to-financial-services>.
- Kayanula, D. and P. Quartey, (2000). “The Policy Environment for Promoting Small and Medium-Sized Enterprises in Ghana and Malawi”, Finance and Development Research Program, Working Paper Series, Paper N^o 15, IDPM, University of Manchester.
- Kenneth D. Bailey, (1978). Methods of social research, A division of McMillian publishing inc. New York.
- Kolari, J.W. (2003) ‘Assessing the Profitability and Riskiness of Small Business Lenders in the Banking Industry’, SBA Office of Advocacy, Small Business Research Summary No. 229.
- Lawal Babatunde Akeem MBA, BSc (2014). Banking Sector and the Development of SMEs in Osun State. Department of Accounting, Banking & Finance Osun State University, Osogbo. Research Journal of Finance and Accounting. ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online) Vol.5, No.4, 2014
- Makokha, M. (2006). Gender and entrepreneurship in Kenya: a comparative analysis of male-female’s start up motivation, individual characteristics and perceptions of business success. PHD thesis: University of Dar Es Salaam.
- MINICOFINE (2007).Socio-economic development indicators. Kigali.
- MINICOFINE (2012).Economic Development and Poverty Reduction Strategy II, 2013 -2018. Kigali 2023.
- Ministry of Finance and Economic Planning “The Economic Development and Poverty Reduction Strategy (2013 -2018).

- Ministry of trade and industry (2016). SMEs Remain the Core Engine of Economic Growth in Rwanda. Kigali.
- National Bank of Rwanda, (2008).Financial Stability Report. Kigali
- Ntare, B.I. (2005). Effectiveness of Loan Portfolio Risk Management Practices in Rwandan Commercial Banks – A Survey.
- Nyandwi, V, (2013) Contribution of small and medium enterprise to the economic development of Rwanda. Universite Nationale du Rwanda. Huye.
- OECD (2002).Small and Medium Enterprise Outlook.Organization for Economic Co-Operation and Development.
- Olowe F.T (2013). Empirical Study of the Impact of Microfinance Bank on Small and Medium Growth in Nigeria. KKIMRC. IJRFA
- Petrakis, P.E. Kostis P.C. (2012), “The Role of Knowledge and Trust in SMEs”, Journal of the Knowledge Economy, DOI: 10.1007/s13132-012-0115-6.
- Pinson, L. (2004). Anatomy of a Business Plan: A Step-by-Step Guide to Building a Business and Securing Your Company’s Future (6th Edition). Page 20. Dearborn Trade: Chicago, USA.
- Robinson, Marguerite. (2005). “The Future of the Commercial Microfinance Industry in Asia.” Finance for the Poor 6 (2): 1–6. <http://www.adb.org/documents/periodicals/microfinance>. Schiffer, Mirijam, and Beatrice Weder. 2001. “Firm Size and the Business Environment: Worldwide Survey Results.” Discussion Paper 43, International Finance Corporation, Washington, DC.
- Samuel A. Donaldson (2007). Federal Income Taxation of Individuals: Cases, Problems and Materials, 2nd Ed.
- Todaro, M.P. and Smith, S. (2012). *Economic development*. 11 ed. New York University.
- Trade Industry &trade Industry e-newsletter (2014). An insight into Rwanda’s trade and industry vol.1 issue 7, march - April 2014.

- Trisha Kweenua Quainoo, B.A ECONS, (2011). Examining the impact of loans on SMEs in Ghana. The Institute of Distance Learning, Kwame Nkrumah University. KNUST
- United Nation Industrial Development Organization: UNIDO (2002): “Corporate Social Responsibility: Implications for Small and Medium Enterprises in Developing Countries”. Vienna. Retrieved from the internet on 1st June 2014 at www.unido.org/fileadmin/user_media/.
- United Nations Industrial Development Organization (UNIDO) report of 2012.
- United States, Small Business Administration, March, 2008
- UWFT, (2005). Evaluation of micro and small enterprises in Uganda. Kampala: Uganda Women Finance Trust.
- World Bank (2004).“Mexico – Second Savings and Rural Finance (BANSEFI) Project,” Project Appraisal Document, Report 28929-ME.
- World Bank Report (2014) “Importance of SMEs in Social-Economic Development”.
- Yamane, T. (1967). Statistics: An Introductory Analysis (2ndEd). New York: Harper and Row.

APPENDICES

AN INTRODUCTORY LETTER TO THE STAFF OF RIM LTD IN HUYE BRANCH

University of Rwanda

College of Business and Economics

School of Business

Dear respondent,

I am carrying out a research on the Evaluation of loans towards SMEs development as a case study of RIM Ltd in Huye branch of requirement award of Master's degree in Business Administration from the University of Rwanda. I am therefore interested in your ideas in your major area of operation.

Therefore, I would sincerely appreciate your help by filling in the enclosed questionnaires. Results of this study will be purely for academic purpose.

Thank you for your cooperation

Yours sincerely

KUBWIMANA Jeannette.

QUESTIONNAIRES

1. QUESTIONNAIRE TO THE CUSTOMERS OF RIM Ltd.

Guidelines: Put a tick in the square in front of each response the most appropriate or fill in the space provided.

I. General information

A. Sex

a. Male

b. Female

B. Age

a. Below

b. 20-30

c. 31- 40

d.Over

C. Occupation

a. Agriculture

b. Commerce

c. Professional employees

d. Other Specify.....

D. Education level

- a. Primary
- b. Secondary
- c. University

E. Marital status

- a. Single
- b. Married
- c. Widowed
- d. Divorced

II. Questions:

1. What is the category of your business?

- i. Micro enterprise
- ii. Small enterprise
- iii. Medium enterprise

2. How many of employees of your enterprises?

- Less than 10 employees
- Between 11- 50 employees
- Between 51 – 250 employees

3. How long have you been doing business?

- a. Less than 1 year
- b. Up to 1 year
- c. Up to 2 years
- d. Other (Specify).....

4. What are the resources of your investment?

- a. Personal money
- b. Friends
- c. Family
- d. Loan from RIM Ltd

5. What are the criteria were requested by RIM Ltd for giving the loan?

- a. Business plan
- b. Collateral
- c. Cash flow statement
- d. Audited financial statement (account)
- e. All Answers are true

6. What kind of project did you invest your money?

- a. Equipment
- b. Small and Medium Enterprises
- c. Agriculture & Farming
- d. Social activities
- e. Others, specify.....

7. How do you consider, the interest rate of RIM?

- a. High
- b. Moderate
- c. Low

8. Did you have problem for repayment a bank loan?

- I. Yes
- II. No

If yes, what created the problem?

- a) Short duration
- b) High monthly repayment amount
- c) High interest rate
- d) Low turnover
- e) Other, (specify).....

9. How long did you obtain the loans from RIM Ltd?

- Less than one month
- Between 1 and 2 months
- Over three months

10. Did you repay loan at the agreed period?

- Yes
- No

11. After repayment loan, did you requesting another?

- Yes
- No

12. What is the contribution of loans in SMEs development

- Profitability of business
- Increase in sales
- Increase in stock levels
- Increase of working capital
- Expansion of business
- All responses are true

13. What are the roles of SMEs in economic development?

1. SMEs provide the employment opportunities
2. Opening up the new business opportunities
3. SMEs enhances the competition and entrepreneurship
4. SMEs contributes to poverty alleviation by creating the jobs
5. SMEs stimulates development of the economy , improve income of people and contribute to the growth of existing business
6. Increase of people's income and overall living standards.

7. All the answers are true

14. What are the challenges faced by SMEs' performance?

- Bad project management
- Low of working capital
- Reducing in sales
- Business failure
- All responses are true

INTERVIEW GUIDE ADDRESSED TO THE STAFF OF RIM Ltd

Guidelines: Put a tick in the square in front of each response the most appropriate or fill in the space provided.

A. General information

1. Sex

Male

Female

2. Marital status

Single

Married

Widowed

Divorced

3. Occupation

Manager

Loan officer

Cashier

Other , Specify.....

4. Education level

Primary

Secondary

University

Other, Specify

B. Questions:

1. What are the categories of loans offered by RIM Ltd?
 - Commerce
 - Agriculture & Farming
 - Salary advance
 - House rehabilitation and cleaning
 - Equipment
 - Social loans (School fees,...)
2. What are the criteria's of RIM Ltd to provide the loans to their clients?
 - Business plan
 - Collateral
 - Income statement
 - Account opened with 3 months
 - 10% loans compulsory savings
 - Certification of marriage or single
 - Photocopy of ID
3. How many applied for loans from 2010 to 2014
4. How many received Loans from 2010 to 2014
5. What is the amount in the portfolio for loans over time?
6. How many SMES developed?
7. How long does it take for customer to get loans?
8. Does is it the clients who are not repay the loans ?
 - Yes
 - No
9. What are the causes for no repayment of loans?
 - Loans underwriting
 - Loan management
 - Customer's attitude towards loans (like gift)

10. The causes of rejection of application of loans

Over indebtedness

Lack of experience in the project

Weak business plan

Lack of collateral

11. How does RIM Ltd help its customers in development of their business?

- Training in financial education & entrepreneurship
- Full follow up and advisory to group
- Pre- training for loans group
- Enhancement of social activities between group

Thank you very much for your participation in my research