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EFFECTS OF CHOICE OF CREDIT FACILITIES ON FINANCIAL PERFORMANCE OF SMALL MEDIUM, ENTERPRISES IN RWANDA. A CASE SMEs REGISTERED WITH PRIVATE SECTOR FEDERATION OF RWANDA.

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ABSTRACT

Of recent SMEs' financial performance has received a growing attention in both economic and financial literature, much of which is in the developed economies. Much of the existing literature largely focuses on the macroeconomic and microeconomic factors that influence firm financing, and limited attention given to the choice of the financing facilities on performances thereof. The purpose of this study was to analyze the choice of credit facilities on the financial performance of SMEs in Rwanda. Specifically, the study focused on the choices made based on the effect of interest charged on loan, trade credit, asset financing and service quality on financial performance of SMEs in Rwanda registered by private sector federation. This study was based on an exploratory design. The target population for the study comprised of top 100 SMEs in Rwanda registered by private sector federation. The sample size of this study was all the 100 SMEs. Census approach was used in this study since the sample was small. A questionnaire was used as main instrument for data collection from premises of the participant SMEs. The study used both primary and secondary data, where questionnaires was used for data collection. Cronbach's alpha test was utilized in assessing reliability of research instrument. Data collected was analyzed through SPSS version 21. Data analysis involved statistical computations for averages, percentages, and correlation and regression analysis. Descriptive statistics and Correlation (using the Karl Pearson's coefficient of correlation) was used to analyze the data and establish the relationship between the dependent variables and the set of independent variables. From the findings of the study, it was concluded that external borrowings are considered to be the cheapest source of financing because of the tax benefits; SMEs access to external sources of funding depends largely on the development of financial markets, and bank loans and overdrafts are the most widespread debt financing methods for SMEs hence it was recommended that there should be an appropriate capital structure that generates the maximum profit for the SMEs, as too less equity financing increases the control of the owners to a large extent, banks should improve transparency on their internal ratings, SMEs should strive to better understand banks" loan requirements, deliver clear, complete and timely financial and performance data, and improve rating-relevant factors such as cash flow, equity, accounting, controlling, management, the business strategy, collateral and guarantees and public policy should promote a code of conduct for minimum ratings disclosure, foster venture capital, and improve tax treatment of retained earnings.

Keywords: *Interest rate on loan and service, trade credits, asset financing, service quality, on performance of SMEs registered, private sector federation.*

1.1 Background

Globally Small and Medium Entrepreneurs (SMEs) make a significant contribution to the economy. Association of Chartered Certified Accountants (ACCA) estimates that SMEs account for two-thirds of employment (67%) and more than half of all output (52%) in the private sector globally (ACCA, 2010). However, in general, in the area of SMEs access to finance, there are market imperfections not only in times of crisis, but on an on-going basis as a fundamental structural issue, based on uncertainty and asymmetric information between the demand side (entrepreneur) and the supply side (financial intermediary) (World Economic Forum, 2010). Various surveys on access to finance show that bank loans and overdrafts are the most widespread debt financing methods for SMEs, but that alternative sources like leasing and factoring have also a high relevance (Mramor, 2009).

Kaumbuthu (2011) observe that SMEs choice of external sources of funding depends largely on the development of financial markets, the regulatory environment within which financial institutions operate and their ability to assess, manage and price the risks associated with loan products for SMEs. The latter functions take place within a socio-economic context, which is in fact determined by the historical patterns of financial intermediation (Wole, 2009). Theoretically, a number of analytical paradigms have attempted to explain the complexities and practicalities involved in small-firm financing. As early as the MacMillan Report in 1931, there has been recognition that small firms suffer from what is termed the “finance gap”. In developed countries, this situation arises

when a firm has grown to a size where the use of short-term finance is maximized, but the firm is not big enough to access capital-market funds. By contrast, in developing countries it is probable that such a finance gap arises at even earlier stages of the enterprises lifecycle (Céspedes *et al*., 2010).

Modarres and Abdoallahzadeh (2008) observe that SMEs worldwide rely initially on self-financing by entrepreneurs. Then SMEs move on to debt finance and/or venture capital as they establish business records and expand operations. Elsayed (2009) identifies four key funding requirements for SMEs: initial infrastructure investments; lumpy operations costs; “next-step” expansions; and unexpected opportunities requiring quick choice of funds. Saeedi and Mahmoodi (2011) explains many parameters that are currently impacting the lending behavior of banks globally, among them sovereign crisis, upcoming adjustments of the regulatory framework, and an (if at all) only fragile economic recovery. Banks respond to the difficult market environment with deleveraging, building up liquidity, paring down risk assets and tightening of credit standards.

SME financial performance has been linked to various internal and external factors, ranging from firm size to business environment. Firm’s financial resource endowment is also a vital determinant of financial performance. Inability to meet financial demands is mainly caused by market imperfection that triggers due to information asymmetry between corporate insiders and external investing entities. The magnitude of these market imperfections amplify with weak legal and financial systems. Demirguc-Kunt and Maksimovic (2008) show that firms experience constraints from financial and legal institutions grow at slower rate than firms operating in well-developed legal and financial system with an active stock market.

The ability of SMEs to raise financing is important for funding business investment, ensuring businesses reach their growth potential, and for facilitating new business start-ups; a lack of finance can constrain cash flow and hamper businesses‟ survival prospects (BIS, 2012). Typically, SMEs are not able to raise money directly in the capital markets and are therefore - with regard to external sources - mainly dependent on traditional bank financing, which is itself limited by constraints due to banks‟ refinancing capacity, their risk appetite and capital adequacy.

SMEs ought to be profitable and there are obvious checks on profitability such as whether the company has made a profit or loss on its ordinary activities and by how much this year's profit or loss is bigger or smaller than last year's profit or loss (Smith and Perks, 2006). Profitability measures include sales margin which is turnover less cost of sales, earnings per share (EPS) is defined as the profit attributed to each equity (ordinary) share as a convenient measure as it shows how well the shareholders are doing (Cracknell, 2012).

In Rwanda, the definition of SMEs is in line with the World Bank (2011) SME definition whereby three conditions (Net capital investment, annual turnover and number of employees) must be met. SMEs should have between 0.5 and 75 millions of Net capital investment, 0.3 and 50 million of annual turnover and between 4 and 100 employees. In Rwanda SMEs play a significant role in the private sector; it comprises 98% of the businesses and 41% of all private sector employment. Wholesale and retail trade remains the largest employer. They employ 33.1 and 21.4% people respectively (MINICOM, 2010). It is therefore of paramount interest for the government and other stakeholders to stimulate SMEs growth in order to sustain Rwanda's private sector.

However, the growth of SMEs is still facing challenges. Most of SMEs still rely solely on their own resources and on credit from family and friends (MINICOM, 2010). Financing the firm is essential and getting access to finance plays a crucial role on firm's growth process (Guffey, 2008). Lack of access to finance hinders SMEs growth in the sense that they cannot invest in productive enterprises, they cannot afford to acquire appropriate technologies and they cannot meet variety of operational and investment needs (Adade &Ahiawodzi, 2012). Nichter and Goldmark (2009) found that SMEs have difficulty in growing due to insufficient collateral, high transaction costs and incapability to deal with the complexity of formal financial institutions. The challenges faced by Rwandan SMEs in choice of finance are: collateral requirements, application procedures and complexity to deal with formal financial institutions, high interest rates, credit availability or accessibility, need for special connection with bank officers and the insufficient size of the credit received. It is with this information that there is much interest in understanding the effects of choice of financial access from both formal and informal institutions on financial performance of the SMEs in Rwanda.

1.2 Statement of the Problem

Globally, SMEs are a large contributor to economies and their importance is noted in every country. The sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low- income households in the country (ROK, 2005) accounting for 18 per cent of GDP. Yet most entrepreneurs in this sector are considered un-creditworthy by most formal credit institutions.

The main advantages of informal and semiformal financial services are accessibility and low application costs (Fridell, 2007). However, it has also been argued that the interest rates charged by informal and semiformal sectors are high hence crowding out the benefits associated to informal sector financing (Michael and Cesare, 2006). The question not yet answered is; what is the effect of choice of credit facilities on financial profitability of small and micro enterprises?

Various studies that have been carried out globally on the effect of choice of financial accessibility on the performance of SMEs show conflicting results. Cressy and Ollofson (2006) in their study concluded that the growth and financial performance of firms was more constrained by managerial and psychological factors than it was by the availability of external finance. (Cressy, 2006). On the other hand, schiffer & Weder (2001) in their paper on firm growth and business environment identified constraints on access to finance as the main factor hindering growth of firms.

SMEs make a substantial contribution to the economy in terms of job creation, GDP, investment, and social welfare (Nieman, 2006). According to the African Development Bank (2005), SMEs contribute more than 55% of total employment. Since they are so important to the economy, their creation is very important as it a positive move towards economic growth. However, there is a need to keep these SMEs in operation and avoid failure. Choice of financial facility has been a major challenge to the SMEs (Smith and Perks, 2006) and acquisition the right choice of financial facility can provide a long-lasting solution to the survival battle of the SMEs.

In Rwanda, the choice of credit facilities to SMEs is exacerbated by the fact that financial institutions find it too risky to lend to SMEs given the time and resources required to process SME loans as well as the difficulties most SMEs face in consolidating capital and creating business plans to become viable lending candidates (MINICOM, 2010). Most of entrepreneurs still rely solely on their personal financial resources or on credit from family and friends which are always insufficient and this constitutes a major barrier to their growth. Previous researchers have concentrated on the impact entrepreneurship skills (Reuben, Nzaramba, 2013), but this study analyzed the influence of choice of credit facilities on the financial performance of SMEs in Rwanda.

1.3 Objectives of the study

1.3.1 General objective

The general objective of this study was to analyze the choice of credit facilities on the financial performance of SMEs in Rwanda.

1.3.2 Specific objectives

The specific objectives were:

1. To establish the influence of interest rate on loan and service on performance of SMEs registered by private sector federation.
2. To investigate the influence of trade credits on performance by SMEs registered by private sector federation.
3. To determine the effect of asset financing on performance by SMEs registered by private sector federation.
4. To establish the effect of service quality on the performance of SMEs registered by private sector federation.

1.4 Research questions

The following research questions guided this study:

1. What is the influence of interest rate on loan and service on performance of SMEs registered by private sector federation?
2. Does trade credits influence of performance of SMEs registered by private sector federation?
3. What is the effect of asset financing on performance by SMEs registered by private sector federation?
4. What is the effect of service quality on the performance of SMEs registered by private sector federation?

2.0 Conceptual framework

Mugenda and Mugenda (2009), define a conceptual framework as a hypothesized model identifying the concepts under study and their relationships. It is a set of broad ideas used to explain the relationship between the independent variables (factors) and the dependent variables (outcome) (Coulthard, 2014). The conceptual frame work of this study is based on four variables namely; Interest Charged on Loan and Service, trade credit, asset financing and service quality.

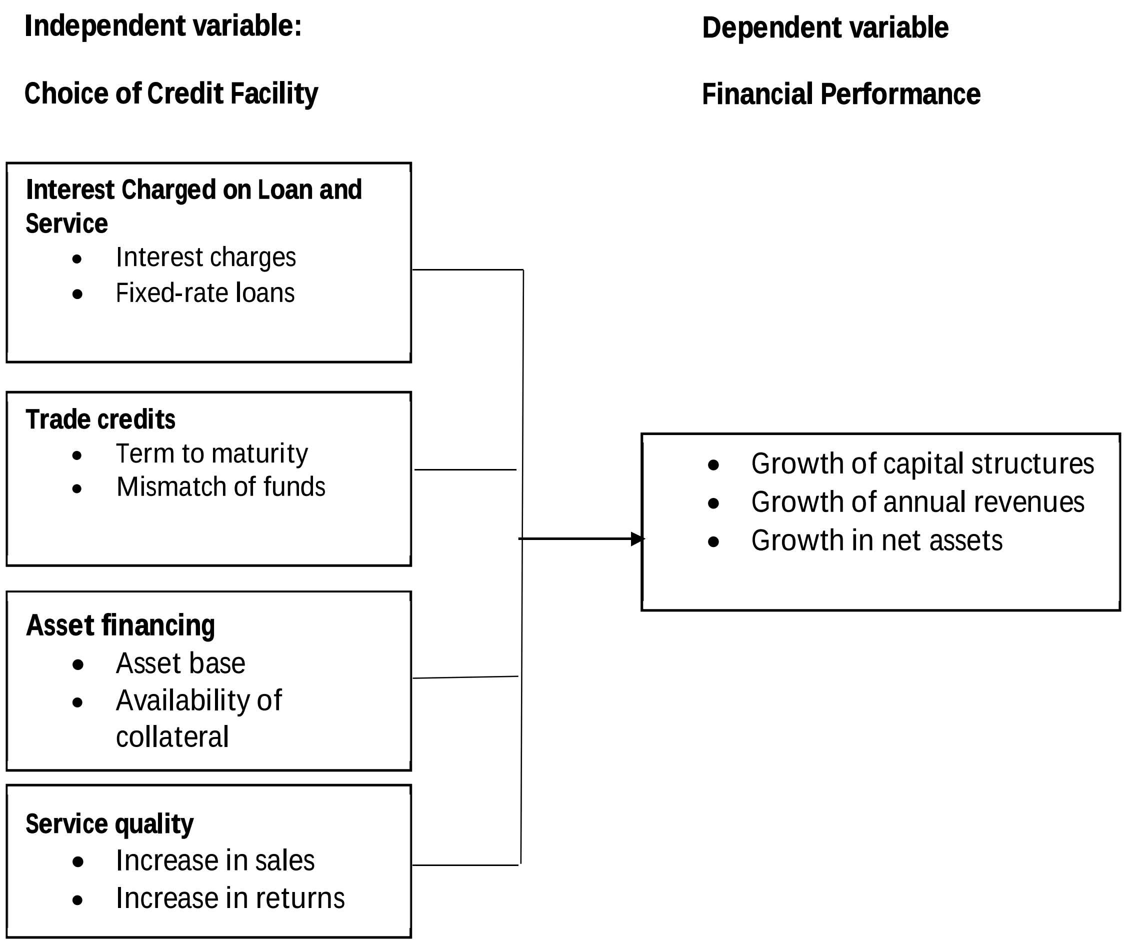

Figure 2.1: Conceptual framework

3.0 Target population

Population is defined as the total collection of elements about which we wish to make inferences (Cooper & Schindler, 2013). In this study, the entire population comprised of the first 100 SMEs in Rwanda registered and ranked by PSF as summarized in Appendix IV. Bowen *et al.* (2011) enumerated a total of approximately 157,846 SMEs licensed under the Rwanda Development Board.

3.1 Sample size and sampling procedure

Sampling is defined as the process of selecting several individuals for a study in such a way that they represent the larger group from which they are selected (Mugenda & Mugenda, 2009). For the study at hand, non-probability purposive sampling method was employed. This method allows handpicking the cases to be included in the sample based on judgment.

According to Chandran (2014), this method best serves to meet the set objectives as the units forming a sample have been purposely selected. Using purposive sampling intentionally skipped respondents who were outside the intended area of interest, such as SME's with no interaction with Internet Marketing at all. The sample size under consideration was 100 respondents, which is in line with 100% of the accessible population of 100 SMEs (Mugenda & Mugenda, 2009). At least 30% of the total population is representative (Borg and Gall, 2013). Thus, 100% of the accessible population is enough for the sample size. Therefore, for the sake of this study, 100 SMEs was derived from the top 100 ranked SMEs in 2013 by Private sector federation.

4.4 Interest Charged on Loan and Service on financial performance

The study sought to determine the extent to which aspects of interest charges on loan and service influence the firm's financial performance with respect to choice of financial facility. The respondents were asked to rate the aspects of interest charges on loan and service influence on the firm's financial performance in a five-point Likert scale. The range was „to very great extent" (5) to „no extent" (1). The scores of no extent (N.E) and little extent (L.E) had an equivalent mean score of 0 to 2.4 on the continuous Likert scale; (0= N.E/L. E <2.4). The scores of „to a moderate extent" have been taken to represent a variable that had an impact to a moderate extent (M.E.) had an equivalent mean score of 2.5 to 3.4 on the continuous Likert scale: 2.5=M.E. <3.4). The scores of very great extent (V.G.E) and great extent (G.E) had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; 3.5= V.G.E/G.E <5.0). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

Table 4.2: Aspects of Interest Charges on Loan and Service

Aspects of Interest Charges on Loan and Service	**Mean**	**Std. Dev.**
Interest charges	3.65	.2432
Loan processing charges	3.52	.3865
Service Tax	3.41	.2456
Fixed-rate loans	3.83	.1562
Adjustable-rate loans	3.46	.6472
Prepayment Charges	3.64	.1732
Partially-fixed rate loans	3.32	.4874
Charges for late payment	3.21	.4653

According to the findings, the respondents rated the aspects of interest charges on loan and service to show its influence in the firm's financial performance with respect to choice of financial facility. The respondents rated interest charges to a great extent (mean 3.65); loan processing charges was rated to great extent (mean 3.52); prepayment charges was rated to a moderate extent (mean 3.41); charges for late payment was rated to a great extent (mean 3.83); service tax was rated to a moderate extent (mean 3.46); fixed-rate loans was rated to a great extent (mean 3.64); adjustable-rate loans was rated to a moderate extent (mean 3.32) and partially-fixed rate loans was rated to a moderate extent (mean 3.21).

The findings are in line with Akbar and Baig (2010), the aspects of external borrowings are considered to be the cheapest source of financing because of the tax benefits. But they do still have certain costs like interest payments and it is widely accepted that the cost of external funds is directly proportional to the amount of these funds also while borrowing the capital structure policy of the firm has to be kept in mind.

The study sought to determine the extent to which interest charged on loan and service in choice of financial facility has affected financial performance of the firm. The findings were presented in the figure shown. The findings revealed that the majority of the respondents 32.2% indicated that the interest charged on loan and service in choice of financial facility have moderate effect to the financial performance of the firm. 28.0 % indicated that the interest charged on loan and service affects financial performance to a little extent. 12.9 % indicated that the interest charged on loan and service affects financial performance to a very great extent. 7.5% indicated that the interest loan on loan and service affects financial performance to a great extent while 19.4% indicated that the interest loan on loan and service affects financial performance to no extent.

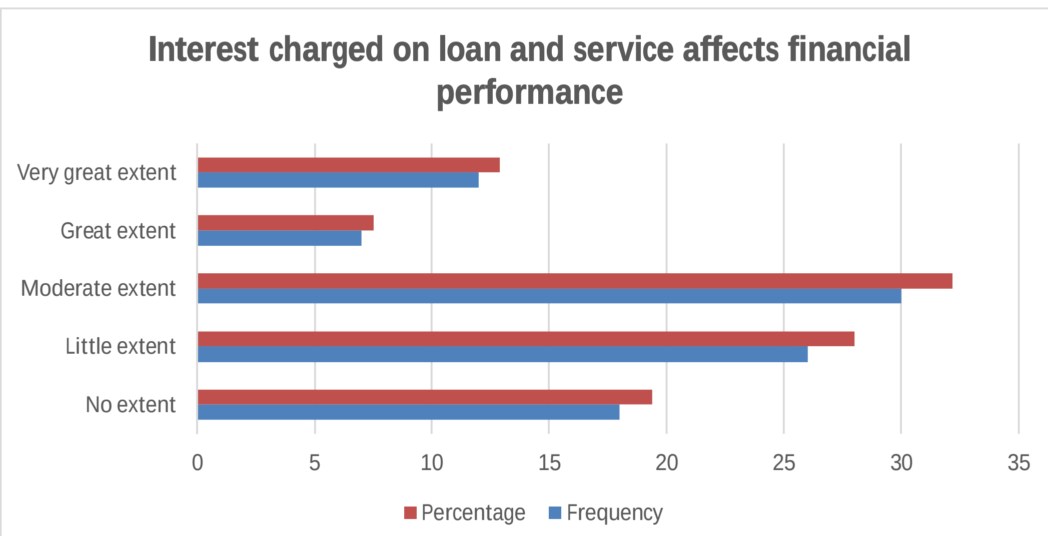

Figure 2.4: Interest Charged on Loan and Service Affects Financial Performance

4.5 Trade credit on financial performance

The study sought to determine the extent to which aspects of trade credit influence the firm's financial performance with respect to choice of financial facility. The respondents were asked to rate the aspects of loan size influence on the firm's financial performance in a five-point Likert scale. The range was to very great extent (5) to no extent (1). The scores of no extent (N.E) and little extent (L.E) had an equivalent mean score of 0 to 2.4 on the continuous Likert scale ;(0= N.E/L.E <2.4).

The scores of „to a moderate extent" have been taken to represent a variable that had an impact to a moderate extent (M.E.) had an equivalent mean score of 2.5 to 3.4 on the continuous Likert scale: 2. 5=M.E<3.4). The scores of very great extent (V.G.E) and great extent (G.E) had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; 3.5= V.G.E/G.E <5.0). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

According to the findings, the findings established that the respondents agreed that the term to maturity of the loan influenced the firm's financial performance to a great extent (mean 3.56). The respondents rated the uncertainty about loan amount affecting the firm's financial performance to a moderate extent (mean 3.24). The respondents rated the high interest rates affecting the firm's financial performance to a great extent (mean 3.86). The respondents rated mismatch of funds affecting the firm's financial performance to a moderate extent (mean 3.21) while undue pressures for repayment affect the firm's financial performance to a great extent (mean 3.83).

Table 4.3: Aspects of trade credit Influence the Firm's Financial Performance

Aspects of trade credit	Mean	Std. Dev.
Term to maturity	3.56	.1748
Uncertainty about loan amount	3.24	.2747
High interest rates	3.86	.1574
Mismatch of funds	3.21	.2115
Undue pressures for repayment	3.83	.2563

The findings are in line with Mramor (2009) that various surveys on access to finance show that bank loans and overdrafts are the most widespread debt financing methods for SMEs, but that alternative sources like leasing and factoring have also a high relevance. Daskalakis and Psillaki (2015) further observed that SMEs" access to external sources of funding depends largely on the development of financial markets, the regulatory environment within which financial institutions operate and their ability to assess, manage and price the risks associated with loan products for SMEs.

The study sought to determine the extent to which loan size in choice of financial facility has affected financial performance of the firm. The findings were presented in the figure below.

The findings revealed that the extent to which loan size of financial facility has affected the firm's financial performance is to a very great extent. This accounted for 34.4% of the respondents, hence the majority. This was followed by 25.8% who indicated to a great extent while 19.4% indicated that trade credit affects the firm's financial performance to a moderate extent.

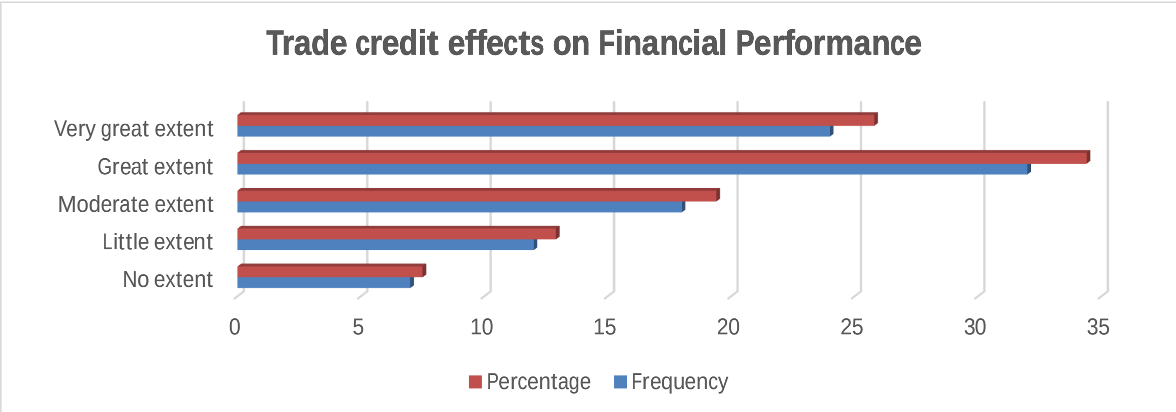

Figure 4.3: Trade credit effects on Financial Performance

4.6 Asset financing on financial performance

The study sought to determine the extent to which aspects of collateral requirement influence firm's financial performance with respect to choice of financial facility. The respondents were asked to rate the aspects of collateral requirement influence on the firm's financial performance in a five-point Likert scale. The range was „to very great extent“ (5) to „no extent“ (1). The scores of no extent (N.E) and little extent (L.E) had an equivalent mean score of 0 to 2.4 on the continuous Likert scale; (0= N.E/L.E <2.4). The scores of „to a moderate extent“ have been taken to represent a variable that had an impact to a moderate extent (M.E.) had an equivalent mean score of 2.5 to 3.4 on the continuous Likert scale; (2.5=M.E<3.4). The scores of very great extent (V.G.E) and great extent (G.E) had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; (3.5=V.G.E/G.E <5.0). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

Table 4.4: Aspect of asset financing on financial performance

Statements	**Mean**	**Std. Dev.**
Credit history	4.21	.1274
Asset base	3.62	.7462
Availability of collateral	4.01	.3174
Delayed payments by debtors	4.23	.2859
Irregular cash flows	3.81	.4879

According to the findings, the respondents rated credit history; availability of collateral and delayed payments by debtors as aspects of collateral requirement affects the firm's financial performance to a very great extent (mean 4.21, 4.01 and 4.23). Asset base and irregular cash flows debtors as aspects of collateral requirement affect the firm's financial performance to a great extent (mean 3.62 and 3.81).

The findings are in line with Abor (2005), that at the start-up stage, the business is characterized by a heavy reliance on insider finance from owner-managers, family and friends. The motivation for such investments frequently goes beyond financial returns: entrepreneurial ambition and personal ties also play an important part. This is economically rational and efficient, since there is likely to be insufficient information and/or collateral for an external financier to assess the risk.

According to World Bank Environment Survey (WBES) the second leading general constraint for the development and growth of firms is the source of finance. Surveyed firms elaborated the causes as high interest rates, collateral requirement, bank paper work, inadequate credit information to clients, and credit rationing (Schiffer and Weder, 2001). The study sought to determine the extent to which loan size in choice of financial facility has affected financial performance of the firm. The findings were presented in the figure below.

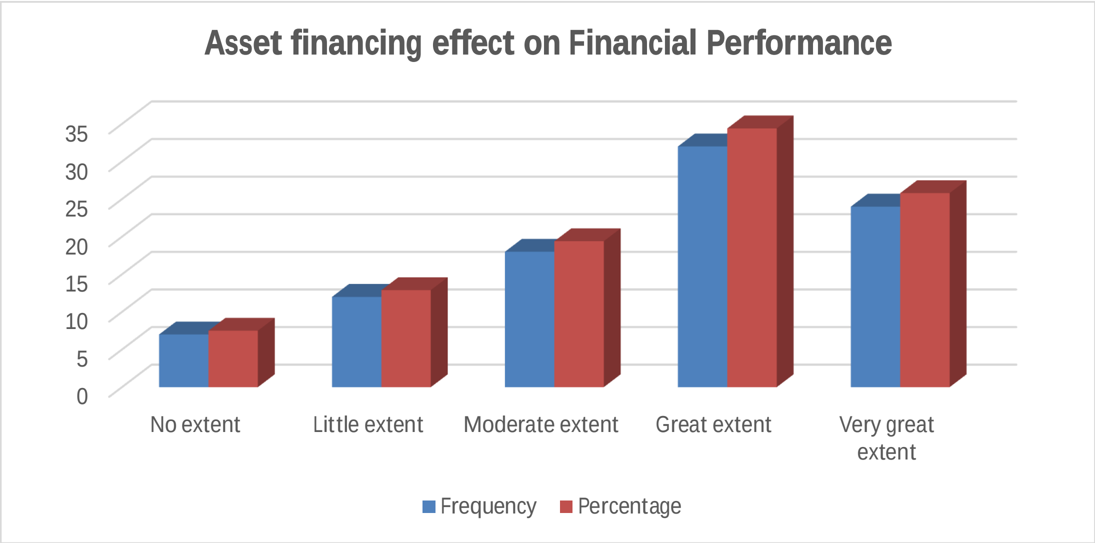

Figure 4.4: Asset financing effect on Financial Performance

The findings show the extent to which the respondents have rated the effect of asset financing on financial performance. The respondents rated to a great extent that collateral requirement affect financial performance accounting for 42.3%. 30.8% indicated that asset financing affect financial performance to a great extent. 11.5% indicated that asset financing affect financial performance to a moderate extent.

4.7 Service quality on financial performance

The study sought to determine the extent to which aspects of product and service range influence firm’s financial performance with respect to choice of financial facility. The respondents were asked to rate the aspects of product and service range influence on the firm’s financial performance in a five-point Likert scale. The range was „to very great extent‟ (5) to no extent (1). The scores of no extent (N.E) and little extent (L.E) had an

equivalent mean score of 0 to 2.4 on the continuous Likert scale; (0= N.E/L.E <2.4). The scores of „to a moderate extent‟ have been taken to represent a variable that had an impact to a moderate extent (M.E.) had an equivalent mean score of 2.5 to 3.4 on the continuous Likert scale; (2.5=M.E<3.4). The scores of very great extent (V.G.E) and great extent (G.E) had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; (3.5=V.G.E/G.E <5.0). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

Table 4.5: Aspects of service quality Influence the Firm's Financial Performance

Statements	Mean	Std. Dev.
Increase in sales	3.46	.1954
Increase in returns	3.59	.1574
Increase in stock levels	3.51	.1457
Increase in retained earnings	3.68	.1574
Increase in profitability	3.89	.1465

According to the findings, the respondents indicated that increase in sale was an aspect of service quality that affects the firm's performance to a moderate extent (mean 3.46). The respondents also indicated that increase in returns; increase in stock levels; increase in retained earnings and increase in profitability (mean 3.59, 3.51, 3.68 and 3.89).

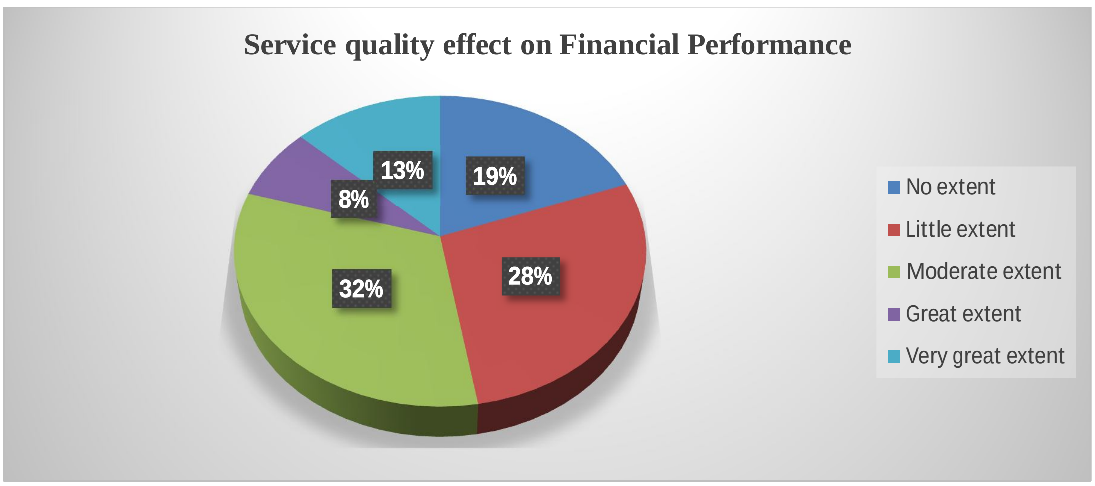

Figure 4.5: Service quality effect on Financial Performance

According to the findings, the respondents indicated that to a very great extent does current product and service range affects financial performance accounting for 42.3%. The respondents indicated that current product and service range affects financial to a great extent accounting for 30.8%; current product and service range affects financial to a moderate extent accounted for 23.1% while the current product and service range affects financial to little extent accounted for 3.8%.

4.8 Correlation Analysis

The study sought to establish the relationship between the effects of choice of financial facilities on financial performance. Pearson Correlation analysis was used to achieve this end at 95% confidence level (a = 0.05). Table 4.9 shows that there were significant correlation coefficients were established between effects of choice of financial facilities on financial performance. Very good and positive linear relationships were established between effects of choice of financial facilities on financial performance: Interest charged on loan (R=0.690, p= .023); Loan size (R=0.719, p= .005); Collateral requirement (R=0.538, p= .001) and Product range (R=0.727, p= .021). This depicts that financial facility positively influence financial performance of SMEs.

Table 4.6: Correlation and the coefficient of determination

	Financial performance	Interest charged on loan and service	Trade credit	Asset financing	Service quality
Financial performance (r) (p) Sig. (2 tailed)	1.000				
Interest charged on loan and service (r)	0.690**	1.000			
(p) (2 tailed)	0.023				
Trade credit (r)	0.493	0.719**	1.000		
(p) Sig. (2 tailed)	0.031	0.005			
Asset financing				1.000	
(r)	0.661	0.163	0.538**		
(p) Sig. (2 tailed)	0.024	0.019	0.001		
Service quality					1.000
(r)	0.402	0.161	0.233	0.727**	
(p) Sig. (2 tailed)	0.046	0.029	0.0464	0.021	

Correlation is significant at the 0.05 level (2-tailed). *
Correlation is significant at the 0.01 level (2-tailed). **

5.3. Conclusions

The study made conclusions based on the study findings. External borrowings are considered to be the cheapest source of financing because of the tax benefits. But they do still have certain costs like interest payments and it is widely accepted that the cost of external funds is directly proportional to the amount of these funds also while borrowing the capital structure policy of the firm has to be kept in mind. SMEs" access to external sources of funding depends largely on the development of financial markets, the regulatory environment within which financial institutions operate and their ability to assess, manage and price the risks associated with loan products for SMEs. The bank loans and overdrafts are the most widespread debt financing methods for SMEs, but that

alternative sources like leasing and factoring have also a high relevance. Small and medium size enterprises (SME) are more financially constrained therefore they use less formal finance than larger firms. Reasons not only includes lack of collateral, credit history, credit rating, tax policies, high growth vulnerability, other formal requirement of lending institutes but also financial institutions. Performance of firms is of vital importance for investors, stakeholders and economy at large. For investors the return on their investments is highly valuable, and a well performing business can bring high and long-term returns for their investors. Furthermore, financial profitability of a firm will boost the income of its employees, bring better quality products for its customers, and have better environment friendly production units.

5.4. Recommendations

The study made recommendations based on the study findings. There should be an appropriate capital structure that generates the maximum profit for the SMEs, as too less equity financing increases the control of the owners to a large extent. The banks should improve transparency on their internal ratings (with the optimal degree of such transparency being discussed quite intensively at the conference), give reasons for down or upgrades and credit decisions and provide financial advice. The SMEs should strive to better understand banks‟ loan requirements, deliver clear, complete and timely financial and performance data, and improve rating-relevant factors such as cash flow, equity, accounting, controlling, management, the business strategy, collateral and guarantees. Public policy should promote a code of conduct for minimum ratings disclosure, foster venture capital, and improve tax treatment of retained earnings.

5.5. Areas for further research

The findings are subject to methodological limitations. For example, the models might not have accounted for all relevant factors or the variables might not have captured the actual intended concepts. Perhaps because of the heterogeneity in the people’s decision, these models might have failed to capture the overall tendency, or the data set was likely too small to capture the variability of variables among on financial performance of top 100 SMEs registered by private sector federation in Rwanda.

Primarily, it is proposed that, a comprehensive study could be conducted involves all SMEs in the country since this study cover only top 100 SMEs registered by private sector federation in Rwanda as the case study.

The data did not permit us to involve other the noticeable features i.e. political and socioeconomic variables which possibly might impact SMEs to choice of financial facilities because these variables are difficult to be captured quantitatively in our study. This is an area of study that could be researched further.

Further studies with larger sample size and different models can be conducted in this area in order to check the factors influencing financial performance of SMEs in Rwanda.

Finally, it is proposed to perform a comparative analysis between SMEs in developing countries and those in other developed countries. This study would provide insights as to whether the choice of financial facilities is the same.

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