The small and medium enterprises investment as a tool of stimulating international trade and economic growth of Rwanda (2010-2016)

MUREKEYIMANA Theogene[1], Dr Sudhinder Singh CHOWHAN[2], Dr. NKURAYIJA Jean de la Croix[3]

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

[2]*Professor& Vice-Principal, NIMS institute of Management&Computer Science, Nims University Jaipur, Rajasthan*

[3]*Senior Lecturer, School of Economics and Governance, University of Rwanda*

ABSTRACT

They are various researchers that carry out a research on SMEs, international trade and economic growth. This study aims to build on the SMEs investment as a tool of stimulating international trade and economic growth of Rwanda in recent years. The expectation has been established the connections and the applications of diverse theorems for SMEs. Throughout this study the challenges of SMEs investment face through the method of internationalization is also tinted. During clarification and personal interviews conducted, it is found that doubts divergence in a network, gainful domestic market and deficiency of knowledgeable in managing involvement hold a most important part in decreasing the Rwandan SMEs products in international markets.

It is now increasingly recognized that the small and medium enterprises play an important role around the world. Small and medium enterprises are considered to be one of the principal driving forces in economic development. They stimulate private ownership and entrepreneurial skills, the greater likelihood that SMEs will utilize labor intensive technologies and thus have an immediate impact on employment generation, they can usually be established rapidly and put into operation to produce quick returns, SME development encourage the process of both inter and intra regional decentralization and they may well become a countervailing force against the economic power of larger enterprises

Key words: SMEs investment; international trade; economic growth; Rwanda

1. INTRODUCTION

The role of SMEs with international trade to motivate the growth probable of a country absorbs the centre stage in particularly spreading out literature where export encroachment and augmented openness progressively have

put back import substitution to boost growth. This shift from import substitution to export encouragement and improved openness involves as well a relocate in the trade and industry policy from being tremendously imported intermittent and government prohibited to become more rehabilitated and deregulated. This alter in policies has also been inner in policy proposal for intensifying countries about faultlessness of their growth probable. An improved openness to trade will enhance competition for enterprises' production in the international markets. Such an environment generates back up for an enhanced productivity and support for modernism as well as the possibility to reward well-known wages in line with the amplified productivity. Furthermore, an improved openness to trade is as well imperative in international negotiations relating to trade and tariff barriers where trade statement suggests that all meeting on aggregate will get better their wellbeing position in comparative to their autarky situation.

Rostow (1960)[1] focuses on the significance of the international associations such as World Bank, International Monetary Fund and World Trade Organization etc., after the World War II for the better economic growth on worldwide level. His briefly assumption illustrates the implication of international trade for the recovered economic growth of the country.

According to Sengupta (1993) [2], his new endogenous growth model, however, has inherited a great deal from the traditional neoclassical model of the exports-growth relationship: he treated exports as a kind of production input, which raises national output through externalities. An augment in exports is supposed to bring about more externalities, and so raise output.

Ibrahim and MacPhee [3] offered an efficient and new economic approximation of the relationship among exports and economic growth stand on the Feder model. They used a system of simultaneous equation models to determine the relationship accompanied by export and economic growth. Their findings hold up the view that higher productivity in the export sector is associated with the size and trade orientation of a country as well as the extent of manufacturing. They further reiterated that if the heavily export sector relies on primary products rather than manufactured products, and then the positive externalities effect of the export sector would be weaker and vice versa.

On the other hand, SMEs exist in each subdivision of the economy of the country and are critical for continued, long term growth and employment. From a global perspective, it has been known that MSMEs play an extremely significant role in economic expansion, as they have been the key foundation of job innovation and production growth, not merely in less industrialized countries though also in industrialized countries [4]; [5].

Hartmann & Wendels et al. [6] describe investment banking as the set of "all functions of a bank, which hold up trading at pecuniary markets". The common opinion in the literature is that investment banking comprises all services which serve financial allocation opportunities, as long as they are provided via securities transactions. Mostly speaking, investment banks support "the capital market in its purpose of capital intermediation" [7].

Finance has been acknowledged in many businesses assessment as the imperative factor determining the endurance and growth of SMEs in both less industrialized and industrialized countries. Access to finance permits SMEs to assume productive investments for increasing their businesses and to obtain the latest technologies, therefore making certain their competitiveness and that of the country as an entire. Poor performance of financial systems can gravely undermine the microeconomic fundamentals of a country, ensuing in inferior development in income and employment. Regardless of their dominant information and significance in job formation, SMEs usually have faced intricacy in acquiring formal credit or impartiality. For instance, financial institutions loans comprehensive to SMEs are frequently restricted to the phase inaccessible too short to pay off any large investment [8].

Moreover, banks in most less developed countries have conventionally lent tremendously to the government, which presented fewer risk and elevated returns. Such practices have packed out mainly private sector borrowers and augmented the cost of capital for them. Governments cannot anticipate having a vivacious private sector as long as they attract the size of private investments. In the case of undertaking capital funds, they have been concerted in elevated technology sectors.

According to UNCTAD (2000) [8], financial institutions are normally prejudiced toward big company borrowers, who supply enhanced business strategy, have credit ranking, extra dependable on financial support, improved chances of accomplishment and advanced productivity for the banks. When banks supply loans to SMEs, they are inclined to allege them a payment for presumptuous risk and affect stronger viewing measures, which drives up costs on all sides. Financial institutions in less developed countries and all countries with economies in conversion often desire to provide to government and therefore the public sector throngs out the private sector.

Rwanda is in progress of putting into practice a succession of tactics to encourage its domestic market in radiance of the trade deficit that the country is practiced. Among 2012 and 2014, foremost the Rwandan exports were above 83 billion Rwandan francs and imports surpassed 133 billion Rwandan francs. To alleviate this deficit, Rwanda's Private Sector Federation and MINICOM in particular launched the Made in Rwanda campaign and assumed a domestic markets evoking strategy to fight problem features by Rwandan SMEs [9].

The accomplishment diagram of the domestic markets recapturing tactic as follows:

- "First it is an announcement campaign like the important one established with Made in Rwanda Expo for being pursued by involving corporation roll-out plan which wrapped the complete year up to December 2016.
- The second division of activities comprises sustaining local producers during government procurement.

- Third is the scheming of national small and medium curriculum to promote the products and the quality of our SME products and bringing them on the level where they can compete among the competitors from the region."

The government of Rwanda focuses also on advancement of the quality to guarantee that products from Rwanda are recognized for being high quality in the region. These are the kind of plans that are focusing into this Made in Rwanda campaign. In order to success, the government stakeholders must explain to the Rwandan for changing their mind set towards locally made products and enhance value addition alongside the value chain of production, it is very important to perform and maintain the Made in Rwanda campaign. In that admiration the government of Rwanda concentrates all efforts to promote products made in the region as it targets a 28 per cent annual export growth by 2020 [9].

In line with the SME annual report 2014, micro, small and medium enterprises represented approximately 99.8% of the entire business formations of Rwanda in 2014. The routine of SMEs is vital as they will change Rwanda into a middle-income and knowledge-based economy throughout their input to the GDP. Although their significant involvement to exports, employment and economic growth, the numerous SMEs has started every day from 16,893 firms in 2011 to 17,157 firms in 2014 and the following table illustrate the employment change from 2011 to 2014 in private establishments and business oriented mixed establishment by urban and rural according to the findings provided by the establishment census of 2014 [10].

Urban/ Rural	2011	2014	Percentage changed
Rural	125,538	185,636	47.9
Urban	139,110	170,247	22.4
Total	264,648	355,883	34.5

The above table demonstrates that the employment increased in both areas with a higher increase in countryside than in urban. It is good because the entrepreneurs concentrate everywhere in the country.

2. IMPORTANCE OF SMES TO THE ECONOMIC DEVELOPMENT OF RWANDA

As earlier mentioned SMEs play the significant and vital roles in the industrial development of the country because it has a better viewpoint for rising domestic economy during the generation of goods and services that push the economy of Rwanda. The need to focus on small and medium enterprises became important in Rwanda because it was a means of ensuring self-independence; job creation; import substitution; effective and efficient utilization of local raw materials. Small and medium enterprises in Rwanda contribute to employment and a path to entrepreneurship such as young firms generate employment in all country. The focus of SMEs has shifted from providing only social goods but as a vehicle to entrepreneurship. For that reason, it serves as a source of

job creation and economic growth. This may well be the reason policy makers in Rwanda pay attention to SMEs.

3. OBJECTIVE OF THE STUDY

This study aims to examine contribution of SMEs in poverty eradication, reduction of unemployment and the boosting of entrepreneurship in the manufacturing sector for competing in international market; to evaluate the impact of loan on SMEs performance; to scrutinize the government and individual efforts to sustain the growth and endurance of SMEs in Rwanda.

4. THE HYPOTHESIS OF THE STUDY

The higher SMEs internationalization arena, the greater its export performance then all of those boost economic growth of the country.

5. METHODOLOGY

The methodology used for data collection was survey method. The stratified random sampling was used in the selection [11]. A study questionnaire was guided between registered SMEs in Rwanda [12]. The population used in the causal model of some factors affecting SMEs and international trade in the expansion of Rwandan economic growth was a group of 140 employers of SMEs and 10 staff of ministries and government boards that has international trade and SMEs in their attribution. The two main methods adopted in data collection were primary and secondary. The instruments employed in gathering primary data were questionnaires which were self administered to the owners and managers of the SMEs [13]. Secondary data implicated information composed from published materials and other sources acquired from libraries, internet, public and private organizations and mostly desk review of published literature on SMEs, international trade and economic growth.

After collecting questionnaires, the researcher was further employed software known as SPSS for analyzing the data. This package is used to determine frequencies; percentages; mean; standard deviation and one way ANOVA. All of those were engaged to test the effect of the independent factor on the growth of SMEs in order to analyze the number of respondents belonging to each variable. Moreover, together quantitative and qualitative technique of data analysis has been employed for purpose of clear understanding of the research problems under investigations [14].

6. PRESENTATION AND INTERPRETATION OF FINDINGS

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Sex	150	1.00	2.00	1.3200	.46804	.780	.198	-1.411	.394
Age	150	1.00	4.00	2.9067	.76278	-.209	.198	-.453	.394
Education level	150	1.00	6.00	3.6267	1.00700	.047	.198	-.172	.394
Full time employees	150	1.00	4.00	2.2867	.86960	.213	.198	-.607	.394
Type of international trade	150	1.00	4.00	2.2133	1.09045	.258	.198	-1.295	.394
Main activity of the company	150	1.00	17.00	8.5267	4.20083	-.084	.198	-1.098	.394
Net capital invested	150	1.00	4.00	2.2200	.79318	.403	.198	-.106	.394
Sales turnover in 2016	150	1.00	4.00	3.0933	.78018	-.251	.198	-1.066	.394
Enterprise based on international trade	150	1.00	2.00	1.1467	.35496	2.018	.198	2.099	.394
Sales turnover of 5 past years	150	2.00	4.00	2.9400	.76175	.101	.198	-1.262	.394
Total value of export in 2016	150	1.00	5.00	3.6467	1.23232	-.365	.198	-1.198	.394
Total value export in the past 5 years	150	1.00	5.00	3.5933	1.26436	-.324	.198	-1.197	.394
Total value of import in 2016	150	2.00	5.00	3.6800	1.38215	-.195	.198	-1.839	.394
Total value of import in past 5 years	150	1.00	5.00	3.5600	1.51715	-.239	.198	-1.726	.394

Money spent in research and development	150	1.00	4.00	2.6267	.95219	-.039	.198	-.947	.394
Money spent in marketing and advertisement	150	1.00	5.00	3.7133	1.26564	-.289	.198	-1.467	.394
Enterprise received loan from bank	150	1.00	2.00	1.1267	.33371	2.268	.198	3.185	.394
Government issue towards SMEs	150	1.00	4.00	1.9133	.91912	.226	.198	-1.668	.394
Organizational offering training	150	1.00	5.00	2.1667	.99944	.803	.198	.815	.394
Training program did train	150	1.00	6.00	2.7867	1.24559	.582	.198	.015	.394
Valid N (list wise)	150								

The researcher further wanted to know the extent to which access to finance affected the performance of SMEs in Rwanda. The study established that access to capital exposes businesses in Rwanda to become better opportunities to a great extent ($M=$ 1.1267, $SD=$ 0.3337) while it money spent in R&D to improve business performance to a great extent ($M=$ 2.6267, $SD=$ 0.95219). The study also found out that the insufficiency budget invested in marketing and advertisement for boosting businesses is very challenging to a great extent ($M=$ 3.7133, $SD=$ 1.26564). Overall, sales turnover in 2016 affected the performance of business in Rwanda to a great extent (M= 3.0933, SD= 0.78018). The standard deviation indicated that the responses were not necessarily clustered around the mean but were dispersed. The study established that the total value exported in 2016 affects businesses in Rwanda to a great extent ($M=$3.6467, $SD=$1.23232) while total value imported in 2016 are required in the businesses to a great extent ($M=$ 3.6800, $SD=$1.38215). However, there were variations in the responses as evidenced by the standard deviations shown along side. The study established that government policy and regulations affects SMEs in Rwanda to a great extent as evidenced by ($M=$ 1.9133, $SD=$ 0.91912). However, the respondents' had varying opinions on the extent to which policy and regulations have on the businesses as evidenced by the significant value of more than one standard deviation.

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Sales turnover in 2016	Between Groups	39.668	3	13.223	37.835	.000
	Within Groups	51.025	146	.349		
	Total	90.693	149			

Sales turnover of 5 past years	Between Groups	36.249	3	12.083	35.133	.000
	Within Groups	50.211	146	.344		
	Total	86.460	149			
Total value of export in 2016	Between Groups	13.997	3	4.666	3.209	.025
	Within Groups	212.276	146	1.454		
	Total	226.273	149			
Countries does the firm export	Between Groups	48.862	3	16.287	3.344	.021
	Within Groups	711.112	146	4.871		
	Total	759.973	149			
Total value export in the past 5 years	Between Groups	11.794	3	3.931	2.535	.059
	Within Groups	226.399	146	1.551		
	Total	238.193	149			
Country does the firm import from	Between Groups	60.291	3	20.097	3.339	.021
	Within Groups	878.802	146	6.019		
	Total	939.093	149			
Total value of import in 2016	Between Groups	25.500	3	8.500	4.789	.003
	Within Groups	259.140	146	1.775		
	Total	284.640	149			
Total value of import in past 5 years	Between Groups	24.268	3	8.089	3.706	.013
	Within Groups	318.692	146	2.183		
	Total	342.960	149			

Analysis of variance was also used to set up the significance of the regression model. At 95% confidence interval, a significant value (p-value) of 0.25 and F-value of 3.209 was registered as shown as the highest probability between variables. This illustrates that the regression model has a probability of less than 0.25 of giving the wrong prediction. Hence, the regression model used above is a suitable prediction model for explaining the factors persuading the performance of SMEs in Rwanda.

7. GENERALIZATION OF THE FINDINGS OUTCOME

Use of Marketing and advertisement, a research has been specified that SMEs that make good use of planned marketing information presented an advanced possibility of growth. The research concluded that the elevated level of market orientation, better the level of performance in Rwandan SMEs. This research found out that the utilization of marketing and advertisement can stimulate the performance of SMEs at the uppermost level.

Application of Information Technology, in this study is found as the most stimulation of SMEs in international market that will be increased the economic growth of Rwandan by boosting the quality and

quantity manufactures. The SMEs employed technological innovation have an advanced intensification compared to the SMEs that are not used technology in their creative in the sales turnover, investment and job. There is an affirmative association among application of information technology and recital of SMEs in the Rwandan productivities.

In endogenous growth models, however, the effect of the quality of research and development is more important than the effects of its quantity on productivity growth. The results of this research show that domestic productivity is related to domestic spending on research and development as well as trading partners' research and development expenditure. The foundation of research and development theories is that international trade is the way to achieve static productivity efficiency and international competitiveness. Economic growth is purely a result of this approach.

Through the study of the most important theories and some applied studies of economic growth, we found that the factors affecting economic growth differ from one country to another and from one time period to another. These demonstrated that the most important determinants that affect economic growth are investment, which has an affirmative effect on economic growth in countries. Through what has been discussed above, investment is an imperative feature influencing economic growth; hence, domestic investment is expected to be an influential factor on economic growth in the Rwandan economy. The government of Rwanda interests in foreign direct investment for these current years. Therefore, by considering the impact and directions of domestic investment is an imperative feature of sustaining the domestic economy and raising its growth rates.

The economic problem facing the majority of Rwandan SMEs in the opinion of many economists is the problem of low volume of investments. Therefore, the success of these enterprises to achieve economic growth of Rwanda depends on their ability to increase investment rates. The problem of low savings rates for the SMEs is highlighted as a key obstacle to increased investment rates, which calls for these SMEs to rely on financial institutions for obtaining the loans necessary to achieve of growing and continuing economic development. If borrowing from financial institutions is a procedure required by the rate of development in its early stages, SMEs should rely on themselves to mobilize national savings to supply the resources necessary for the required investments.

The government of Rwanda should promote private initiatives and hasten privatization, and assist the private sector in progress of development, and reduce public investment in order to organize all the capabilities of national development because of the problems and difficulties for international financing for development. No doubt this requires the implementation of suitable policies to accomplish the preferred level of private investment and privatization, and public investment.

Increase of investment spending in the recent years reflected positively on the rate of growth, some of the policies applied by the government helped to do so, where the made in Rwanda policy influence the

entrepreneurs to increase their investment in several businesses. That high investment expenditure was accompanied by an elevated savings surplus in most Rwandan sectors' activities.

Dominance of the public sector on the most industrialized sector's activities before the 1996s in Rwanda was limited to generate a high growth rate of the investments of the latter sector. Nevertheless, the privatization of unprofitable companies in the manufacturing sector, and permitting the private sector federation to hold in manufacturing activities led to an increase in the input of the manufacturing sector in the composition of productivity. The increase of contribution of this sector may be moderately due to the participation of the private sector federation in economic activity.

However, the ongoing reforms and changes in economic policy have resulted in a state of uncertainty which has led to a slow growth of private sector investments; most of these investments are concentrated mainly in the services sector. The incapability of investors to forecast the future makes them prefer to expect the results of reforms by making a decision to invest. Uncertainty is reflected in the high rate of contribution of the services sector (with rapid returns) to GDP at the outlay of the commodity production sectors.

Conditions for Credit Accessibility, the results exposed that in banks, saving and credit cooperatives present to their customers some conditions that should be followed in order to acquire a loan easily. According managers interviewed the customers must do the following: operated a licensed business; must be registered; customer must open account and operate it at reasonable months before applying for the loan; compulsory saving; customer shall prepare to pledge collaterals as security for loan; group member guarantee and customer shall not have default history from any credit institution other requirement loan must be paid within stipulated time by these financial institutions according to the amount given, reasonable time of being member particularly in SACCOs or other financial institutions and recognition by local government. Therefore, according to the findings in the field revealed that when these conditions not properly met hinders the SMEs borrowers not qualifying for the loan.

The results of the relationship between SMEs investment, international trade and economic growth represent a significant and positive relationship; consequently, we can use trade and investment opportunities in the global economy and by maintaining the openness of the economy (through accessing the foreign markets, technology and resources), we can establish a significant contribution to economic growth.

Considering the impact of SMEs investment on economic growth, training and professional labor skilled in various sectors of the economy can be an effective step towards achieving economic growth; therefore, specifying appropriate policies and implementing them seems essential.

The positive effect of trade openness index validated that by implementing policies such as reducing tariffs and promoting exports and launching policies that are synchronous among trade openness policies, various trade

sectors can be strengthened and the high growth is achieved in industry, agriculture and services sectors, which are essential to overall economic growth.

8. CONCLUSION AND RECOMMENDATIONS

Over the past years, a major gap in Rwanda's industrial development process could be attributed to the absence of a strong Rwandan SME sub-sector, which has a population of about 12 million people, vast productive farmland, limited variety of mineral deposits and other natural resources, should have been a heaven for SMEs. Unluckily, SMEs have not played the important role they are predictable to play in the growth and development of the economy. Considering the findings in the study, SMEs in Rwanda have an extended way to go for the sector to be productive adequate and play the curial role it is expected to be in relation for contributing to the growth and expansion of the economy.

This paper therefore concludes by stating that the main causative factor as to why Rwandan SMEs are performing below expectation is based on the relationship to our surroundings. The resolution to the problems of Rwandan SMEs can only be recognized if both the leaders and the citizens accomplished work together. Hence, this study recommends that Government should as matter of urgency take proactive measures in addressing some of the key constraints faced by the sector such as access to finance, scarcity infrastructure, and inconsistency of government policies, access to market, various taxation and archaic technology. Good infrastructure and facilities that will encourage SMEs to pool their information and resources together is highly needed likewise sufficient human capital development. There should be promotion of and access to innovation and technology and sufficient openness to foreign technology.

Excellent policies that encourage constant exchange rates, low inflation which minimizes entry regulations and endorse achievement of elevated levels of productivity should be implemented. As the economy growth, appropriate rules and regulations that encourage fair competition should be in place to guide the increasing number of companies concerned in the domestic and export markets. The development process needs to be implemented properly and should be strengthened with ample work space and provision of cluster common infrastructure to enhance their productivity. In generally, many staffs are not at level of understanding the ability to establish the competencies that are required by employees to accomplish well their responsibility in the company. These ability gaps subsist in all sectors of production. SMEs will necessitate spending in training as well as in research and development that leads to skill development and job enhancement. The Government should strive to provide a solution to the skill gaps in the SME sub-sector. This makes the issue of capacity building an important area to focus upon. The building of new and renovation of existing technical colleges is highly advised.

The competitiveness of any economy varies on how proficient all the resources in the progression of production are employed and how competent these are marketed, therefore the whole succession of production has to be

well-organized. This means that the procedure of production has to be cost efficient and meets quality needs of the consumers. The operational cost of SMEs should be addressed towards attaining cost efficiency through the use of latest technology. The issue of power outages and other basic infrastructure such as access roads and transportation should also be addressed.

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