

Analysis of growth constraints for small and medium enterprises in Rwanda's emerging economy: A case of Musanze District

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ABSTRACT

Small and Medium Enterprises (SMEs) are the foundation of economic development since they create jobs and significantly boost the economy. However, many of them face significant obstacles in the development processes worldwide. This study analyzed the key constraints hindering the growth of SMEs in Musanze District within the context of Rwanda's emerging economy. This study was grounded on Resource-Based View (RBV) Theory developed by Birger Wernerfelt in 1984, which posits that the performance or growth of any company, organization, or firm largely depends on its effective use of resources. The study used a descriptive survey, and the sample size was 91 respondents selected randomly from SMEs operating in Musanze District. Data were collected using a questionnaire and were analyzed using SPSS software, and descriptive statistics was the tool used. The data were analyzed and interpreted in order to make a conclusion and answer the research questions. The findings reveal that many SMEs lack sufficient collateral to secure a bank loan, as indicated by the mean value of 4.18. Secondly, SME operators mentioned that there are high interest rates in banks. This scored the mean value of 4.26, while they also face regulatory challenges significantly affecting business operations, as indicated by the mean value of 3.89. Moreover, inadequate infrastructure was also highlighted, as indicated by the mean value of 3.75. Additionally, the respondents claimed that there is a lack of training in business management. This scored the mean value 4.10, while high taxes scored the mean value 3.84. Concerning the effect of SME constraints on their growth in Musanze District, respondents claimed that there is limited business growth due to lack of capital, as indicated by the mean value of 3.94, and that many SMEs fail to attract and retain customers due to recurring challenges. This scored the mean value of 4.55. Due to several constraints, many SMEs in Musanze District face high transaction costs and are unable to overcome competition, and this scored the mean value of 4.55. Even though the government of Rwanda has managed to address some of SMEs' growth constraints through targeted financial support, capacity-building programs, infrastructure investment, and policy reforms, several constraints persist among SMEs in Musanze to fully realize their growth potential and contribute more significantly to the district's and the nation's socio-economic transformation. Based on the findings, recommendations were formulated for the government of Rwanda to enhance access to finance and establish SME-friendly financial products by collaborating with banks and microfinance institutions to design loan packages with lower interest rates, flexible collateral requirements, and longer repayment periods.

Keywords: Constraints, Emerging Economy, Growth, Musanze District, Rwanda, Small and Medium Enterprises

I. INTRODUCTION

Small and Medium Enterprises (SMEs) are the foundation of economic development since they create jobs, distribute income fairly, and significantly boost the economy as a whole (Abdullahi & Kabir, 2016). It is commonly acknowledged that the significance of small and medium-sized businesses in developing nations stems from their distinctive features, which include their vast numbers, distribution across rural areas, and consequently, their particular local significance for the rural economy (Boohene, 2022). In developing nations, SMEs primarily engage in agricultural operations and are labor-intensive. These businesses, particularly small enterprises, are mostly financed by the owners' own savings, which are augmented by gifts or loans from family members, local unofficial lenders, traders, input suppliers, and upfront payments from customers.

Likewise, the operations of SMEs contribute to greater employment, export growth, and poverty reduction in both developed and developing nations. Evidence from around the world about SME operations demonstrates that without healthy SMEs, competitive economic systems cannot flourish (Bowen et al., 2009). SMEs in the developing world, however, are unquestionably distinct from those in the industrialized world. The former contribute little to productivity but are very competitive in creating jobs (Chiang & Yan, 2019). SMEs in developing nations, such as those in East African countries, are far less productive than large enterprises. With reference to the study by Abdullahi and Kabir (2016), SMEs typically have trouble accessing funding and gaining access to advanced technologies, accompanied by poor managerial skills.

In a study by Lutaaya (2018), which looked at how SMEs handled the effects of several limitations on the leather and furniture industries in Sri Lanka and Tanzania between 2010 and 2020, the findings also indicate that practically all SMEs in both nations confront a barrier to financing, and that when they were successful in securing outside funding, they had challenging relationships with lenders. Furthermore, in Sri Lanka, the regulatory burden increased as firm size increased, while in Tanzania, tax and regulatory restrictions also impede the expansion of the smallest businesses. The study by Nguyen (2021), which looked at lending practices in general and the barriers and motivators of bank funding for SMEs globally, also reported on these growth limits for SMEs.

Besides financial obstacles, regulations also contribute to the loss of opportunities for SMEs (Duarte et al., 2017). Significant obstacles to SMEs' expansion include bureaucratic problems, excessively complicated tax structures, restricted loan availability, and compliance challenges. Moreover, the habit of interpreting rules and regulations as informal makes their execution even more challenging, leading to environmental instability and constant uncertainty (Gardner, 2019). According to Boohene (2022), this issue also explains the region's poor anti-poverty efforts, limited job creation, SMEs' incapacity to perform at their peak, and insufficient assistance for the region's economic growth process.

The same growth constraints of SMEs were also examined by several researchers (Niyonsaba, 2022; Rwigema, 2020). Challenges that affect SMEs in this country consist of lack of access to finance. SMEs in Rwanda struggle with accessing finance due to high collateral and documentation requirements, lengthy procedures, and risk aversion from financial institutions (Rwigema, 2020). Furthermore, Niyonsaba (2022) noted that because Rwanda is a landlocked nation, its transportation costs are expensive, making them a significant barrier. However, there are no documented studies conducted in Musanze District which highlight the extent to which SMEs are affected by such growth constraints. Therefore, this research provides insight into the constraints faced by SMEs and offers recommendations that may contribute to the growth and sustainability of SMEs in Rwanda.

1.1 Statement of the Problem

For all the country's initiatives to accelerate economic development and growth potentials, especially by developing financial inclusion and improving the ease of doing business, SMEs still face financial challenges, which perpetuate the high level of unemployment in Rwanda. Based on data issued by the National Institute of Statistics in Rwanda (NISR, 2023), Rwanda's SMEs account for 98 percent of all businesses, employ over 2.5 million people, and contribute around 33 percent to the country's Gross Domestic Product.

It has been challenging to take advantage of the current potential to speed up the growth of SMEs, though, because this potential has been supported with little impact. Even though the government has put in place programs to encourage self-employment and increase entrepreneurial motivation, SMEs still receive insufficient assistance from the government and financial lending organizations.

Likewise, the lending terms elaborated by financial institutions are not favorable to the SME sector in Rwanda. The criteria used to lend to SMEs are still the same as those for large companies (Gardner, 2019). This situation has caused an unending outcry from small firms to the government and lending institutions to soften lending terms for SMEs. SMEs are facing major financial constraints, which have led some to collapse, others to sell off their assets, some to be acquired by other firms, whereas only a few have grown into large companies (Nguyen, 2021). The financial challenges faced by SMEs in Rwanda include an inadequate capital base to meet the collateral requirements necessary to access financing. Where capital is provided, it is considered inadequate compared to the amount needed for the business or project (Rwamigabo, 2019).

Apart from financial constraints, many SMEs in Musanze District experience a low level of human resource development, lack of financial capital, and poor financial management skills, among other challenges (Gardner, 2019). Based on the above documented constraints to SME growth in Rwanda, this study was conducted in Musanze District to examine the key issues facing the growth of small and medium enterprises, and recommendations were formulated for the responsible institutions in order to alleviate SME growth constraints in Rwanda.

1.2 Research Objectives

- i. To determine the types of SMEs constraints in Musanze District
- ii. To examine the implications of SMEs constraints to their growth in Musanze District

II. LITERATURE REVIEW

2.1 Theoretical Review

This study is grounded on one major theory in entrepreneurship and economics which clearly explains the constraints facing Small and Medium Enterprises (SMEs) in Rwanda's emerging economy. The key theory in this study is the Resource-Based View (RBV) Theory, developed by Birger Wernerfelt in 1984. This theory posits that the performance or growth of any company, organization, or firm largely depends on its effective use of resources

(Nguyen, 2021). The way they acquire, control, and manage different types of resources is the major determinant of their success. From this perspective, valuable resources provide significant opportunities for striving for organizational success and enable firms to streamline operations, gain competitive advantages, and achieve sustainability (Dushimimana, 2020).

With reference to small and medium enterprises in Musanze District, many SMEs are hampered in their growth due to their inability to acquire and utilize resources. Access to finance is still a significant challenge due to strict lending requirements in many banks and micro-lending institutions. Besides financial capital, many SMEs face the constraints of lacking skilled human capital, infrastructure deficits, and management skills to effectively manage their available resources. This lack of different types of resources, whether tangible or intangible, constitutes the major growth constraints for SMEs in Musanze District.

2.2. Empirical review

In a study by Abdullahi and Kabir (2016), the difficulties faced by Small & Medium Enterprises (SMEs) in obtaining credit in Ghana when trying to secure bank credit from financial institutions were examined. To achieve their objectives, the researchers adopted a quantitative approach. A convenience sample was used to select 80 SMEs in the cities of Accra and Tema, and they were then provided with questionnaires. The responses to these questionnaires led to several important findings. SMEs could receive financial resources from banks and non-bank financial institutions, but these resources would not be sufficient to meet their needs. The most crucial of these needs is collateral, which the majority of SMEs cannot provide. Furthermore, the limited equity base of these SMEs is another significant issue.

Second, in a study by Boohene (2022) examining the effects of innovativeness and firm resources on the growth of small enterprises in the Ga South Municipality in Ghana, it was found that high interest rates and short repayment terms make it very difficult for those who are able to obtain credit to begin any expansion or development projects. Another interesting explanation for the high rate of debt repayment defaults is the SMEs' tight cash flow conditions, which are mostly brought on by difficulties in managing account receivables. The challenges faced by small and medium-sized enterprises were found to contribute to stagnation, leading to a rise in the unemployment rate (Boohene, 2022).

Rwamigabo (2019) also examined the challenges and opportunities of micro or small social enterprises in Rwanda. His findings demonstrated that the rigorous collateral security demands of financial institutions make it impossible for SMEs to obtain loans. He also revealed that the difficulties SMEs face when trying to obtain financing from banking institutions are severe, and he recommends that the government should play its role in enabling SMEs to obtain finance from financial institutions to support their development (Rwamigabo, 2019).

Niyonsaba (2022) analyzed the growth of youth-owned micro and small enterprises in Kigali City, Rwanda, also examining the role of government entrepreneurial interventions. The primary conclusion showed that the biggest obstacle to launching, operating, and growing a business is a lack of funding. In particular, the biggest obstacle facing the SMEs consulted is getting financing, which affects their ability to survive.

Moreover, a study by Lutaaya (2018) examined the challenges for small and medium enterprises' development in Nyarugenge District. The findings demonstrated that the main financial obstacles facing SMEs were a lack of funding and inadequate credit availability, high interest rates, and certain new laws and regulations. As a result, these difficulties have an impact on SMEs' operations in terms of growth (performance), profits, and innovation.

III. METHODOLOGY

3.1. Research Design

This study employed a descriptive survey design that combined qualitative and quantitative approaches. It focused on examining the population by choosing samples for analysis and studying the phenomena. The benefit of the survey was its ability to gather data for statistical analysis in a cost-effective manner (Creswell & Creswell, 2018). This research design was used because it was the best option for in-depth studies that take into account factors such as design economy, quick data collection, and the capacity to examine the population from a subset of it.

3.2 Target Population

Kothari (2004) defined a population as a set of cases from which a sample is drawn and to which a researcher wants to generalize. He further explains that population data is information about all or nearly all of the cases that a researcher wants to generalize. All SMEs in Musanze District and the local government representatives in charge of SME management and development comprise the population to be covered in this study about SMEs' growth constraints and how they affect their potential for growth in Rwanda. In this study, the target population consists of 2,162 SMEs in Musanze District.

3.3 Sample Size

Saunders et al. (2019) defined a sample as a carefully chosen subset of the target population intended to represent it. Yin (2018) asserts that the sample size should be ideal—neither too large nor too small—with a suitable sample being one that satisfies the requirements of efficiency, representativeness, adaptability, and reliability. In this study, the target population was 2,162 SMEs that operate in Musanze District. The sample consisted of 91 respondents, determined by using the formula of Alain Bouchard. The sample size was selected using both purposive sampling and simple random sampling techniques. A representative sample was chosen from SMEs using random selection, where every enterprise had an equal chance of being selected in Musanze District. On the other hand, purposive sampling was used to select representative individuals, such as SME owners or managers, to provide detailed information about SMEs' growth constraints in Musanze District.

3.4. Data Collection Instruments

Questionnaires and interviews were among the data collection methods employed. According to Bryman and Bell (2015), a questionnaire is a method or research tool that consists of a set of inquiries intended to collect data from respondents. Given that the primary focus of the research is the target population's views, opinions, feelings, and attitudes, questionnaires and interviewing techniques were the most effective ways to gather this data. Questionnaires were used because the research sought to examine factors that are not directly observable, such as people's attitudes, beliefs, opinions, and perceptions about a given issue. In every instance, open-ended questions were chosen because they allow respondents to share their opinions and thoughts on the subject at hand without limiting them to a predetermined range of responses (Kothari, 2004).

3.5. Data Analysis

In this study, both quantitative and qualitative data were employed. Editing and coding of the quantitative data were performed, and the data were analyzed using the Statistical Package for Social Sciences (SPSS) with the aid of descriptive statistics. The averages and standard deviations for the variables under investigation were calculated using descriptive statistics in order to assess the distribution of responses regarding SMEs' growth constraints.

IV. FINDINGS & DISCUSSION

4.1 Response Rate

The results of this study, which involved SMEs operating in Musanze District, were analyzed and interpreted in this chapter. Data were gathered from 91 randomly chosen SME managers and operators in Musanze District. Both quantitative and qualitative methods were used to present and analyze the results in order to make sense of the data gathered and reach reliable, fact-based conclusions. Descriptive statistics, such as tables displaying frequencies, percentages, means, and standard deviations, were used to present and discuss the results.

4.1.1 Types of SMEs constraints in Musanze District

The study examined the types of constraints affecting SMEs in Musanze District. The detailed results are presented in the table below.

Table 1

Respondents' Views on Types of SMEs constraints in Musanze District

Descriptive Statistics					
Types of constraints	N	Min	Max	Mean	Std. Dev.
Lack of sufficient collateral to secure a bank loan	91	2.00	5.00	4.18	0.232
High interest rates in banks	91	2.00	5.00	4.26	0.370
Regulatory challenges significantly affecting business operations	91	1.00	5.00	3.89	0.585
Inadequate infrastructure	91	1.00	5.00	3.75	0.838
High transport costs	91	2.00	5.00	4.29	0.421
Lack of market opportunities	91	2.00	5.00	3.84	0.781
Lack of training in business management.	91	3.00	5.00	4.10	0.653
High taxes and fees for SMEs	91	1.00	5.00	3.84	0.857
Insufficient government support for small businesses	91	2.00	5.00	3.91	0.629
Poor infrastructure required	91	2.00	5.00	4.41	0.561
Unfair and overwhelming competition from larger businesses	91	2.00	5.00	4.35	0.373

The types of constraints hindering the growth of SMEs in Musanze District are detailed in Table 1. According to the survey findings, respondents confirmed that they do not have enough collateral to obtain a bank loan. This resulted in a mean score of 4.18, which is nearly at the maximum (5), and a standard deviation of 0.232, indicating



very little variation in the responses. Concerning the second statement in Table 1, which examined respondents' views on whether banks charge high interest rates, respondents were in agreement, as indicated by the mean score of 4.26—this falls in the "strongly agree" position on the scale used in data collection. Furthermore, the corresponding standard deviation of 0.370 also reveals slight variability in responses.

With reference to the results in Table 1, respondents agreed with the statement regarding regulatory challenges that significantly affect business operations. This was indicated by a mean value of 3.89, which is above the average of 3. The findings also confirmed the challenge of inadequate infrastructure in Musanze District, including roads, electricity, internet connection, and network, which affects business operations. This item scored a mean value of 3.75, which is also above the average. The results also showed that respondents encounter high transport costs, mainly due to inadequate transport facilities and infrastructure in Musanze District.

While assessing the constraints to SME growth in Musanze District, many respondents reported a lack of market opportunities, depending on the business industry in which they are involved. This was reflected in a mean value of 3.84, which is significant and above the average. Moreover, the standard deviation of 0.781 implies slight variability in responses. The results further indicated that many SME operators lack training in business management, as revealed by the mean value of 4.10, which is close to the maximum (5).

Additionally, the results showed that SME operators are affected by high taxes and fees in Musanze District, as indicated by a mean value of 3.84, which is above the average and in the position of agreement. However, the corresponding standard deviation of 0.857 reveals somewhat more variability in responses. Similar to these findings, Rwigema (2020) observed that high taxes and fees on small and medium-sized enterprises can have significant consequences on their operations and the broader economy. As SMEs typically operate with tight margins, heavy taxation can quickly erode their profitability.

The results in Table 1 also demonstrate that there is insufficient government support for small businesses in Musanze District, as indicated by a mean value of 3.91, which aligns with agreement on the Likert scale used in data collection. In this context, lack of sufficient government support for small businesses is a critical barrier to economic development, especially in emerging economies. Due to this challenge, entrepreneurs lack access to business development services, mentorship, and technical training, and face complex registration, licensing, and compliance procedures with minimal support or guidance.

Additionally, respondents revealed that they face constraints related to poor infrastructure required for smooth business operations. This item scored a mean value of 4.41, placing it in the "strongly agree" position. SMEs struggle with unreliable electricity, poor roads, and lack of internet access, especially in rural areas.

Finally, the results showed that unfair and overwhelming competition from larger businesses continues to affect the growth of SMEs in Musanze District. This was indicated by a mean value of 4.35, which is close to the maximum (5). According to Rwamigabo (2019), unfairly intense competition from larger businesses can significantly hinder the development of SMEs, potentially leading to higher failure rates and reduced economic growth. SMEs often struggle with limited access to capital, resources, and expertise, making it difficult to compete effectively with larger, more established firms.

4.1.2 Effect of SMEs Constraints on their Growth and local government revenue generation in Musanze District

The study examined the effect of the constraints affecting SMEs on their growth and local government revenue generation in Musanze District. The results are presented in the table below.

Table 2
Respondents' Views on the Effect of SMEs Constraints on their Growth and local government revenue generation in Musanze District

Descriptive Statistics					
<i>Effect of SMEs constraints on SMES growth and local government revenue generation in Musanze District</i>	N	Min	Max	Mean	Std. Dev.
Limited business growth due to lack of capital	91	2.00	5.00	3.94	0.616
Failure to attract and retain customers due recurring challenges	91	2.00	5.00	4.55	0.566
Inability to effectively manage business operations and resources	91	2.00	5.00	3.65	0.645
Insolvency issues due to financial stress	91	1.00	5.00	3.61	0.856
High level of compliance risks	91	1.00	5.00	3.86	0.841
High transaction costs due to various constraints	91	2.00	5.00	3.78	0.964
Inability to overcoming competition	91	3.00	5.00	4.55	0.266
Failure to resist to the changing business environment	91	2.00	5.00	4.25	0.645
Low local government revenue generation	91	3.00	5.00	4.43	0.452

With reference to the results of the survey as reflected in Table 2, respondents indicated that many businesses do not grow due to a lack of capital, as shown by the mean value of 3.94. Secondly, the results also showed that many SMEs in Musanze District fail to attract and retain customers due to recurring challenges. This scored a mean value of 4.22, and the corresponding standard deviation of 0.341 reveals slight variability in responses.

Based on the study findings, the results demonstrate that many SMEs are unable to effectively manage business operations and resources, especially due to a lack of training and adequate expertise in human resource management, technology, marketing, and other key areas. This is indicated by the mean value of 3.65, which is also above the average (3) on the Likert scale. In this context, Niyonsaba (2022) also mentioned that poor financial planning and analysis among many SMEs leads to inefficient resource allocation and difficulty in anticipating future needs. Moreover, many SMEs struggle to find and retain skilled employees, especially in competitive markets, while weak leadership, poor decision-making, and lack of managerial expertise can result in inefficient operations and resource management.

The results in Table 2 also show that respondents admit that SME constraints have led to higher insolvency issues due to financial stress in many SMEs. Many SMEs accumulate bad debts due to recurring challenges, diminishing market opportunities, and reduced operational effectiveness. This is reflected by the mean value of 3.86, which is in a moderately positive position. Similarly, a high level of compliance risks was reported to be one of the effects of growth constraints affecting SMEs in Musanze District, as indicated by the mean value of 3.86 and the corresponding standard deviation of 0.841.

According to the results presented in Table 2, it was also revealed that challenges affecting SME development in Musanze District lead to high transaction costs. This is supported by the mean value of 3.78; however, the corresponding standard deviation of 0.964 reveals significant variation in responses, mainly due to the different industries in which the SMEs operate.

The study results in Table 2 further show that, due to these constraints, many SMEs are unable to overcome competition in Musanze District. This is demonstrated by a high mean value of 4.55, which is close to the maximum (5), and the smallest standard deviation (0.266), indicating minimal variability in responses. In this perspective, SME growth constraints such as limited resources, finance, and market access can significantly impact their ability to compete effectively. These challenges can result in difficulties overcoming competition due to factors like reduced ability to innovate, limited investment in technology and marketing, and struggles in retaining skilled employees (Niyonsaba, 2022).

Moreover, the results showed that SME constraints have negatively affected local government revenue, as indicated by the mean value of 4.43. Finally, the results in Table 2 demonstrated that growth constraints reduce SMEs' ability to adapt to the changing business environment, with a mean value of 4.25 and a corresponding standard deviation of 0.645. These findings are also supported by Lutaaya (2018), who revealed that SME growth constraints leading to failure to adapt to changing business environments include limited access to finance, outdated technology, lack of skilled labor, and insufficient government support. These challenges make it difficult for SMEs to adapt to market shifts, innovate, and compete effectively, ultimately hindering their ability to survive and thrive.

V. CONCLUSION & RECOMMENDATIONS

5.1 Conclusion

This study aimed to analyze the key constraints hindering the growth of Small and Medium Enterprises (SMEs) in Musanze District within the context of Rwanda's emerging economy. The findings revealed that although SMEs are essential in developing communities such as Musanze District—through job creation, income distribution, and socio-economic development—they still face significant challenges that minimize their growth potential and ability to achieve competitive advantages. The major constraints highlighted include a lack of financial capital due to insufficient collateral and rigorous bank requirements, lack of training, unfavorable infrastructure, and high taxes. Furthermore, infrastructural limitations such as poor road networks, unreliable electricity, and limited internet connectivity undermine the ability of SMEs to operate efficiently and compete effectively.

Although there are existing government policies intended to support the growth of SMEs, these policies often lack clarity or consistent implementation at the local level, which creates uncertainty and compliance challenges for small business owners. Overall, in order to foster the development of SMEs in Musanze District, the major challenges that limit their growth need to be addressed. The following section highlights key recommendations that are important for streamlining SME operations and promoting growth in Musanze District.

5.2 Recommendations

At the end of this study, recommendations were formulated based on the findings. These recommendations are directed to the Government of Rwanda and NGOs. The government should establish SME-friendly financial products by collaborating with banks and microfinance institutions to design loan packages with lower interest rates, flexible

collateral requirements, and longer repayment periods. It should also promote financial literacy programs by equipping entrepreneurs with skills in budgeting, saving, and investment to enable them to make better use of financial resources.

Moreover, the Government of Rwanda and NGOs need to strengthen business management training by offering practical instruction in business planning, marketing, record-keeping, and financial management. Similarly, it is necessary to improve infrastructure by upgrading transport networks and road conditions, especially those connecting SMEs to markets and suppliers. Finally, the Government of Rwanda should promote market access and linkages by facilitating local and regional trade fairs to help SMEs increase the visibility of their products and services to new customers and potential partners.

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