

Project Financing in Small and Medium Enterprises in Rwanda ¹

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ABSTRACT

The financial system in Africa is bank dominant, and it is characterised by inefficient intermediation and limited competition. Lending is mostly short-term, and a large share of assets is in the form of government securities. Moreover, there exists a large financial gap for SMEs in Africa. Many women-owned SMEs report finance as the most challenging part of growth because of high-interest rates, a burdensome application process, and large collateral requirements. In the case of women-owned SMEs, it is much harder, as fewer African women have bank accounts in comparison to men. The study will covers 94 projects implemented by women-owned SMEs in Remera sector, Gasabo district, Rwanda as sample size. The study will used descriptive research design where questionnaire was used as to collect data techniques and descriptive statistics and inferential statistics was used to analysis data. The study recommends that the management of projects implemented by small and medium enterprises should consider using internal funds to finance their projects if these funds are available. The study recommends that the organization should strive to use more of its internal resources so as to gain overall control and decision-making powers for its projects.

INTRODUCTION

In Rwanda, the government of Rwanda is aware of the high levels of unemployment and has therefore put up measures to reverse the situation. Various campaigns targeting sensitization on innovation and entrepreneurship among the Rwandan youths have been launched. The government has come up with measures to avail finances to the young investors and entrepreneurs have been made possible through BDF, MFIs and SACCO so as to enable the young entrepreneurs' access to the finances they require to finance their projects and business activities. Deliberate measures by the Rwandan government to set up funds targeting the Rwandan business and projects young entrepreneurs is one major initiative to curb on the rising levels of unemployment through encouraging self-employment among the youths. BDF are some of the initiatives by the Rwandan

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government to provide soft loans and grants to the youth entrepreneurs so as to carry out their projects and run their SMEs with less financial strain (MINECOFIN, 2016).

Due to increased level of unemployment, many individuals have engaged in MEs as source of employment. Given the status of the business environment where the competition is intense, SMEs need adequate financial means to survive. To stay highly competitive in the market place, research needs to be done to cater for the needs of the consumers. Any shortage in financial resources may hinder the project implemented by SMEs from growing (Raihana, 2017). To meet their financial needs, SMEs have sought project financial from financial institutions such as commercial banks, SACCOs, micro financial institutions, self-help groups, mobile money and others (Financial Sector Deepening, 2016).

Despite these efforts most of these SMEs have challenges such as loss of property due to loan repayment default. Over 50 percent of borrowers sale their assets to repay loans. A quarter of the borrowers are over leveraged with debts serving repayments over half their monthly expenditures and 18 percent have defaulted. Over two thirds of borrowers experienced at least two of these conditions (BNR, 2019). Moreover, alternative and more innovative financing instruments compared to loans such as private equity or mezzanine is still seldom used, unknown, or not available depending on the geographical location of the SME. This situation causes many projects implemented by SMEs to fail.

For instance, according to Rwanda establishments and business report of 2020 by NISR(2020), indicated that 45% of projects implemented by small and medium enterprises have not achieved their objectives , 36% of projects implemented by SMEs in Rwanda were closed, 56% of project implemented by SMEs their expenses is great than its incomes resulting losses and 37.4% of projects implemented by SMEs did not producing good quality of its products due to inadequate of trainings and lack of funds (NISR report, 2020) due to inadequate of funds, COVID-19 problem, inadequate facilities and lack of enough guarantees and higher interest rates on loan for project implemented by SMEs.

To address, the above problem faced by projects implemented by SMEs, the government of Rwanda and other partners like commercial banks, SACCOs, MFIs and BDF has formulated policies for the financing of responsible small and medium sized enterprises (SMEs) and were (MINICOM, 2020) but the extent on how project financing influence success of project implemented by SMEs in Rwanda is unknown. It is against this background that the study seeks to investigate influence of project financing on success of projects in small and medium enterprises in Rwanda with reference of projects implemented by SMEs in Remera, Gasabo District.

Project financing is a special form of financing projects in which the assets and liabilities of investors, not related to the project, are legally separated from the project, while the return on capital is ensured not with assets of the borrower but by the project future cash flows. One of the project financing features is the ability to use a wide range of sources, means and methods of financing investment projects, including bank loans, issues of shares, shares in the capital stock, bonds, lease, own funds, etc. Private loans for project financing are provided by two major sources: commercial banks and bond investors.

Project financing is a financial structure which facilitate the arrangements for project but the repayment of such loans is exclusively defrayed from the cash flows generated from the operations of the project and are specifically used in financing large-scale projects in the areas of oil, energy, petrochemicals, road and railway infrastructure, electricity and water supply et al (Fight, 2005).

According to Ndemi (2018), typical project finance structure is an arrangement that involves the establishment of an independent project entity financed with a non-recourse debt to finance a single-purpose capital intensive project. The unique feature of project finance is its non-recourse to financing (Hoffman, 2001). Non-recourse finance is an arrangement that limits lenders restitution to the project's collateral but not the other properties of the lenders (Esty, 2006). In case of a default, the non-recourse borrower(s) are not personally held liable for the default. Apart from this unique non-recourse feature, Project Finance structures have bulk of it's arrangements in tangible assets where all of the projects are pledged to the lenders (Yescombe, 2001; Esty, 2006; Fight, 2006). In view of this, project finance arrangements are usually used in long term investments ranging between 5 -20 years (Fight, 2006). Typical project finance evolves through the construction and operational stages where the cash flows generated from the projects are used to offset the debts. According to Fight (2006), the primary parties involved in the project finance are the project company with shareholders, lender, grantor (usually government), contractor, operator, off-take purchaser and input suppliers. Their respective obligations and relationships are provided in the project agreement (Yescombe, 2002). In recent times, the high demand for basic social infrastructural amenities especially in developing countries has precipitated the reliance on the use of project finance (Graham,2004). In fact, projects finance is a structure that equitably distributes projects risks among the various stakeholders (Gheri & Sabal, 2002).

Influence of debts financing on success of projects

Debt structure consists of short-term debt and long-term debt. Short-term debt is a kind of debt whose matures in a period of one year or less and is recorded as a current liability in the balance

sheet of a firm. Long-term debt is a financial compulsion whose maturity exceeds one year. For example, bonds. Debt financing is a key element of external financing for institutions seeking to raise extra finances for investment. Debt financing accrues several advantages and disadvantages. Fama and French (2002), indicate that some of the benefits of debt financing include tax deduction. However, there are costs associated with debt financing that include bankruptcy costs and agency costs. Syndicates offer loans offered by commercial or development banks by selling them directly to the investors through loan markets or co-investment contracts with large institutions.

Debt financing refers to the borrowing of loans from other companies, banks, or financial institutions in order to support a business's operations. The loan principal is repaid at a later point in time, with some interest expenses being paid before the debt's maturity (Cheong, 2015).

Debt financing is one of financing options most commonly pursued by companies. According to Tirole (2006), debt financing takes many forms. The essence of debt is that the borrower must repay the funds along with agreed-upon service charges such as interest and loan origination fees. If the money is not repaid as promised, the lender can start collection proceedings. This process can become very uncomfortable for the entrepreneur, who could stand to lose the business and any non-business assets pledged to secure the loan. A long-term loan usually has a payback period between one and five years. Depending on the deal negotiated, these loans are normally secured (collateralized by assets) and guaranteed by the entrepreneurs. Rates and terms on long-term loans vary greatly based on the lending institution's policies and the business's age and financial status (Bichsel & Blum, 2005).

Olu (2013) delved into the impact of debt financing on successful implementation of community projects in Nigeria. An exploratory study design was utilized. The sample size included 95 project managers and coordinators. Questionnaires were used to collect primary data and a regression model was used for analysis. The results showed that long-term debt was negatively related to community project implementation.

Fama and French (2002) found that debt financing had an inverse effect on financial implementation since there lacked tax benefit of debt because of agency problems. Some studies show existence of a positive relationship between long-term debt and implementation; Baker (2012) found that greater use of leverage is an indication of high risks that results into increased profitability. Ross (1977) found that there is a positive correlation between long-term debt financing and project implementation. Graham (2012) found that debt tax benefits, firms that had high marginal tax rates were more likely to issue debt as compared to firms with low tax rates.

Dube (2013) explored the effect of debt financing on financing SMEs operations. A survey research design was adopted, and quantitative and qualitative forms of research were employed. Descriptive statistics and a regression equation were employed in data analysis. The results showed that long-term improved efficiency of SMEs operations and productivity. It was also discovered that the cost of borrowing was too high, and this limited SMEs from adequate borrowing.

Chandra (2014) surveyed the contribution of debt financing on project implementation in India and the results showed that debt was the cheapest source of financing. It was an efficient source of financing since banks took a limited time to make approval. Use of short-term debt as a financing tool allowed the borrowing firm to make control over decisions. Under this form of financing, the organisation worked harder to pay the principle and the interest amounts. It was concluded that use of short-term debt financial instrument contributed towards successful project implementation. In addition, a study carried out in Turkey by Choi (2014) did an analysis of the cheapest and efficient sources of financing global geothermal development plan and the results showed that equity and debt were the cheapest sources of financing geothermal energy projects. Some of the reasons highlighted for use of these financing sources were as follows: the organisation benefits from tax deductions of debt interest, the organisation maintains control in decisions and activities of the project, use of short-term debt was less bureaucratic in disbursement of funds and there is no restraint on the scope of the project.

Influence of equity financing and success of project

According to Graham (2012) firms have different methods of raising capital, including equity finance that entails exchanging ownership interest for financial resources. This kind of financing allows investors to dispose their securities in the market or asset proceeds. Equity financing is crucial to the success of a business because it provides low risk capital that fund infrastructure investments. The investors have the option of selecting listed shares or unlisted shares. Verhoest, Petersen and Scherrer (2014) contend that the primary aim of equity investors is maximizing the return generated by equity. In cases where they invest in infrastructure, maximization of yield on dividend is the most suitable way of meeting the objectives. Concerning risk of the project, equity investors bear asset-specific risk because the investee does not offer any security. The primary focus of the investors during financial distress is achieving leverage effect that increases the return on capital. According to Weber and Alfen (2010), project sponsors who contribute equity fund initiation of a project. The project sponsors also play a significant role in promoting the company's efficiency in using its resources by engaging in managerial activities

Equity financing comprise of retained profits, own savings, contribution from board members, contribution from partners and friends, deferred income and cash flows of the business (Kongmanila & Kimbara, 2007). Angel Investors (business angels) are wealthy individuals who place equity in business that they believe have high growth and return prospects and are interested in supporting the entrepreneur (Ibrahim, 2008). Many successful large companies which attracted venture capitalists or public equity relied first on angels (Ibrahim, 2008). Equity financing is important source of income and have a positive relationship to the performance of the business. Firms that use equity finance are able to make it performance better since there is direct control and because equity holders are residual claimant they have to ensure that resources are allocated efficiently (Caroline & Willy, 2015).

Managers often view the equity offers as an effective way of increasing firm size and offers incentives to grow their firm beyond optimal size since their compensation is dependent on asset size rather than profitability Jensen (1986). McLaughlin and Vassudevan (1996) found that firms with more investment and growth opportunities opt for equity issuance to avoid debt which is tied to periodic interest payments. Equity financing add value to shareholders by way of improving capital structure of firms to an optimal level so as to balance the benefits of the tax shield and the costs of financial distress, Myers (2001).

Kinuthia (2012) studied the contribution of equity financing on successful implementation of community water and sanitation projects. A correlational kind of a research design was adopted. Samples of 50 project implementers were interviewed and primary data was gathered using questionnaires and interview guides. Descriptive statistics and a regression analysis were used and it was established that equity financing was positively related to implementation of community water and sanitation projects.

Influence of assets financing on project success in small and medium enterprises

Asset based financing refers to a type of credit acquired from the commercial banks and other lending facilities which requires one to give valuable items such as property as security to the credit taken. In most cases, the value of the item given as security is higher than the amount of financing institutions offers to the individual or organization (Kira & He, 2012).

Asset-based financing is often the best option for companies with higher risk profiles. In the past, this meant that asset-based lenders were extending credit to businesses experiencing rapid growth, conducting leveraged buyouts or whose profits were seasonal. Lenders are more comfortable making a loan when they know there are assets available – accounts receivable, inventory,

machinery and equipment, and real estate – if sales and cash flows move unpredictably. Asset-based lending (ABL) is any form of lending secured by an asset. It is thus a transactions lending technology in which financial institutions address the problem of information asymmetry by focusing on a subset of the firms' assets, as the primary source of repayment (Kihimbo et al., 2012). Typically, four types of asset classes are secured under Asset-based lending (ABL): accounts receivable, inventory, equipment and real estate. The amount the firm can borrow depends on the appraised value of the selected assets, rather than on the overall creditworthiness of the firm, taking into account the ease to sell off the assets should the borrower be unable to generate cash to repay the loan. The amount of credit extended is linked to the liquidation value of the assets, which is estimated and monitored on the basis of hard data, often relying on industry-specific knowledge. Thus, monitoring and asset evaluation methodologies are of the utmost importance for this type of lending, which explains the historical use of 'tangible' assets to secure loans and, on the other hand, the limited exploitation of intangibles, such as trademarks, patents and copyright (Fjose, Leo & Green, 2010; Beck & Cull, 2014).

The asset-based loan agreement often allows for a revolving arrangement, whereby, if the borrower needs other advances, these can be secured by more assets, such as more receivables, as others are collected and paid off. Hence, as the borrower generates receivables from new sales or builds more inventories, these assets are generally eligible for inclusion in the 'borrowing base'. This arrangement requires constant monitoring of collateral by the lender to control and manage the credit risk. Typically, the lender audits the borrower's assets daily, to monitor and secure the performance of the loan (Cahna, 2008). As unsecured loans, asset-based loans expose the lender to the generic credit risk, that is, to the risk related to 'integrity, moral character, debt-paying habits and ability of the proposed borrower' (Beck & Cull, 2014). In addition, the asset-based lender is exposed to risks that are specifically related to the securing mechanisms underlying ABL (Cahna, 2008).

It is clear that asset financing leads to growth of SMEs especially since it enhances growth in the financial position of SMEs through allowing access to business assets, increasing output and leading to more sales and eventually growth. With such assets, it's easier to enhance the productivity of the company's workforce and technology adoption and application to business and production processes, with all these factors leading to increased sales and competitively, which eventually leads to growth of the SMEs (Fisman & Love, 2003).

Influence of donor funding on project success in small and medium enterprises

Donor funding is funding that is non-repayable or a product which is given by one party who is in this case is the donor. This donor could be a government department, a foundation or a company to a recipient who in most cases is a non-profit making organisation or a business. So as to get funds, the institution seeking funds should do writing which is known as a proposal.

Funds are meant to fund certain projects that call for some level of compliance and reporting. The process of sourcing for funds includes submission of a proposal by an applicant to a potential funder, either through an applicant's own initiative or in reply to a request for a proposal from the funder. Some funds could be given to individuals to open small businesses or governments for financing public projects.

Wachira (2012) explored those financial plans that were set by Kenya government to facilitate geothermal development. It was disclosed that the government and lending institutions could provide grants to a given project, concessional finance or at commercial rates that also contrast from one institution to the other. Empirical results depict that Kenya as one of the six pilot countries identified to benefit from the Scaling-Up Renewable Energy Program (SREP) in low income economies; SREP operates under Climate Investment Funds (CIF) that is funded through various contributions from bilateral development partners, the development regarding the department for International Development (FID) and Netherlands government being the key contributors. The African Development Bank (AfDB) and World Bank Group (WBG) as well as international Finance Corporation (IFC) work together in managing the SREP programs in Kenya. World Bank is the lead institution for Kenya SREP whose goal is piloting and demonstrating the social, economic and environmental feasibility of a low carbon development pathway in the energy sector through generating new economic prospects and enhancing energy access through the use of renewable energy (CIF, 2011).

Comparative research was conducted by Sanyal, Tait, Jayawardera, Hutter and Berman (2016) to analyze the methods to mitigate geothermal resource risk. It was observed that geothermal risk mitigation funds (GRMF) which is a first multi-donor scheme supported geothermal risk mitigation in Africa. Based on the findings, this facility provided competent public and private developers who had grants for surface studies, and cost sharing for exploration form of drilling. This research found that qualified developers received up to 40% of the total costs up to 2 exploration wells, and an additional 20% cost of related infrastructure. To successfully participate in the exploration and subsequent field development, project developers can get an additional 30% predetermined cost of well exploration as a premium. As established by the study, developers

could apply once annually for grant funding from the GRMF and then their applications could be assessed against set predetermined financial and technical criteria. It was unraveled that the beneficiaries of GRMF included four projects in Kenya and Ethiopia that got funding during the first-call for proposals that were made in December, 2012 that are presently in the exploration phase. The study demonstrated that funding could be mobilized for geothermal exploration through minimising the cost shared with the public sector.

Micale and Oliver (2015) delved into the effect of grant financing on implementation of geothermal projects in developing countries. The findings showed that grants or contingent grants from the government and development finance institutions could be utilized to cover costs related to preliminary surveys and surface examination or to mitigate exploration drilling risks for private developers. It was discovered that grants which were cost free funds were very limited. Although there were various institutions that provided grants, these funds were restricted to less than 2 million Euros and did not exceed 5 million euros particularly in funding energy projects. It was also revealed that grants were limited in their application in that the financing institution dictated the use of the funds. Most of these funds were specifically and exclusively meant for capacity development, technical support in studies and providing training for specialized skills. The process of applying for grants was very intensive and this attracted competition thus limiting the chances of obtaining these grants.

Gachui (2017) did an investigation regarding the effect of donor funding towards successful implementation of community development projects and the results disclosed that donor funding impacted positively on community development projects. It was further observed that an increase in donor grants improved success in the implementation of community development projects. Ouma (2012) did an investigation on the factors affecting effective implementation of donor funded projects in Kenya and the results showed that adequate funding and timing of funds were the main factors that greatly contributed towards successful implementation of World Bank funded projects. Mwangi (2013) did an investigation on the link between donor funding and implementation contracting score of state-owned enterprises in Kenya and the findings discovered that donor funding was positively linked to implementation contracting score. Donor funding was found to improve implementation contracting score of state-owned corporations.

Mujabi, Otengei, Kasekende and Ntayi (2015) did a study on the determinants of successful implementation of donor-funded projects in Uganda and the results showed that donor funds was a key driver towards successful project implementation. Vu Minh Duc (2011) contends that donor funding contributes towards economic development particularly in the low-income countries. A survey by William Easterly and Tobias Pfutz (2008) showed that the major 15 challenge that faced

donor aided projects was fragmentation of donor projects; implying that many recipients had multiple small projects from different donors which led to duplication, this derailed government ministries in most countries that were aid intensive. It was further revealed that sustainability was achieved when funds were released on time since it was easy to gather resources in building organisational and managerial capacity (FAO, 2010). USAID (2010) showed that the key factors that affected sustainability of donor funded projects included funds, donor policies, local participation and political factors. According to Alan Fowler (2009), official funding for NGOs had increased to support development projects. In spite of this, this official aid had some negative aspects such as NGO autonomy and the method of funding and project aid was not participatory this impacted negatively on successful project implementation.

Theoretical framework

This study was guided by the Theory of Financial Intermediation, free cash flow theory and pecking order theory. The theory of financial intermediation shows the need and the roles of financial intermediaries such as commercial banks in an economy.

The modern theory of financial intermediation

According to the modern theory of financial intermediation propounded by Modigliani and Miller (1958), financial intermediaries are active because market imperfections prevent savers and investors from trading directly with each other in an optimal way. The most important market imperfections are the informational asymmetries between savers and investors. Financial intermediaries, banks specifically, fill as agents and as delegated monitor information gaps between ultimate savers and investors. This is because they have a comparative informational advantage over ultimate savers and investors. They screen and monitor investors on behalf of savers. This is their basic function, which justifies the transaction costs they charge to parties (Bert and Dick 2003). They also bridge the maturity mismatch between savers and investors and settlement and clearing system. Consequently, they engage in qualitative asset transformation activities. To ensure the sustainability of financial intermediation, safety and soundness regulation has to be put in place. Regulation also provides the basis for the intermediaries to enact in the production of their monetary services (Bert and Dick 2003).

Historically, banks and insurance companies have played a central role. This appears to be true in virtually all economies except emerging economies which are at a very early stage. Even here, however, the development of intermediaries tends to lead the development of financial markets themselves (McKinnon, 2013).

The role or roles played by these intermediaries in the financial sector is found in the many and varied models in the resource allocation based on perfect and complete markets by suggesting that it is frictions such as transaction costs and asymmetric information that are important in understanding intermediation. Gurley and Shaw (2010) have stressed the role of transaction costs. For example, fixed costs of asset evaluation mean that intermediaries have an advantage over individuals because they allow such costs to be shared. Similarly, trading costs mean that intermediaries can more easily be diversified than individuals.

In the current study, the objective was to evaluate the influence of project financing on project success in small and medium enterprises. This theory was useful particularly in the evaluation of the barriers and constraints the SMEs face in getting credit from diverse source surplus funds like SACCOs and commercial banks. The theory guided the establishment of how asymmetry, bargaining power and transactional costs and other market imperfections affect the ability SMEs to source for funds and how that influences their success.

Free Cash Flow Theory

The free cash flow model of Jensen (1986) presents the difference in interests between manager and shareholders regarding excess cash flows. Managers would often want to retain the excess cash flow even when they do not have any positive NPV projects to invest in. Debt normally commits the firm to pay out cash as opposed to equity issues such as IPOs and SEOs which increase free cash flow available to managers. The free cash flow ends up being detrimental to the firm since the managers may not use it to increase shareholder wealth. Capital structure is one of the means of controlling managerial behavior.

A major problem for a shareholder is how to force managers to pay out cash flows rather than retain them. Using debt reduces cash flow available to managers for spending and forces them to pay out future cash flows. However, shareholders cannot force the payment of dividends and therefore the theory predicts that announcements of equity offerings has a negative effect on stock returns and performance since it increases the free cash flow available for poor spending. An empirical prediction of the free cash flow theory is that the change in performance following the equity issue is negatively related to the existing free cash flow, making the theory relevant to the study. The theory also predicts that as long as the number of positive-NPV opportunities is limited, these firms will experience a decline in operating performance subsequent to issuing equity.

Free cash flows are net cash flows that are at the management's discretion without affecting corporate operating activities, (Dittma 2000). Free cash flow have also been described as a measure of a company's performance and shows cash that the company possesses after spending for maintenance or development of the property (Shahmoradi, 2013). Jensen (1986) defined free cash flows as net operating cash flows less capital expenditure, inventory cost and dividend payment. Another definition by (Brush, Bromile and Hendrickx, 2000) stated that they are undistributed cash flow in excess of that needed for positive net present value projects. An advantage of free cash flows as a performance measure unlike earnings is that they are not easily subject to manipulation by firm managers (Mehrani & Baqeri, 2009).

Free cash flows signal past favorable financial performance of a firm and indicate a firm's liquidity and financial slack. Free cash flows are significant as they enable firms to pursue investment opportunities without external monitoring which applies to debt and avoids the possibility of lack of funds or highly priced funds for projects (Jensen, 1986). Investments in 16 growth opportunities will lead to increased earnings as well as increases in firm and share values. Jensen (1986) however argued that since managers tend to waste free cash flows by either investing below the cost of capital or through organizational inefficiencies projects should not be financed through free cash flows but through debt. Copland (1968) stated that corporate free cash flow consists of operating income after tax plus non-cash expenses after deduction of the investments on property, plant, equipment and other assets.

Pecking Order Theory

The Pecking Order Model was created by Myers (1984). Based on this theory, firms favor internal funding more than outside funding. Just in case companies call for outside funding they would choose debt over equity as equity is utilized as a last measure. Firms do not have optimum or predetermined debt to equity ratio because of information asymmetry. The firms adopt careful strategies with regards to dividends and make use of debt financing to optimize the value of the firm.

The pecking order theory is mainly a behavioral explanation of why certain companies finance the way they do. It is consistent with some rationale arguments, such as asymmetric information and signaling, as well as with flotation costs. Moreover, it is consistent with the observation that the most profitable companies within an industry tend to have the least amount of leverage and more of equity (Khan & Jain, 2004). This observation that profitable firms mostly adopt equity financing by using least debt amounts makes this theory relevant to the study.

The pecking order theory explains why the bulk of external financing comes from debt; why more profitable firms borrow less: not because their target debt ratio is low. The order followed is that firms prefer internal finance and if external finance is required, firms issue the safest security first. They start with debt, then possible hybrid securities such as convertible bonds then perhaps equity as a last resort (Pandey, 2009). Corporate managers are more likely to follow a financing hierarchy than to maintain a target debt- equity ratio (Pinegar & Wilbricht, 1989).

Among the elements of pecking order principle is that with regards to profitable firms, they would regularly choose inside financing instead of driving up completely new debts or perhaps equity. Although, debt is regarded cheaper compared to equity within particular proportions. Myers (2001) implies that is due to the fact that the wealth of the firm as well as shareholders connected with the firm is disrupted by asymmetry of information. The theory was used to establish if the success of project in SMEs preferred the conservative sources mostly from personal sources or have ventured into liberal financing schemes and loans for SMEs. The effects of project financing option on the ultimate performance of project in SMEs was also established.

METHODOLOGY

A descriptive research design was used to describe the variables under the study such as debt financing, equity financing, assets based financing and donor financing and success of projects in small and medium enterprises by using a quantitative approach.

Correlational research design is quantitative approach that was used to test whether debts financing, equity financing, assets-based financing and donor financing have significant influence on success of projects in small and medium enterprises in Remera sector, Gasabo district.

The population of the study is 872 projects implemented by small and medium enterprises in the Remera sector.

The study will use Slovin's Formula to determine the sample size that was used in data collection because 872 projects implemented by small and medium enterprises in Remera sector is large which is great than 100, therefore the sample size is calculated as follows:

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

Where: n= the sample size,

N= Population size and

e= the margin of error (10%).

$$n = \frac{872}{1 + 872 (0.1)^2} = \frac{872}{9.72} = 89.7 \approx 90$$

The study collected data on 90 project implemented by SMEs in Remera sector, Gasabo district

Table 3.2: Sample size

Categories of project implemented by SMEs in Remera sector	Population size	Sample size
Projects implemented by small enterprises	540	56
Projects implemented by medium enterprises	332	34
Total	872	90

Source: Remera sector, reports, 2021

Data collection methods

With regard to the nature of this study, both primary and secondary data will be used.

Primary data

Primary data was collected by use of structured questionnaires in the field from people who are believed to give firsthand information on the subject under study.

Secondary data

Secondary data was gotten from sources like Journal articles, internet, magazines, newspapers, and books related to the subject of the study. These were consulted at length to extract the information required to support the findings from the study respondents. The researcher visited such places and obtained information that was related to the study variables as presented in literatures review.

Data collection instruments

The study incorporates the use of various tools in the process of data collection in a bid to come up with sound, concrete, and credible research findings. The researcher therefore amalgamates the use of questionnaire in the process of collecting primary data and documentary review in collecting secondary data.

Questionnaire

Questionnaire was used to collect primary data. These questionnaires consisted of structured and unstructured questions. Administration of the questionnaires was done by dropping and picking them at an agreed time with the researcher (Kothari, 2006). The decision to choose a survey approach was because it is an efficient and economical method to use in comparison to other methods, for example observation. Questionnaires were disseminated through emails to the respondents to give them ample time to verify the accuracy and reliability of the data collected. This was considered to be a cheaper and convenient approach for data collection in areas that were not easily accessible by the researcher. Questionnaires with 5-points Likert Scale were administered to collect data since it was easy for the respondents to use and understand. The questionnaire tool was used to collect information from 94 owners of business projects in Remera sector, Gasabo District.

Documentary Review

According to Burns & Grove (2003) stated that documents are materials which contain the information about a phenomenon that researchers wish to study. In this study the documents (books, journals and web site sources) was used in order to get more information.

RESULTS

Inferential results

This section examine the influence of project debts financing, project equity financing, project assets financing and project donor financing as independent variable on on success of projects implemented by SMEs in Remera sector, Gasabo District as dependent variables by using correlation analysis and multiple linear regression analysis

Correlations results

To establish whether there was a relationship between the variables, a correlation analysis was conducted. The correlation analysis shows the direction, strength, and significance of the relationships among the variables of the study (Sekaran & Bougie, 2010). A positive correlation indicates that as one variable increases, the other variables will also increase. On the other hand, a negative correlation indicates that as one variable increases the other variable decreases (Sekaran, 2010).

Table 1.1: Correlation results

			X ₁	X ₂	X ₃	X ₄	Y
Spearman's rho	Project debts financing	Correlation Coefficient	1				
	Project equity financing	Correlation Coefficient	.590**	1			
	Project assets financing	Correlation Coefficient	.341**	.689**	1		
		Correlation Coefficient	.657**	.614**	.398**	1	
	Success of projects implemented by SMEs	Correlation Coefficient	.854**	.557**	.872**	.600*	1
		Sig. (2-tailed)	.000	.000	.000	.012	.

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

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

Source: Computed by researcher from Field data, 2021

Table 1.1 shows that there is a significant high positive relationship exists between project debts financing and success of projects implemented Project donor financing by SMEs in Remera sector, Gasabo district at (r =0.854**, p-value 0.000<0.01), which implies that an increase of project debt financing leading to an increase of success of projects implemented by SMEs in Remera sector, Gasabo district. This implied that a change in use of various forms of debt financing increased the financial performance of the SMEs. The findings also concur with Abdullar and Roslan (2012) who agreed that there exists a significant relationship between debt financing and financial performance of Malaysian firms.

These findings were in agreement with Pelham (2000) who noted that long term debts have direct positive and significant relationship with financial performance of small businesses in Malaysia. The study further argued that long term debt provided more competitive advantage when compared with large firms. Dube (2013) concluded that debt financing has a positive impact on productivity of SMEs in Masvingo and also argued that this was due to adequate funding from the banks that lead to increased productivity. On contrary Chepkemoi (2013) noted that debt increases as firms profitability decreases. However, the findings do not concur with Shubita and Asawalhah (2012) that debt financing has negative relation between debt and profitability. SMEs preference for debt financing as a source of finance is due to the fact that they can be used to take care of the unexpected emergencies and they quickly adapt to the need of the firm.

Table 1.1 shows that there is a significant moderate positive relationship exists between project equity financing and success of projects implemented by SMEs in Remera sector, Gasabo district at ($r = 0.557^{**}$, $p\text{-value } 0.000 < 0.01$), which implies that an increase of project equity financing leading to an increase of success of projects implemented by SMEs in Remera sector, Gasabo district . The study also noted that there was a significant relationship since the p value 0.000 is less than 0.01. This implied that equity financing of the SMEs yielded an increase in project success implemented by SMEs. These findings concur with Garcia- Terul and Martinez- Solono (2007) who agreed that equity has a positive relationship to financial performance of the SMEs. They further agreed that small and medium size entrepreneurs' have strong preference for use of equity as a source of finance. Boating and Jones (2003) also noted a positive relationship between equity and financial performance. Equity financing is preferred in the initial stages of the SMEs development.

Table 1.1 shows that there is a significant high positive relationship exists between project assets-based financing and success of projects implemented by SMEs in Remera sector, Gasabo district at ($r = 0.872^{**}$, $p\text{-value } 0.000 < 0.01$), which implies that an increase of assets based financing leading to an increase of success of projects implemented by SMEs in Remera sector, Gasabo district

Table 1.1 shows that there is a significant moderate positive relationship exists between project donor financing and success of projects implemented by SMEs in Remera sector, Gasabo district at ($r = 0.600^*$, $p\text{-value } 0.012 < 0.05$), which implies that an increase of project donor financing leading to an increase of success of projects implemented by SMEs in Remera sector, Gasabo district

Multiple linear regression results

Multiple regression analysis was conducted to test relationship among variables using statistical Package for Social Sciences (SPSS) version 17.0. Regression analysis was used to model the effect of the predictor variable such as project donor financing, project debts financing, project equity financing, project assets financing on dependent variable which is success of project implemented by SMEs in Remera sector, Gasabo district. The statistical significance was verified by the Coefficient (β), t-statistic and Prob. In addition, statistically significant relationship between the dependent variable and independent variable from the model were accepted at 5% significance level. The analysis applied the statistical package for social sciences (SPSS) to compute the measurements of the multiple regressions for the study. Based on the model summary, the coefficient of determination (R squared) shows the overall measure of strength of association between independent and dependent variables.

Table 1.2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.772 ^a	.595	.526	.37916

a. Predictors: (Constant), Project donor financing, Project debts financing, Project equity financing, Project assets financing

Source: Computed by researcher from Field data, 2021

R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in Table 1.2 the value of R squared was 0.595 an indication that there was variation of 59.5 percent on success of project implemented by SMEs in Remera sector due to changes in project donor financing, project debts financing, project equity financing and project assets-based financing at 95 percent confidence interval. This means that 59.5% of the variation in the success project implemented by SMEs can be predicted by joint interaction of project donor financing, project debts financing, project equity financing and project assets-based financing. Therefore, other variables not covered by the study contribute to 40.5% of the variance. The results agree with earlier findings by Ugwuanyi and Agbo (2012), Makubo (2015) and Mensah (2004) who observed that financing options have a significant effect on financial performance.

Table 1.3: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.060	4	2.515	17.465	.000 ^a
	Residual	12.220	85	.144		
	Total	22.279	89			

a. Predictors: (Constant), Project donor financing, Project debts financing, Project equity financing, Project assets financing

b. Dependent Variable: success of projects implemented by SMEs

Source: Computed by researcher from Field data, 2021

From the ANOVA statics, the study established the regression model had a significance level of 0.000 which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value ($17.494 > 2.49$) an indication that project donor financing, project debts financing, project equity financing and project assets-based financing all affects the success of projects implemented by SMEs. The significance value was less than 0.05 indicating that the model was significant in this study.

Table 1.4: Regression coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.930	.424		2.195	.031
Project debts financing (X ₁)	.713	.255	.620	2.800	.006
Project equity financing (X ₂)	.113	.093	.043	3.028	.001
Project assets financing (X ₃)	.228	.087	.132	3.322	.000
Project donor financing (X ₄)	.035	.010	.015	2.167	.018

a. Dependent Variable: success of projects implemented by SMEs

Source: Computed by researcher from Field data, 2021

The equation ($Y = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \beta_4x_4$) becomes:

Success of projects implemented by SMEs = $.930 + 0.713X_1 + 0.113 X_2 + 0.228X_3 + 0.035X_4$

The regression equation above has established that taking all factors into account (project donor financing, project debts financing, project equity financing and project assets based financing) constant at zero; Economic development of beneficiaries of TWM project will be 0.930.

The regression results revealed that project debts financing have significance positive influence on success of projects implemented by SMEs in Remera sector as indicated by $\beta_1 = 0.713$, $p = 0.006 < 0.05$, $t = 2.800$. The implication is that an increase of one unit in project debts financing would lead to an increase in success of projects implemented by SMEs in Remera sector by 0.713 units. The results support earlier empirical foundations by Garcia-Appendini and Montoriol-Garriga (2013) who indicated that debt financing would serve to enhance the financial performance of firms. The findings imply that establishment of network of formal credit institutions helps in improving lending conditions as well as terms in favour of small-scale enterprises, hence offering a crucial avenue for facilitating their access to credit. The study results also support the findings by Atieno (2001). However, Atieno (2001) established that commercial banks along with other formal institutions fell short of catering for the credit requirements of smallholders, nonetheless, primarily due to their lending terms and conditions.

The regression results revealed that project equity financing has significant positive influence on success of projects implemented by SMEs in Remera sector as indicated by $\beta_2 = 0.113$, $p = 0.001 < 0.05$, $t = 3.028$. The implication is that an increase of one unit in project equity financing would lead to an increase in success of projects implemented by SMEs in Remera sector by 0.113 units.

The regression results revealed that project assets-based financing have significant positive influence on success of projects implemented by SMEs in Remera sector as indicated by $\beta_3 = 0.228$, $p = 0.000 < 0.05$, $t = 3.322$. The implication is that an increase of one unit in project assets-based financing would lead to an increase in success of projects implemented by SMEs in Remera sector by 0.228 units.

The regression results revealed that project donor financing has significance positive influence on success of projects implemented by SMEs in Remera sector as indicated by $\beta_4 = 0.035$, $p = 0.018 < 0.05$, $t = 2.167$. The implication is that an increase of one unit in project donor financing would lead to an increase in success of projects implemented by SMEs in Remera sector by 0.035 units. The results agree with past results by Irungu and Kamau (2015) who established that government funding enhances performance. The findings also support the results by Kamunge et al. (2014) that access to donor financing exposes enterprises to better chances to grow and thrive

while additionally, it leads to enhanced SME performance to a tremendous degree. Generally, access to finance impacts the overall performance of business to a high degree.

DISCUSSION

Influence of project debts financing on success of projects implemented by SMEs in Remera sector, Gasabo District

For the first objective, the results shows that there is a significant high positive relationship exists between project debts financing and success of projects implemented Project donor financing by SMEs in Remera sector, Gasabo district at ($r = 0.854^{**}$, $p\text{-value } 0.000 < 0.01$) and also results revealed that project debts financing have significance positive influence on success of projects implemented by SMEs in Remera sector as indicated by $\beta_1 = 0.713$, $p = 0.006 < 0.05$, $t = 2.800$. The implication is that an increase of one unit in project debts financing would lead to an increase in success of projects implemented by SMEs in Remera sector by 0.713 units. The correlation between the debt financing and financial performance was found to be positive and statistically significance. Debt financing as a source of financing by the SMEs offers a solution to unexpected financial emergencies. This is because the debt financing adapts easily to the firm's financial need, they require no collateral in order to obtain the funds and they are repaid over a short period thus no or minimal interest rate is charged.

Influence of project equity financing on success of projects implemented by SMEs in Remera sector, Gasabo District

For the second objective, the results that there is a significant moderate positive relationship exists between project equity financing and success of projects implemented by SMEs in Remera sector, Gasabo district at ($r = 0.557^{**}$, $p\text{-value } 0.000 < 0.01$) and also results revealed that project equity financing have significance positive influence on success of projects implemented by SMEs in Remera sector as indicated by $\beta_2 = 0.113$, $p = 0.001 < 0.05$, $t = 3.028$. The implication is that an increase of one unit in project equity financing would lead to an increase in success of projects implemented by SMEs in Remera sector by 0.113 units. The relationship between equity finance and financial performance of the SMEs was found to be positively correlated and statistically significant. Equity financing is preferred in the initial stages of SMEs development. This is due to the financial shortage experienced by inability to secure loans with collaterals during the founding phase.

Influence project assets financing on success of projects implemented by SMEs in Remera sector, Gasabo District

For the second objective, the findings indicate that there is a significant high positive relationship exists between project assets based financing and success of projects implemented by SMEs in Remera sector, Gasabo district at ($r = 0.872^{**}$, $p\text{-value } 0.000 < 0.01$) and also the results revealed that project assets based financing have significance positive influence on success of projects implemented by SMEs in Remera sector as indicated by $\beta_3 = 0.228$, $p = 0.000 < 0.05$, $t = 3.322$. The implication is that an increase of one unit in project assets based financing would lead to an increase in success of projects implemented by SMEs in Remera sector by 0.228 units.

Influence of project donor financing on success of projects implemented by SMEs in Remera sector, Gasabo District

For the four objective, the findings revealed that there is a significant moderate positive relationship exists between project donor financing and success of projects implemented by SMEs in Remera sector, Gasabo district at ($r = 0.600^*$, $p\text{-value } 0.012 < 0.05$) and also the results revealed that project donor financing have significance positive influence on success of projects implemented by SMEs in Remera sector as indicated by $\beta_4 = 0.035$, $p = 0.018 < 0.05$, $t = 2.167$. The implication is that an increase of one unit in project donor financing would lead to an increase in success of projects implemented by SMEs in Remera sector by 0.035 units.

5.2. Conclusions

The study concludes that 59.5% of the variation in the success project implemented by SMEs can be predicted by joint interaction of project donor financing, project debts financing, project equity financing and project assets based financing. The study concluded that project financial such as donor financing, project debts financing, project equity financing and project assets-based financing has positive influence on success of projects implemented by small and medium enterprises are debt and equity. Success of projects implemented by small and medium enterprises mainly used debt to finance geothermal energy projects. Debt financing increased cost of financing geothermal energy projects, however, projects implemented by small and medium enterprises benefitted from tax deductions, improved efficiency and control of geothermal energy projects. A positive and significant connection was found to exist between debt and success of projects implemented by small and medium enterprises. Debt financing and equity was frequently used by projects implemented by small and medium enterprises a financing instrument. It was the cheapest financing tool since it was obtained from internally generated funds. There was improved

efficiency in accessing funds due to reduced bureaucracy and full control by projects implemented by small and medium enterprises in key decisions regarding implementation of geothermal energy projects. Equity was positively and significantly related to success of projects implemented by small and medium enterprises.

Findings based on the fourth objective indicated that donor financing of capital projects has a positive significant effect on completion rates of capital projects in small and medium enterprises. It was concluded that foreign donor financing of capital projects positively influences their completion rates and recommended that small and medium enterprises seek more foreign aid funding since projects financed by foreign donor financiers have the fastest completion rates.

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