

**SMALL AND MEDIUM ENTREPRISES
AND POVERTY REDUCTION
IN RUBAVU DISTRICT,
RWANDA.**

A Thesis
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Master of Arts in Project Planning and Management

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DECLARATION A

This thesis is my original work and has not been presented for a Degree or any other academic award in any University or Institution of higher Learning.



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DECLARATION B

"I confirm that the work reported in this thesis was carried out by the candidate under my supervision".



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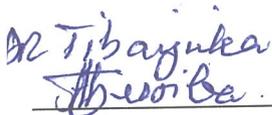


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APPROVAL SHEET

This thesis entitled "Small and Medium enterprises and poverty reduction in western province of Rwanda, Rubavu district", prepared and submitted by KALISA Uwingabire in partial fulfillment of the requirements for the award of a Master of Arts in Project Planning and Management; has been examined and approved by the panel on oral examination.


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DEDICATION

To my late father Kalisa Jean Pierre and my mother Mukarubuga Schola,
To my brother Kalisa Callixte and sister Kalisa Uwera.

ACKNOWLEDGEMENT

My gratitude goes to God Almighty, The Merciful and The Provider

Secondly, my heartfelt gratitude goes to the DVC SPGSR for her professional guidance and intellectual support to complete this study. Also, my heartfelt gratitude goes to members of the panel for accepting to examine and evaluate this study.

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ACRONYMS AND ABBREVIATIONS

AGDF	: Affinity Group on Development Finance
CAPMER	: Centre d'Appui aux Petites et Moyennes Entreprises au Rwanda
CVI	: Content Validity Index
EDPRS	: Economic Development Poverty Reduction Strategy
GDP	: Gross Domestic Product
GoR	: Government of Rwanda
IFAD	: International Fund for Agricultural Development
MDGs	: Millennium Development Goals
MINICOM	: Ministère de l'Industrie et du Commerce
NGOs	: Non - Governmental Organizations
PFS	: Private Federation Sector
PPPMER	: Projet pour la Promotion des Petites et Moyennes Entreprises Rurales /rural promotion for small and medium enterprises
RCA	: Rwanda Cooperative Agency
RDB	: Rwanda Development Board
SPSS	: Statistical Package for Social Sciences
SME	: Small and Medium Enterprise
USAID	: United State Agency for International Development
USA	: United States of America
UK	: United Kingdom

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ABSTRACT

This study is entitled " Small and medium enterprises and poverty reduction" was conducted in Rubavu district exactly in selected SMEs oriented in agrobusiness, livestock and handcraft. The main objective that guided this study were to determine the profile of respondents in terms of gender, age and education level, working experience; to examine the activities of SMEs selected in Rubavu district; to establish the level of poverty reduction in SMEs selected; to examine the problems faced by employees in SMEs selected.

The descriptive research design method was used in this study. It involves using questionnaire in collecting data from the respondents. The population concerned by this study was 213 employees of selected SMEs in Rubavu district. Using Sloven's formula, the sample size was 138 employees. Respondents were selected through a simple random sampling process. The research analysis was based on their answers provided through questionnaire. The SPSS was used to analyze all data. The data were expressed into tables and were processed using frequency distribution and means.

The research findings stated that accessibility to health insurance, education, saving, houses conditions, saving are indicators shown that poverty has been reduced. Moreover, the key challenges regarding employment issues in the SME sector are inadequate communication, not having real concerns about their workplace safety, the provision of safety equipment, lack of job security at the workplace.

The study concluded that SMEs has impact positive in poverty reduction. It recommends reinforcing the existing SMEs' development policy to policy makers.

CHAPTER ONE

THE PROBLEM AND ITS SCOPE

Background of the study

There has been a growing awareness since the early seventies that small enterprises are important for economic growth. They are seen as the engines of employment, alleviating poverty and improving equality. The European Commission found that 50% of total net job creation in the SMEs sector is created by a simple 4% of these firms (Manu, 1998).

In Sub Saharan Africa a similar pattern indicates that the enterprises have significantly contribute to employment growth are in fact just 1% of the SME universe (Mead, 1994).

By implication, it would appear that Small enterprises fall into two categories. There is a very large group of them that various reasons will not develop their business beyond a certain (small) scale, and there is a very small group of entrepreneurs who are capable of expanding their business. In Africa, particularly in Rwanda Small and Medium enterprises (SMEs) allow the rural poor including some of the most marginalized and vulnerable strata such as rural women, youth, and the landless to diversify their incomes, create new sources of economic growth and generate additional employment (including self-employment) in rural areas.

World Bank (2005) noted that rural people in developing countries often make their living as farmers, craftsmen, home workers. On average, inform to all activities in these countries contribute nearly half of the gross domestic product (GDP), while SMEs, which provide the bulk of employment in the economy,

contribute 17% to GDP. SMEs is the backbone of the economy and the engine for growth.

However, in many transitional economies, the rural situation is marked by continuing stagnation, poor production, low incomes and the rising vulnerability of poor people. Lack of access to markets is a problem for many small-scale enterprises in Africa (Prabhakar, 2009)

In Rwanda, poverty is directly related to a series of interlocking issues, in particular land, demography, environmental degradation as well as low and limited sources of growth. These issues and constraints have contributed to continued degradation of welfare overtime, making poverty a widespread phenomenon. Government of Rwanda has taken a variety of initiatives to support Rwandan SMEs from the government, development partners, financial and non-governmental organisation (NGOs). However, these initiatives have suffered from lack of resources, coordination and capacity. Within the government supported sector the most important of these initiatives was the former centre d'appui aux petites et moyennes enterprises (CAPMER), CAPMER was a centre that support small and medium enterprises. Specific agencies have also been created to support the development of Rwandan cooperatives, whose business activities are similar to SME, though they have a different taxation and registration procedure. The Rwanda Cooperative Agency (RCA) works to train and regulate cooperatives in cycle with the rural small and medium enterprises promotion project II (MINICOM, 2010).

Statement of problem

In Rwanda, over 60% of individuals live in poverty and 42% in absolute poverty. Using the household as a unit, 57% live below the poverty line. The incidence of poverty is much higher in rural areas (66%) than in urban areas (12% in Kigali and 19% in other towns). Inequality runs deep, with the richest 10% of the population holding approximately 50% of the national wealth compared with 50% of the population sharing just 10% of the wealth (World Bank, 2007).

The rural enterprise sector offers alternative employment for a growing rural population living on increasingly scarce land. Small and medium enterprises have a role in construction, transport, trade and services, production of manufactured goods and processing of agricultural products, but this source of income remains largely untapped.

SMEs have been regarded as the enrichment for employment generation and technological development, the sector nevertheless has had its own fair share of neglect with associated impacts on the economy. SMEs are an essential source of growth, employment, entrepreneurial skills, innovation and economic and social cohesion. If SMEs in the informal sector in developing countries are taken into account, however, their contribution to growth is more substantial. In this situation, this study focused on analyzing the role of SMEs on poverty reduction.

Purpose of the study

To analyze the extent to which SMEs have contributed to poverty reduction among the population in Rubavu district.

Objectives of the study

The general objective is to analyze the role of SMEs to poverty reduction among the population in Rubavu District.

The specific objectives are:

- i. To determine the profile of respondents in terms of gender, age and education level;
- ii. To examine the activities of SMEs selected in Rubavu district;
- iii. To establish the level of poverty reduction in SMEs selected in Rubavu district;
- iv. To Examine the problems faced by employees in working place in SMEs selected in Rubavu district

Research questions

- i. What is the profile of respondents in terms of gender, age, education level, and working experience
- ii. Which activities do selected small and medium enterprises carry out in Rubavu district?
- iii. What is the level of poverty reduction in selected SMEs in Rubavu District?
- iv. What are the problems faced by employees in working place in selected SMEs in Rubavu district?

Scope of the study

Geographical scope: The study focused on Rubavu District. It is located in Western Province of Rwanda. It is divided into 12 sectors. It has a common border with Nyabihu District in East, in west and north; Democratic Republic of Congo and then in south there is Rutsiro District.

Theoretical scope: this study will be carried out on small and medium enterprise and poverty reduction in Rubavu district in Rwanda. The study was guided by the theory of Beck, Kunt and Levine who said that SMEs make special contribution by generating the needed income for poverty reduction.

Time scope: The study covered the period 2004-2010

Significance of the study

The findings of this study shall be used in different way and by different people:

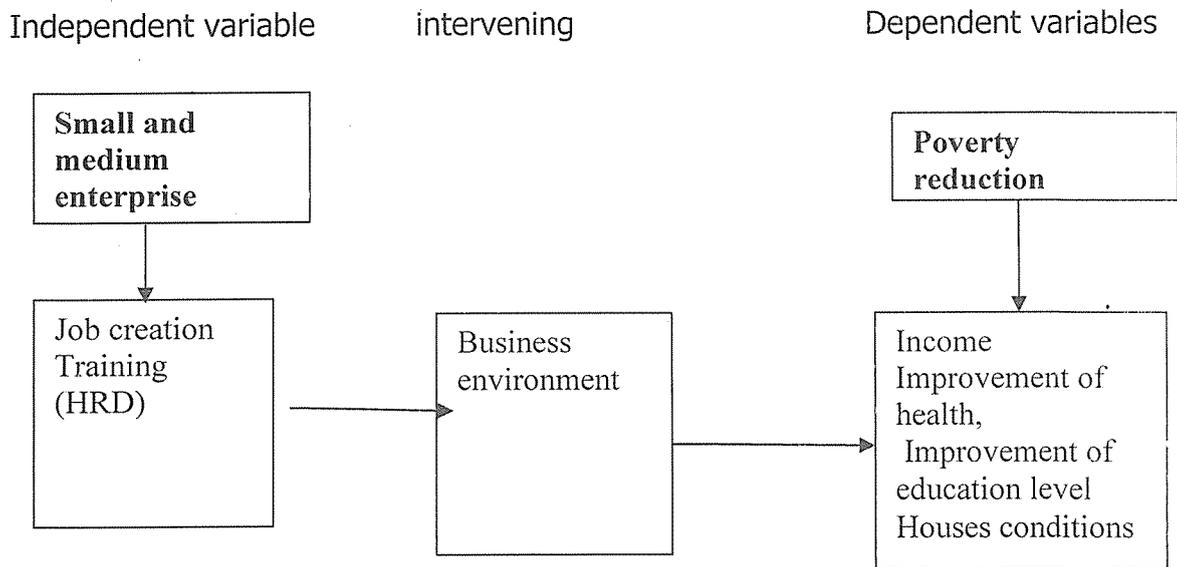
To the research: the study will help the researcher to gain a deeper understanding on how SMEs play role on poverty reduction in Rwanda and particularly in Rubavu district.

To the stakeholders: The research findings will add more information to the promotional institution to readjust the strategic policy in order to respond to the growth strategies of the economy.

To local entrepreneur: The study will provide a framework and entry point for involving local entrepreneurs in both poverty reduction process and as a goal in itself within the framework of district development planning.

The findings from this research will be used by future researchers as future reference while conducting their own researches or other related topics.

Conceptual frame work of the study



Source: Constructed, 2011

Operational definitions of key concepts

Enterprise: enterprise is an independent economic structure engaged in an activity producing goods and / or market services. Its main functions are the production and distribution. The human dimension must not be forgotten: the company must also be considered a human group. Its function is essential for social integration.

The company combines and remuneration of factors of production (labor and capital) needed to create goods or services. The company is looking for productive efficiency, that is to say, the productive combination more effective. The efficiency of the production function is measured by productivity.

Poverty: Poverty can be defined as a condition wherein a person cannot satisfy his or her basic needs, namely, food, shelter, clothing, health and education.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

This chapter aims at showing the reviews of different authors and other researchers on the topic of this study.

Concepts, Ideas, and Opinions from Authors/ Experts

The ways in which SMEs have been supported historically have been influenced by an important thematic issue: Dating to the early '80's, the development community focused on economic development with business creation and access to capital being of paramount importance. Emerging in the 90's, however, was an important shift toward social development with health, good governance, expanding access to education, regulation, and policy taking priority. While still oriented toward addressing populations in poverty, the tools applied differed. Along with the move toward the social dynamics of development, came a reduced attention to small business creation. It is only within the last several years that significant efforts have been made to combine the two approaches, with equal weighting toward fostering private sector/small business development and attention to how a robust SME sector facilitates achieving the social objectives as well. This new paradigm for development has seen a reemergence of a focus on developing SMEs as a means of achieving both economic and social development, with accentuated potential to reduce poverty (AGDF, 2004).

Theoretical Perspectives

Small and Medium Enterprises

There is no universally accepted definition of SMEs. Different regions or countries have defined SMEs based on local operations and conditions. It should be noted therefore that certain definitions may not be applicable in certain regions or settings. For instance the features and mode of operation of small businesses in Rwanda makes the paper to adopt the definition by the MINICOM. The Ministry of Trade and Industry (MINICOM) in Rwanda define small and medium enterprise based on the criteria of employees (MINICOM, 2010).

- ✓ Small/micro scales enterprises: between 1 and 30 employees. Most of the enterprises assessed operated as sole (individual) proprietorships, a form of business ownership that is rather volatile and unstructured in respect to decision making.
- ✓ Medium scale enterprises: between 31 and 100 employees. The enterprises assessed were a mixture of sole proprietorships and limited liability companies. The SMEs have a huge potential for growing and evolving to large scale enterprises, offering more jobs and creating greater wealth in the future.

Philips and Panthaki (2007) defined Small as a business that employs up to four workers. Ernst and Young (2009) agreed that there is a tendency to enlarge SMEs as one and where the term also includes micro enterprises hence the term SMEs. Perhaps one of the difficulties with a SMEs definition is that these three elements that make up the sector. i.e Micro, Small and Medium are several ways very different. Therefore enlarging them together as a generic and homogeneous group is not recommended as it would lead to obscurity the unique needs and constraints of each element. Medium scale enterprises are all formally registered

businesses while numerous microenterprises are not. This fact alone means that microenterprise will face much more problems e.g in accessing finance. The concept of small scale enterprises relates, generally, to small manufacturing activities including primary products processing, handicrafts, and construction and repair services.

According to Parker *et al.* (1995), the development of small sizes companies has often been regarded as a " missing link" in development strategies of African countries, a several import – substitutions policies have favored large corporations at the expense of SMEs. Several arguments have been given for putting SMEs at the centre of development strategies. The main reason lies on the simple observation that they constitute the largest portion of employment in developing countries. It is however, somewhat difficult to assess the weight of SMEs in the developing world's economies, this is mainly the result of lack of statistical data and research on industrial structures in developing countries, but also problems associated to including the formal sector.

USAID (2007) considers that the micro enterprises often employ a third or more of the labor force with low income. Besides the relative weight of small and microenterprises in total employment, others reasons have been suggested to justify policy makers giving special attention to the small and microenterprise sector.

There has been a general realization that it is not only the big businesses that provide the foundations of the nations economies. SMEs and entrepreneurs have enhanced many economies like USA and UK, thus authorities have initiated strategic financial and counseling programmes to support them and that center of the majority of world economies are based on the reliance on SMEs, which accounts for a substantial amount of GDP and employment (Fredrick, 2005).

Beck *at al.* (2003) support SMEs development programs based on the argument that SMEs make special contributions to developing economies by generating the needed income necessary for poverty reduction.

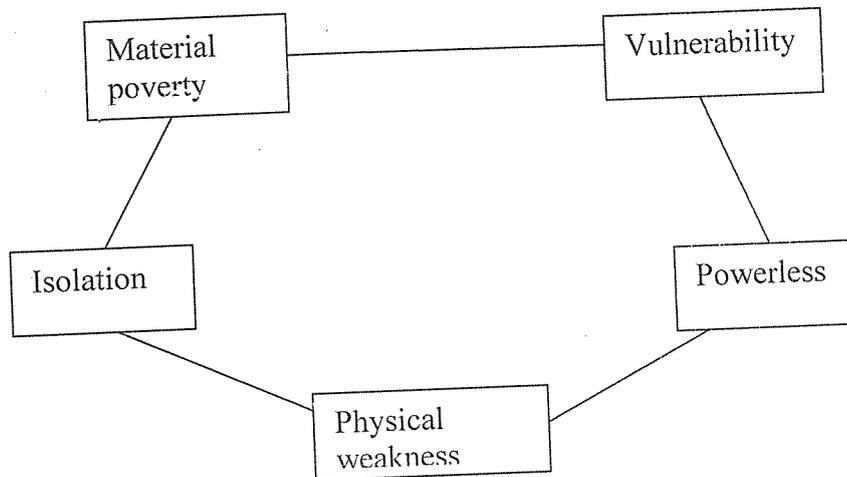
Poverty

There are many definitions of poverty depending on the context of the situation and the views of the person giving the definition.

Poverty is pronounced deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one's life (World Bank,2003).

Poverty means not being able to tell what tomorrow would be (Bajaj and Sastri, 1985). According to the same authors stated, poverty is also often divided into relative poverty and absolute poverty. Absolute poverty is an insufficiency of resources available to an economic entity for the maintenance of physical subsistence is so drastic that the affected parties are no longer able to live in a manner fit for human beings. Relative poverty an economic entity has insufficient resources in comparison to the other economic entities. Relative poverty does not mean that those affected are unable to live a life fit for human beings. Poverty then means that various economic, social, and/or politic needs of certain social groups are not satisfied or are only inadequately satisfied. Relative and absolute poverty depends both on the observer's concept of tolerance and standards and on the given frame of reference. Poverty can not be attributed to a single cause.

Robert Chamber (1983) describes the poor as living in a cluster of disadvantages. He describes the dimensions of poverty as an interactive system that he calls the poverty trap. Chamber's systems view of poverty has considerable explanatory power and aligns well with experience. Here is a figure that shows the poverty system of a household.



Source: Robert Chamber, 1983

The interconnection among five elements of poverty trap is an important feature each is linked to and reinforces the others. A problem in one area means problems in another.

Material poverty: the household has few assets. It has little or no land, livestock, or wealth.

Physical weakness: the household members are weak. They lack strength because of poor health and inadequate nutrition. Many in household are women, the young, and the very old.

Isolation: the household lacks access to services and information. It is often far from main roads, water line, and even electricity. It lacks access to markets, capital, credit and information.

Vulnerability: the household has fewer buffers, against emergencies or disaster. Its members lack choice and options. They can not save and they are vulnerable to cultural demands such as dowry and feast days that soaks up saving.

Powerlessness: the household lacks the ability and the knowledge to influence the life around it and the social systems in which it lives. It is also an invitation to exploitation by the powerful.

Poverty reduction

Poverty reduction is not that growth achieved by the better off will pull the poor out of poverty, but that the mobilization and enhancement of the resources and activities of the poor themselves can uphold their dignity and free them from the shackles of misery, while at the same time making a vital contribution to overall sustainable growth.

Human skills development

Despite structural adjustment in the development sectors, the persistence of absolute poverty still existed and, hence, the issues of poverty were still important in the 1990s. The issue of poverty had been linked to human development and, hence, the World Bank's 1990 Development Report proposed two strategies to eliminate poverty through labour intensive growth (via economic openness and investment in infrastructure) and providing basic needs to the poor (in education, health and nutrition). In order to touch the poor, especially people suffering from chronic poverty and easily vulnerable to crisis, targeted intervention programs and safety nets were integrated with both strategies.

Human capital development is the asset the poor have to cope with poverty and, hence, their education, skills, health and nutrition should be an integrated part of social development. These capabilities allow the poor to participate in decision making and, hence, they can influence all policies affecting their lives. This includes empowering the poor to have access to education, health, markets and other essential services.

SMEs are a source of employment opportunities. SME often have interest in community development. Being local, they drawn upon the community for the workforce and rely on it to do business. They are an important source of employment, particularly for low skilled workers, as well as women and young people, who usually make up the greatest proportion of the unemployment in emerging economies. SME play a much bigger role in developing national economies, alleviating poverty, participating in the global economy source.

The human resource development comes through an active participation of the trainee on the job. The SMEs owner usually supervises the trainee to develop his or her skill, experience, knowledge and abilities over a period of time. The apprentice upon the completion of his or her period of training is ready to set up his or her business to additionally employ and train more people. Thus the present of SMEs activities has a moving effect on human resource development and skills acquisition in a society source

Many SMEs also lack the technical and analytical skills to effectively use these technologies or to interpret ideas arising from government research initiatives. There is a need to connect the power of technology transfer to build capacity and spur entrepreneurship within the SME sector (MINICOM, 2010).

Employment Growth for Poverty Reduction

Employment links economic growth to poverty reduction. When economic growth generates new or improved employment opportunities, specifically for low- and middle-income families, household incomes will rise across the board. Employment creation provides a direct channel for distributing the benefits of economic growth broadly throughout the population.

Evidence from around the world suggests that the greater the employment focus, the more effective economic growth becomes in fighting poverty (Khan and Azizur, 2001).

The precise path to poverty reduction differs from country to country. However, most developing countries that have dramatically reduced their poverty levels have done so by improving employment opportunities. In these cases, low-income households have been able to participate in the improvements in the quality and quantity of paid work for example, by improving agricultural productivity or increasing jobs in labour-intensive production. Numerous examples exist – Indonesia, Vietnam, Chile, Bangladesh, and South Korea, to name a few (Osmani 2004 and Khan 2001).

Economic growth alone cannot be counted on to generate significant improvements in employment and poverty reduction. Countries from around the world have experienced periods of “jobless growth” in which output expands, but employment stagnates or declines. Similarly, in many economies, informal employment has grown much more rapidly than formal employment, even during periods of relatively rapid economic growth (Osmani, 2004).

Employment is not the only means of translating growth into poverty reduction.

The additional resources that growth generates can be utilized to provide basic services to the poor such as education, health, and child maintenance grants. Social provisioning is a necessary component of a comprehensive poverty-reduction strategy, insuring the supply of public goods and services necessary for human development. However, the development of a poverty-reduction strategy does not demand a severe choice between employment and social provisioning.

In this respect, an employment-targeted approach to economic development assists the attainment of the Millennium Development Goals (MDGs). The impact of employment is not restricted to poverty reduction, but supports other human development targets. For example, improving women's access to paid employment opportunities improves gender equity. Moreover, when women have access to independent sources of income, the distribution of resources within the household is often more equitable and child health and developmental outcomes frequently improve (Elson and Cagatay 2000).

A Growth Component

- generating higher rates of economic growth.
- An Employment Component - insuring that economic growth produces a significant number of new employment opportunities and improves existing ones.
- A Poverty Focus - linking poor individuals and households to new and improved employment opportunities.

The connections between these three elements are straight-forward. Economic growth alone is necessary, but not sufficient. Growth must be employment-intensive. Moreover, the generation of new employment is not enough to guarantee poverty-reduction. Policies must be designed such that the poor can take advantage of the new opportunities.

Education and poverty

Education has a positive influence in reducing poverty (Rahman and Hossain, 1995). Education can help eliminate poverty by increasing income through improving knowledge, skills, health and nutrition as well as increasing the ability to adopt and implement technology in the farming and fishing sectors. In this relation, IFAD (2001) argued that "human assets have an intrinsic value in raising capabilities and /or happiness, and an instrument value in raising income- and thus access to further capabilities and happiness". Mostly, poor people in every rural area around the world have very low access to human assets such as education, health and nutrition (Gaiha, 1993).

One of the assets owned by the poor was their labour. Decisions to utilize their labour or to participate in the labour force, however, were affected by a number of factors. The most important factors were education and skills (Quibria, 1993). These two factors were the most important assets of all. With good education and skills, the poor could change their fate in life. This is, however, determined by a process occurring in the labor market

In the labour market, the employer tends to require employees to have a good quality of education and skills in order for him to make a profit. In this relation, if the labourer does not fulfill the above criteria demanded by the employer, then the labourer will be unemployed. To be accepted in the labour market, therefore, the labourer must be educated in order to meet the criteria.

Health improvements

One of the most frequent reasons for the non-utilization and failure to meet health services is the high cost of health care. Indeed, financial barriers to

access to care result in different forms of exclusion, including total exclusion or poverty.

There is another dimension to the equity and health debate that also links up with poverty. It is not simply, as Aristotelians put it, that good health allows us to flourish as human beings (Gillon, 1986).

Health matters too because it is an asset we require it when we are learning at school, and when we are working. For the poor, it is a crucial asset, for they often have very few others. This should warn us against too rapid a conclusion on the effects of targeting health only. Because the poor have so few other assets, they have to rely on their health for production and for consumption, while richer people rely more heavily on human and financial capital, thus we expect ill-health to be correlated with poverty, and the correlation is unlikely to go away without doing something about poverty (Muurinen and Le Grand, 1985).

Much of the literature to date on equity and poverty aspects of health has focused on the inequalities in health outcomes between the poor and the better-off. There is, however, another approach, which says that health is a dimension of poverty or well-being in its own right, and that the focus should be on improving health outcomes amongst people in bad health, irrespective of their income. Concerns about equity and justice ought, it might be argued, be more appropriately tackled either by undertaking to reduce health inequalities across people, whatever their income, or by undertaking to focus on those whose health is worst irrespective of whether they are poor or rich in an income sense (Muurinen and Le Grand, 1985).

Relationship between SMEs and poor households

Vandenberg (2006) said that to understand the relationship between small and medium enterprises and poor households, we need to consider how the poor are active in, or otherwise related to, the economy of small enterprises. The author suggests five categories of the poor:

- ✓ Poor entrepreneurs: These include people who operate some type of small and medium enterprise, including ones in which the entrepreneur is the sole worker or works only with family labour. Entrepreneur is deemed to be poor if the income generated and the rights and activities associated with the enterprise do not reach above a minimum level of well-being.
- ✓ Poor workers: These include those whose income, benefits, rights and protection are not sufficient to meet basic levels of well-being. Workers may have regular employment, dependent employment (such as home workers) or casual employment (irregular, i.e. day labourers, farm and non-farm). Together, these people comprise the working poor.
- ✓ Household members dependent on poor workers and entrepreneurs: These include children, older people and other dependents (sick, disabled) who are indirectly part of the small enterprise economy because they depend on the income derived from economically active members engaged in that economy. Household poverty may force some members to become economically active. For example, children may be driven into the labor force, preventing them from obtaining an education and thus perpetuating an inter-generational cycle of poverty.
- ✓ Unemployed: This group includes poor people without work who may be able to reduce their poverty by starting their own enterprises or by gaining employment in a small and medium enterprise. Poverty is reduced through the job creation aspect of small and medium enterprises.

- ✓ Poor consumers who purchase from small enterprises: This group includes poor people who receive services or buy products from small enterprises, which reduce their poverty. Services can include water, sanitation, waste disposal, health and education, which are provided by SMEs when public provision is weak. Small producers can also contribute to poverty reduction by making household goods available at low cost, such as clothing and kitchen utensils.

Globally, poor people can live in both countries that are, overall, classified as poor and as well as those that are richer. All societies have their poor, although not all of the poor are living at the same standard of well-being. The study emphasizes workers

Main Activities of SMEs in Rwanda

In 2008, the World Bank carried out an in-depth study of SMEs in Rwanda and collected much of the information used in this section. Within the enterprise structure of Rwanda, there are many thousands of formal and informal SMEs (Nearly 70,000), about 100 to 200 enterprises that fall under SMEs employing more than 30 persons and a couple of dozens of large scale enterprises employing more than 100 persons

Most of the SMEs sector is informal and small enterprises comprised of several thousands of production, manufacturing and service activities. However, the sector also has formal enterprises that demonstrate characteristics of enterprises in transition from informal to formal and small to medium-scale enterprises.

Retail trade is the highest sub sector in all provinces; its popularity is in large part due to the fact that there are quick returns on little or no investment. Furthermore, it includes some areas that are important for the rural sector such

as pharmaceutical and veterinary products. However, the SMEs sector's contribution to employment is limited -about 80% of the units employ only one person per unit.

Although retail is the most important area of involvement for MSEs, there are some other sub-sectors worth noting for their importance from all the provinces. Approximately 9% of SMEs in Rwanda are in the Handicraft sub sector; 9% in the Service sector; 7.4% in Wood Works (carpentry, timber, etc); 7.3% are in Tailoring and Garment manufacture; 6% are in Building Materials (bricks, tiles, etc.); and 4.7% in Construction work (masons, plumbers, brick layers). The analysis of the data on the geographic location of SMEs in Rwanda based on the provincial level data sheets indicates that almost 35% of the SMEs are identified in Kigali city; North and Western province accommodate 22% and the remaining 45% are in the other provinces.

With regard to SMEs population ratio, the overall average is one SMEs for every 117 persons in the country. The average employment for the SMEs is 4.6 per unit of which 2.8 is permanent employment and 1.8 is part time or casual workers. On this basis, the estimated total SMEs of the country (69,800) would employ as many as 321,000 people, of which 195,000 would be permanent employees and 125,600 part-time employees. The high employment potential sectors, with an average of 6-8 persons per unit, appear to be: Fisheries groups and cooperative; Light engineering; Leather Products; Handicraft/Artisans. About 75% of the permanent personnel earn more than 1500 FRw per day which is higher than the average 800 FRw earned by a worker in subsistence agriculture. Furthermore, the SMEs represent a main activity of employment for women. A survey (by PPPMER project on SMEs in the districts covered) showed that more than 21% of the employment of the individual enterprises is women, and 48% of association type enterprises are women. In some major sub- sectors, SMEs-such

as agro industries and food processing, handicrafts, tailoring and garments activities- employ more women. The handicraft sector- particularly basketry, knitting activities- engage practically 100% women workers.

Related Studies

Mukras (2003), in his research on Poverty Reduction through Strengthening Small and Medium Enterprises in Botswana, he recommends a strategy based on strengthening small and medium enterprises (SMEs) for poverty reduction in Botswana. After discussing the constraints facing the SMEs in the country, the paper presents a set of six recommendations designed to ameliorate, if not eliminate, these constraints, thereby strengthening the employment and income generating capacities of the SMEs and consequently reducing poverty in the country. He says that the issue of strengthening an enterprise has, in essence, numerous dimensions. A strong enterprise is one which is well managed, a requirement which calls for an efficient and effective entrepreneur and as work-force; the enterprise must have adequate start-up and operational capital; it must have at its disposal, as well as be able to apply, an effective and appropriate technology; it must have the capability of penetrating the market; and it must be capable (sometimes with and other times without assistance from outside) of res of resolving constraints it is facing. With this type of strength, the employment and income generating capacities of the SMEs will be highly enhanced.

Due to the constraints faced by SMEs, He recommended the following solution: Provision of Soft Loans, Application of Appropriate Technology, and Research for the Promotion of the Appropriate Technology, Training of Entrepreneurs and Workforce, Gender Dimension, Fiscal and Financial Incentives

In his review of SMEs sector contributions to the growth and development of East Asian economies, Harvie (2004) notes the sectors' increasing importance to the region's recovery of sustained economic growth, employment, trade, investment, and the development of globally competitive economies.

Birch (1979) agrees that small firms are particularly important in job creation. He reports that over the 1970s, firms with fewer than 100 employees generated eight out of ten new jobs in America.

However, a wide range of evidence rejects the view that small firms are the engines of job formation (Dune *et al.*, 1989) show that while gross rates of job creation and destruction are higher in small firms, there is no systematic relationship between net job creation and firm size.

Furthermore, empirical evidence suggests that the firm's size is not good predictor of labor intensity, and that labor intensity varies more across industries than across firm size groups within industries. Many small firms are more capital intensive than large firm in the same industry (Little and Mazumdar). This suggests that SMEs are not necessarily more suitable to the labor abundance and capital shortage characteristics of developing countries.

SMEs are therefore responsible for a more even income distribution and also play a very important role in stopping migration flows from rural areas to cities. SMEs are also seen to be more able to influence on and expand local capacities. As opposed to large companies, which usually import knowledge from developed countries. Moreover, they are also often recognized as being a breeding place for entrepreneurs. Finally, SMEs are considered to be more flexible in adapting to client requirements, being known for their ability to adapt quickly to market development, as most of the operating costs are variable.

Lastly, The report commissioned by the Ford Foundation's Affinity Group on Development Finance (AGDF)'s small and Medium Enterprise (SME) Committee on SMEs and poverty reduction(2004) reviews key issues and challenges affecting the ability of the SME sector to reduce poverty in both developing and mature economies. The objectivity, effectiveness, and structure of their efforts are debatable as at times there seems to be a political bias to how money is disbursed and how projects are organized. None the less, their efforts to elevate the importance of developing SME sectors are critical to obtaining "buy in" from their constituencies.

CHAPTER THREE

METHODOLOGY

Research design

The study used descriptive research design. The researcher employed this type of design to describe quantitatively how poverty is reduced through SMEs. The quantitative data was obtained using structured questionnaires from employees engaged in selected SMEs located in Rubavu District.

Research population

The population of this study included employees of three SMEs located in Rubavu district that are oriented in agribusiness, handcraft and livestock; and then sampling unit is the employee. Total population of the area of study was 213 categorized in different sectors: agribusiness, livestock and handcraft.

Sample size

The sample for this study consisted of 138 respondents chosen from SMEs selected in Rubavu district. The sample size was determined by using the sloven's formula:

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

Where

n= number of sample

N= total population

e² =level of significance 0.05

$$n = 213/1+213(0.05*0.05) = \mathbf{138}$$

Table1: Sample size drawn from the whole population (213)

Selected SMEs	Population	Sample
Agribusiness	96	62
Handcraft	28	18
Livestock	89	58

Sampling procedure

The research population sample used probability sampling techniques. Simple random sampling was used. In determining sample, Sloven's formula was used.

Research instruments

Data was collected from primary. Primary data was collected through questionnaire. Questionnaires were distributed to the SMEs' employees in the selected SMEs in Rubavu District. The researcher used a close ended questionnaire designed. The questionnaire consists of three parties. Section A consists of personal information (demographical data) such as age, sex, education level, and experience. Section B consists of items to collect information about level of poverty reduction and then problems faced at their workplace. The respondents were offered the questionnaire in their work place, and instruction on how to fill the questionnaire was explained such as the mean of SA, A, D, SD

Data gathering procedures

Before the administration of the questionnaire

The research activity was started immediately when an introductory letter was secured from Kampala International University. Then the researcher reproduced more than enough questionnaires for distribution. Once contacts are made and questionnaire is responded, researcher was started a data analysis which was ended up with writing final research project.

During the administration of the questionnaire

The respondents were requested to answer completely and not to leave any part of the questionnaire unanswered.

The researcher and assistants were emphasized retrieval of the questionnaire within two weeks from the date of distribution.

On retrieval, all returned questionnaire were checked if all are answered.

After the administration of the questionnaire

The data gathered were collated, encoded into the computer and statistically treated using the Statistical Package for Social Sciences (SPSS).

Data analysis

Data analysis method was quantitative in nature and involved using descriptive statistics in terms of percentages and frequency distributions. SPSS software was used as a tool for data analysis. The findings were presented in form of tables using frequency and percentage.

To interpret the responses of the respondents, the following values and interpretation were used:

Mean range	Response mode	Interpretation
3.26- 4.00	Strongly Agree	High
2.51-3.25	Agree	Moderate
1.76-2.50	Disagree	Low
1.00-1.175	Strongly Disagree	Very low

Validity and reliability of research instruments

Validity of research instrument is the extent to which it measures what it is supposed to measure, while its reliability is the degree to which it consistently measures whatever it is measuring (Amin, 2005).

After constructing the questionnaire, the researcher contacted the supervisor and two other experts in researcher, to ensure the reliability and validity of the research instruments. After the consultations, the researcher made the necessary adjustments. This made the instruments more clearly, relevant, specific and logically arranged. In addition a pre-test was conducted in order to test and improve on the reliability of the questionnaire and interview guides.

In order to test and improve on the reliability of the questionnaire, the Content Validity Index (CVI) was calculated from the formula below:

$$CVI = n/N$$

Where, CVI: Content Validity Index, N: 8 (Total number of items in questionnaire), n: 7 (number of relevant items in the questionnaire)

$$CVI = 0.9$$

Since the CVI of research instrument was greater than 0.7, then the instrument was declared content valid.

Limitation of the study

The research, there are problems that the researcher faces which were handled the work of data collection. However, researcher finds means of overcoming such limitations.

- ✓ A major barrier to this study was the language. Many of the respondents could not express themselves in English. To solve this, researcher translated the questionnaire into Kinyarwanda in order to allow them a good understanding.
- ✓ Another limitation was the failure to complete the questionnaire by some respondents who were busy or negligent. The researcher also tried to use a simple and clear language in making the questionnaire. When distributing the questionnaires, the researcher on the field had to explain what some items mean so that the respondent does not give the wrong answer.
- ✓ The use of research assistants may render inconsistencies such as difference in conditions and time when the data was obtained from respondents. This was minimized by orienting and briefing the research assistants on the data gathering procedures.

Ethical considerations

To ensure that ethics is practiced in this study as well as utmost confidentiality for the respondents and the data provided by them, the following were done: (1) coding of all questionnaires; (2) the respondents were requested to sign the informed consent; (3) authors mentioned in this study were acknowledged within the text; (4) findings were presented in a generalized manner.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

This chapter offers a presentation of the information gathered from the field. Description of results in tables below is used to answer the objectives of the study.

General background information of respondents

In order to put the results of the study in perspective, the profile of the respondents were presented by age, sex, level of education, experience

Table 2: Demographic information of the respondents

Profile	Frequency	Percentage
Sex		
Male	55	39.9
Female	83	60.1
Age		
20-24yrs	15	10.9
25-29 yrs	36	26.1
30-34 yrs	32	23.2
35-39 yrs	29	21
40 and above	26	18.8
Academic level		
Degree	15	10.9
Secondary level	33	23.9
Primary level	42	30.4
None	48	34.8
Working experience		
Less than one year	29	21
1-2 yrs	40	29
3-5 yrs	48	34.8
More than 5 yrs	21	15.2

As shown in table 2 above, the information from the field basing on the respondents' sex, 55 men and 83 women took part in the survey, which translates into 39.9% and 60.1% respectively. This implies that when women have access to independent sources of income, the distribution of resources within the household is often more equitable and child health and developmental outcomes frequently improve.

Basing on age of respondents (15 or 10.9%) of the respondents were 20 – 24 years old while (36 or 26.1%) of respondents were between the ages of 25 – 29 years. Thirty four (23.2%) were between the age of 30-34 years old. 35 – 39 years (representing 21%), and 26 respondents (representing 18.8%) were aged between 40 and above. This indicates that most people (over 80%) employed in SMEs are younger than 35 years of age. The implication of such a young population age structure for the provision of social and community facility is enormous. This raises the issues of youth mobilization, employment creation and proper grooming with skills for development of the district.

Concerning academic level, the study revealed that 15(10.9%) attained bachelor degree, 33(23.9%) had secondary level and 42(30.4%) their education qualifications are not beyond primary school and then 48 respondents (34.8%) had not gone to school. the results depict that there was a negative relationship between probability of being poor and different level of education. It means that higher levels of education reduce the probability of being poor gradually. Hence education level has an important standing in reducing poverty.

Finally, 21% of these workers said that they were worked less than a year, 29% have 1-2 years of experience and 34.8% of respondents have kept their present employment for the past 3-5 years while 15.2% of respondents were in their current employment more than 5years.

Level of poverty reduction in selected SMEs in Rubavu district

Poverty reduction starts at home and expands to other after raising the wellbeing of the family. In order to determine the level of poverty reduction in selected SMEs in Rubavu district, the research on the following aspects: construct houses, access to education, to health, saving and access to information.

Table3: Level of poverty reduction in selected SMEs (n=138)

change in my quality of life as a result of being engaged	Mean	Interpretation	Rank
Construct a houses	2.57	moderate	1
Education fees for my family	3.40	high	2
Mutual Health insurance for my family	3.36	high	3
Access to information	2.48	low	4
Saving	3.00	moderate	5
Sub-Total	2.96	Moderate	
Factors that make the most difference in permanently reducing poverty rates			
Increased access to Employment	3.60	high	1
Higher welfare rates based on Real costs of living	3.10	moderate	2
Increased access to welfare	2.78	moderate	3
Improved child support (e.g., Greater enforcement of child support,).	2.53	moderate	4
Sub-Total	3.00	Moderate	

As it is indicated in the table 5 above, the respondents were asked a question on how poverty has been reduced and factors that made the most difference in poverty reduction. The results were the following: the respondents rated the level Construct a houses to be moderate (mean=2.57), Education fees for the family to be high (mean=3.40), Here respondents have been able to send their children at school. This implies that through SMEs, employees are able to pay school fees to their children.

Mutual health to be high (mean=3.36). Access to information to be low (mean=2.48). This means that they able to share knowledge and opinion, transformation of knowledge into responsible roles like leadership among the community. The same respondents rated the level of saving to be moderate (mean=3.00).

Respondent said also that they construct their own house; other said that they have no difficult to pay to their landlord. Most people had non-permanent housing with lack of electricity, no latrine. Lack of capital/cash sufficient was mentioned as a prime cause for not constructing a permanent house.

As it is shown in the table above, the respondents were asked if the following factor has been improved and how it affect their living. The respondents rated the level of increasing in employment to be high (mean=3.60), Higher welfare rates based on Real costs of living to be very moderate (mean=3.10), and the level of access to welfare to be moderate (mean=2.78).The respondents affirmed that before starting job they were no improvement in term of child support (their financial standard was very low) but now they have improved. These respondents reported that after being employed there are higher household expenditures and various indices of well-being. As such, SMEs has the

potential to make a significant contribution to employment of poor people and promote sustainable livelihood.

The last objective of this study was to identify the main problems faced by SMEs' employees of Rubavu district. The respondents were asked the level of problems which they are facing.

Problems faced by employees in selected SMEs

Different problems occur at workplace. The table below indicates the problems of employees in their SMEs.

Table4: Problems faced by employees (n=138)

Major problems	Mean	interpretation	Rank
Lack of communication	3.94	high	1
Lack of job security	3.29	high	2
Unsafe/ unhealthy working environment	3.15	moderate	3
Work pressure	2.70	moderate	4
Lack of necessary tools	3.40	high	5
Sub-Total	3.30	High	

The results in table rated the lack of communication to be high (mean=3.94). The respondents rated the level of lack of job security to be high (mean=3.29). The respondents declared that Employment in the SME sector seems to be of a short to medium term duration as more than half of the respondents have been with their employers for a few months to five years. Two reasons can possibly explain this. First, most of the interviewed workers are relatively young and seem not to have worked elsewhere before taking on their current jobs in the SMEs sector. A second possible explanation is that people

only take jobs in the SME sector as an interim measure and leave as soon as they find jobs in the public or private sector in line with workers' preferred option of employment.

The same respondents rate the unsafe and unhealthy to be moderate (mean=3.15). Generally workers in the SME sector seem not to have real concerns about their workplace safety. The provision of safety equipment at the workplace is found to be inadequate and the respondents suggest that labour inspectors and the ministry of health pay particular attention to this issue. The same respondents rate work pressure to be moderate (mean=2.70). Lastly, the respondents rated the level of necessary tools to be high (mean=3.4).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Summary of findings

This chapter presents the findings, conclusions and recommendations following the study objectives. The areas for further research are also suggested here.

Summary of findings on Background information of respondents

The first objective of this study was to determine the profile of respondents in terms of age category, educational background, working experience.

The results on this objective indicate that the majority of respondents are women representing 62.6% and men representing 37.4%. The result indicates that the level of respondents in term of education is low (65.3%).

Summary of findings on examining the activities of SMEs selected in Rubavu district

The activities done by selected SMEs in Rubavu district were classified in agro business, livestock and handcraft. The result revealed that SMEs selected are engaged in poverty reduction by raising financial income and generating jobs in rural areas as indicate their objectives.

Summary of finding on Establish the level of poverty reduction in Rubavu district

Poverty is a multi-faceted phenomenon which affects not only the ability to purchase goods, but also vulnerability towards various pressures that may prohibit an individual from enjoying life. This vulnerability may be gauged from living conditions such as employment, health, education, and housing.

The study revealed that affect poverty reduction are settled under the following points: house construct, Education fees for the family, Mutual health insurance for the family, Access to information, buying cow, saving. The result shows that there is improvement in all aspects after being engaged. Being able to pay school fees, insure health for the family, access to information, saving indicate that how SMEs play role in poverty reduction.

Summary of findings on problems faced

The findings revealed that inadequate communication, not having real concerns about their workplace safety, the provision of safety equipment, lack of job security at the workplace are found to be inadequate.

Conclusion

Based on the above findings about background of respondents the result showed that SMEs selected in Rubavu district employ female than men. This has a positive impact due to the fact that women are more affected by poverty. Today we know that in order to boost out of poverty it is the women that must get the resources distributed to them (Sachs, 2005). We see that experience and all educational levels are negatively related with the poverty status of the

employed persons. Moreover, as the acquisition of education increases the proportional decline in the probability of being poor consistently increases.

The presence and the activities of SMEs selected in Rubavu District have played a significant role as respondents revealed in terms of accessibility to health insurance, education, saving, houses etc even if there are problems faced.

Recommendations

Based on above recommendation, the researcher makes the following recommendations

First, government and donor partners should pay more attention and to reinforce the existing SMEs' development policy due to the fact that SMEs devote a mean to poverty reduction.

Manager should promote and combine in order to increase the capacity and productivity so as to expand and provide work jobs for the people. This would also require the support of institutions such as Private Federation Sector, Rural Small and Medium enterprise Promotion project. And also an important pillar to build on is the training of workers in the sector. The workers should have training so they can increase their productivity.

Since SMEs have been found to create jobs, schools and colleges in both the private and the public sector should review their curricula to incorporate entrepreneurship and innovations management as these entrepreneurs would set up SMEs that would help create employment as a way to tackle poverty.

Areas for Further Research

Future researchers can be interested in:

- i. Challenges in financing SMEs
- ii. Employment conditions and employees performance in SMEs.

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APPENDIX I: Transmittal letter



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Fax: +256- 41- 501974
E- mail: admin@kiu.ac.ug.
Website: www.kiu.ac.ug

OFFICE OF THE ASSOCIATE DEAN, SOCIAL SCIENCES SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH (SPGSR)

May 17, 2011

Dear Sir/Madam,

**RE: REQUEST FOR KALISA UWINGABIRE MPP/41279/91/DF
TO CONDUCT RESEARCH IN YOUR ORGANIZATION**

The above mentioned is a bonafide student of Kampala International University pursuing a Masters of Arts in Project Planning and Management.

She is currently conducting a field research of which the title is "**Small and Medium Enterprises and Poverty Reduction in Western Province of Rwanda.**"

Your organization has been identified as a valuable source of information pertaining to her research project. The purpose of this letter is to request you to avail her with the pertinent information she may need.

Any information shared with her from your organization shall be treated with utmost confidentiality.

Any assistance rendered to her will be highly appreciated.

Yours truly,

Dr. Roseann Mwaniki
Associate Dean social Sciences, SPGSR)

APPENDIX II: Appointment letter

REPUBLIC OF RWANDA



WESTERN PROVINCE

RUBAVU DISTRICT

P.O. BOX 173 GISENYI

N° 18 10

To: KAMPALA INTERNATIONAL UNIVERISITY

Dear Sir/*madam*

August 5, 2011

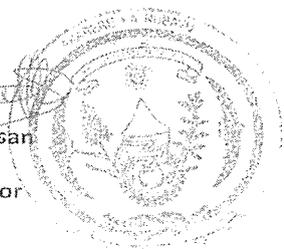
RE: Allowing KALISA UWINGABIRE to conduct a research in Rubavu District

Reference made to your letter of May 17, 2011 requesting for KALISA UWINGABIRE MPP/41279/DF to conduct research in Rubavu District;

Happily, we ensure you that she is allowed to conduct a research for one month, from August 8, 2011 to September 7, 2011 in Cooperative and Investment Promotion.

Yours truly,

NYIRASAF ABU R. Kechel
D/M AS/CO/ Rubavu District
Sheikh BAHAME Hassan



Rubavu District Mayor

CC:

Rubavu District Executive Secretary

Administration Unity Director

KALISA UWINGABIRE

APPENDIX III: Informed consent

Dear Sir/Madam

Greetings;

I am a candidate for Masters Student in Project Planning and Management at Kampala International University with a thesis on "Small and Medium enterprises and poverty reduction in Rubavu district, Rwanda. As I pursue to complete this academic requirement, may I request your assistance by being part of this study?

Kindly provide the most appropriate information as indicated in the questionnaires and please do not leave any item. Any data from you shall be for academic purposes only and will be kept with utmost confidentiality.

May I retrieve the questionnaires 2 weeks after you receive them?

Thank you very much in advance.

Yours faithfully

KALISA Uwingabire

Appendix IV: Research instrument

BACKGROUND INFORMATION

Q1. Gender

Male

Female

Q2. What is your age category?

Under 20 years

20-29 years

30-39 years

40-49 years

50+yers

Q3. What is your education background?

Never gone to school

Primary education

Secondary education

University education

Q4. How long have you been working in the Company?

Less than one year

One – two years

Three – five years

More than five years

Examine the activities of SMEs selected in Rubavu district

Q5. What kind of SMEs' selected activities are you employed in?

- 1. Agribusiness
- 2. Handcraft
- 3. Livestock

Establish the level of poverty reduction in Rubavu district

Q6. The following aspects change in my quality of life as a result of being engaged

Please respond to the questions following with your choice. Kindly use the written guide as;

- SA : you agree with no doubt
- A : you agree with some doubt
- SD : you disagree with no doubt
- D : you disagree with some doubt

Response code : SA=4; A=3; D= 2 ; SD=1

change in my quality of life as a result of being engaged	Respondents' responses			
	SD	D	A	SA
	1	2	3	4
Construct a houses				
Education fees for my family				
Mutual Health insurance for my family				
Access to information				
Saving				

Ecole Normale Primaire de Gacuba College de Gisenyi	1996 1999	1998 2002	Professional Certificate of Secondary Education Level A2	Sciences Humaines
Ordinary Level				
School Name	From	To	Main course of study	
Primary School				
Ecole Primaire de Gisenyi	1994	1996		
Ecole primaire de Kitumaini(RDC)	1989	1995		

5. Languages

1. Kinyarwanda (Mother Tongue)
2. Swahili(Good)
3. French (Very good)
4. English (Good)

6. Hobbies and Interests

1. Watching Movies and international news
2. Singing and praying
3. Using computer to design and surf over the internet
4. Reading books

I hereby certify that the information given in this CV is correct

Sincerely Yours

KALISA Uwingabire

Done at Kampala /20th /04th/2011

