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This study was concerned “Microfinance institutions and financing small scale enterprises in Rwanda”. The general objective was to determine microfinance institutions and financing small scale enterprises in Rwanda. The specific objectives were to establish the requirements necessary to obtain loan from MFI loans, to assess the constraints faced by both MFIs and SSEs in their financial services and to establish the contribution of MFIs in financing small scale enterprises.

Microfinance Institutions operating in Nyarugenge district selected as case study of this research. This study reviewed on product and service provided by MFIs, the role of MFI to the growth and development of SMEs, general constraints faced by both MFIs and small scale enterprises in financing them. After this study, small entrepreneurs will acquire knowledge concerning business financing and the right source of finance and also micro finances and other institutions will be able to find the solutions for improving the effectiveness of their activities to participate in poverty reduction, growth and development in Rwanda.

As methodology, researcher used simple randomly sampling technique whereby the study population of microfinance institutions was 9 MFIs which had 27 staffs (9 representatives and 18 staffs working in credit department and 100 clients (SSEs) operating in Kigali town especially Nyarugenge District. To meet the objectives of this study, primary data was used by setting 19 questions through questionnaires whereby they were distributed to the 27 MFIs’ staffs and 80 clients (SSEs) operating in Kigali town, all are responded and returned, the total of respondents was 107. Secondary data were collected by using books, journals, and e-resources. After gathering data, they were sorted, edited, classified, coded and tabulated for analysis. The research of this study found that Microfinance Institutions participate in growth and development of SSEs through loan/credit provided. After getting loan, it has seen that Small Scale Enterprises can improve their life standard, create their own jobs and pay tuition fees for their children. However, SSEs constrained mostly by lacking collateral security, being charged high interest rate and short period of reimbursement loan provided. On the other hand, Microfinance Institutions are also challenged by inadequate capital caused sometimes by low savings of clients, recovering and default problem as well as default problem. Therefore, It is recommended that MFIs have to reduce the interest rate and increase source of capital by joining government to strength their effort in their financial services, MFIs have to raise the trainings in order to improve the level of managerial capacity of smaller businessmen and also MFIs should encourage their members to formulate the group lending and hence they can enjoy correctly their services at low cost of operation without individual collaterals. SSEs also have to adopt the culture
of requesting loan which help them to develop faster their business and try to save and do some transactions on their MFIs’ account to increase chance of accessing credit into these institutions.