Rwanda's SMEs Landscape Opportunities, Challenges and Proposed Solutions

Executive Summary

Small and medium enterprises(SMEs) are the backbone of Rwanda's Private sector, Micro, small and medium enterprises make up roughly 97-99.8% of all registered businesses, generate about 55% of GDP and account for a large share of employment. Yet the 2023 World Bank Enterprise Survey(WBES) of 598 formal firms together with the National Institute of Statistics of Rwanda 2023 Integrated Business Enterprise Survey(IBES), show that these firms operate in a business environment marked by persistent structural constraints.

Access to finance is by far the most significant obstacle 28.8% of firms rank it as their single biggest constraint, rising to 30% among small firms. Only 24.3% of firms use bank credit to finance investment and 70.2% of investment is financed from internal funds or retained earnings. The financing gap facing Rwandan SMEs has been estimated at approximately US$1.8 billion. High tax rates 15.5% and an inadequately educated workforce 5.2% round out the top constraints.

The report also finds meaningful differences by firm size and sector. Large firms are more concerned with access to land and corruption while small and medium firms are dominated by finance and Tax concerns. Infrastructure has improved relative to regional peers on some measures(fewer power outage) but new electricity connections still take an average of 48 days longer than the regional average.

This brief report takes these findings into a practical set of policy and market- based recommendations, organized in six priority areas: access to finance, taxation and formalization, access to land, informally, infrastructure and skills and governance. It closes with a phased implementation roadmap for government, financial institutions and development partners.

Introduction and Methodology

This report examines the constraints facing small and medium enterprises(SMEs) in Rwanda, drawing primarily on the World Bank Enterprises Survey(WBES) Rwanda 2023 country Profile. Published by World Bank's Enterprise Unit in February 2024. The WBES is a firm level survey administered to top managers and business owners of a representative sample of an economy's formal, non-agricultural private sector.

For Rwanda, 598 formal firms were interviewed between May 2023 and February 2024,stratified by sector(manufacturing ,retail and other services) firm size small(5-19 employees, medium 20-99;large 100+) and location (Kigali, Southern and Eastern provinces, Western and Northern provinces). The survey excludes firms with fewer than five employees, informal(unregistered) firms and wholly state-owned enterprises and it does not cover agriculture, mining , public utilities or financial services.

This report supplements the WBES findings with Rwanda specific data from the National Institute of Statistics of Rwanda's(NISR) 2023 Integrated Business Enterprise Survey(IBES), which cover both formal and informal enterprises and therefore captures the much larger population of micro and informal businesses that the WBES excludes by design, the Access to Finance Rwanda(AFR) MSME FinMap 2024 and sector reports from the international Finance Corporation(IFC), the African Development Bank(AfDB),FSD Africa and the Government of Rwanda.

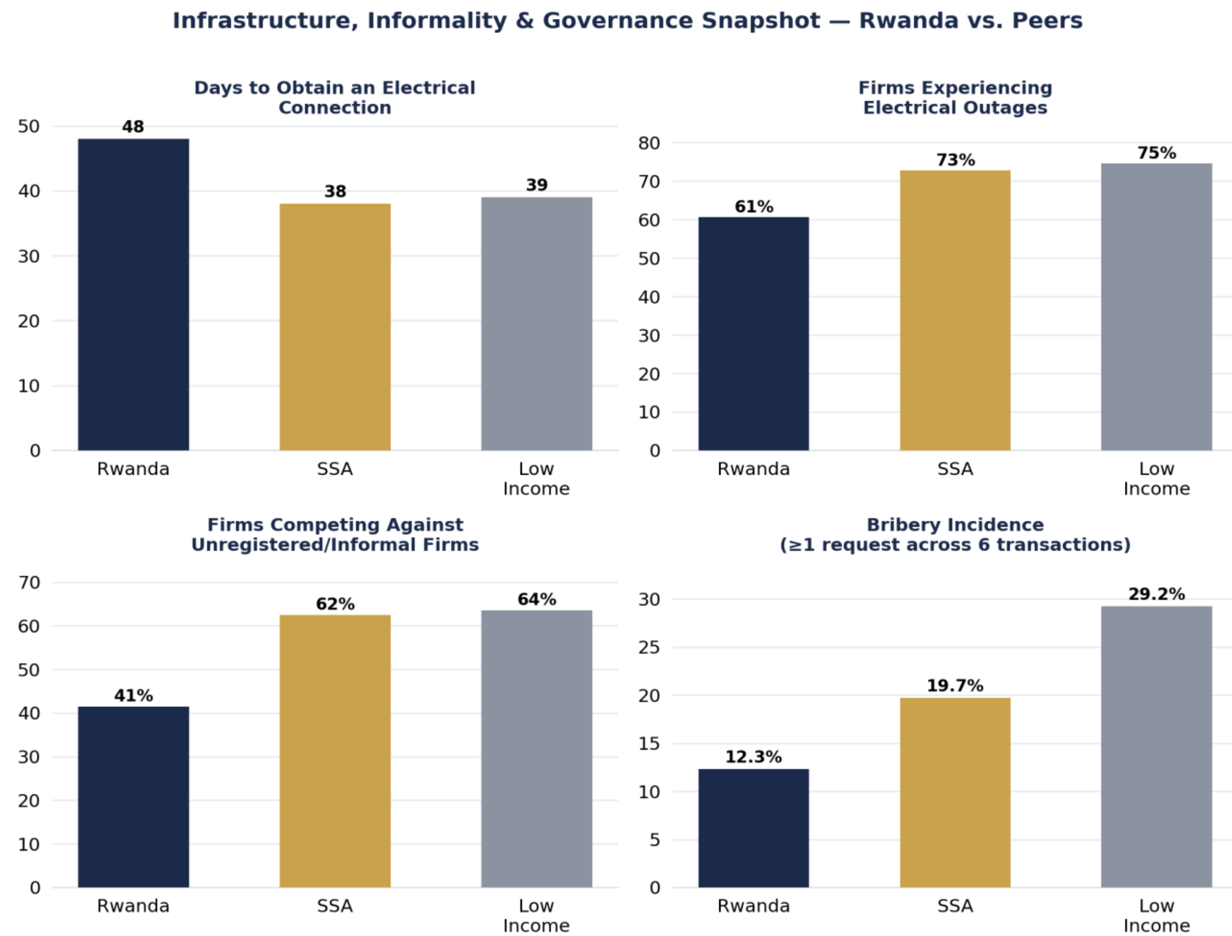
The WBES defines firm size purely by employee count. The Government of Rwanda's SME policy framework additionally considers turnover and capital investment and treats micro, small and medium enterprises as a single category that includes many informal businesses. Where this report cites MSMEs-wide figures from NISR and AFR, this is notated explicitly, since the informal and micro segment faces a distinct and often more severe set of constraints than the formally registered small and medium firms covered by the WBES.

2. Rwanda's SME Landscape at a Glance

SMEs are central to Rwanda's economic strategy under the National Strategy for Transformation and Vision 2050. According to government and development partner estimates, MSMEs represent approximately 97-99.8% of all businesses in Rwanda, contribute around 55 % of GDP and account for roughly 41-60% of employment.

The 2023 IBES estimated the total number of business enterprises in Rwanda at 260,780 of 88% were informal. Informality is not static between 2020 and 2023, the number of informal businesses grew by 96.8%, far outpacing the 12.6% growth in formally registered businesses over the same period. This dynamic has direct implications for the formally registered SMEs that are the focus of WBES, since they increasingly compete with a fast-growing informal segment.

Figure 1: Infrastructure, informality and government indicators, Rwanda vs Regional and Income-group peers.



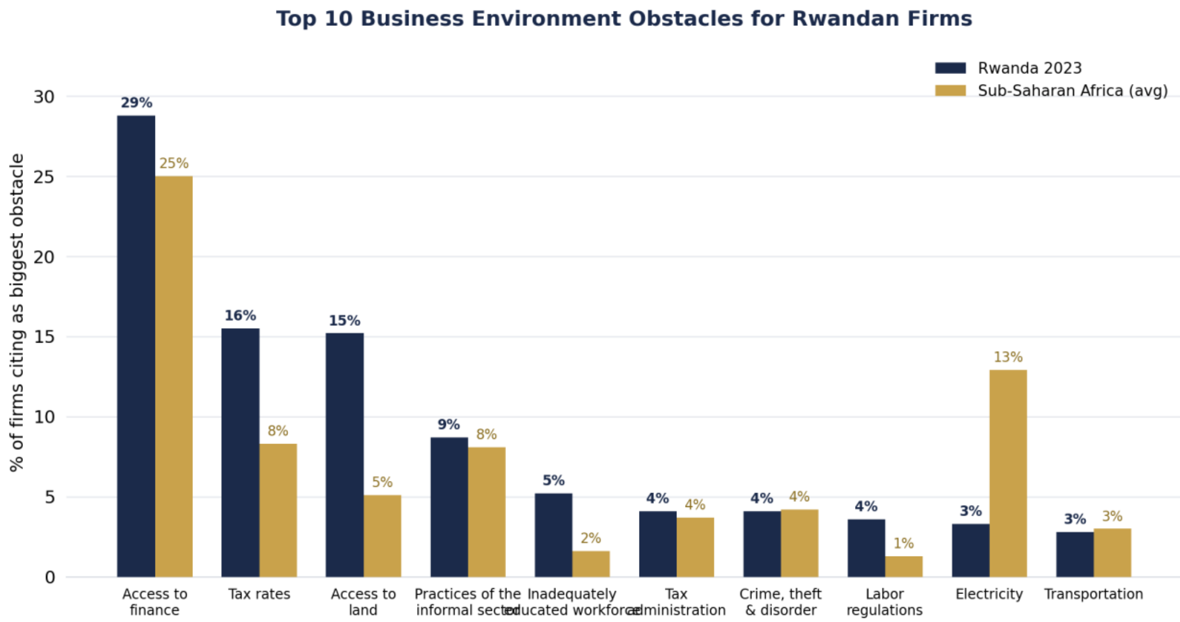
Source: World Bank Enterprise Surveys, Rwanda 2023 Country Profile (2024).

3. Key Constraints Facing Rwandan SMEs

Firm surveyed were asked to identify the single biggest obstacle to their business from a list of 15 potential business environment constraints. Figure 2 present the top ten compared with the Sub-Saharan Africa regional average.

Three constraints stand out as disproportionately severe in Rwanda relative to regional peers: Access to finance ,tax rates and access to land. All three are cited far more frequently by Rwandan firms than by the Sub-Saharan Africa average. Conversely, Rwandan firms report electricity as a much smaller obstacle than regional peers(3.3% and 12.9%). Reflecting real gains in grid reliability even though connection delays remain long.

Figure 2: Top 10 business environment obstacles cited by Rwandan firms as their single biggest constraint, compared to the sub-Saharan Africa average.



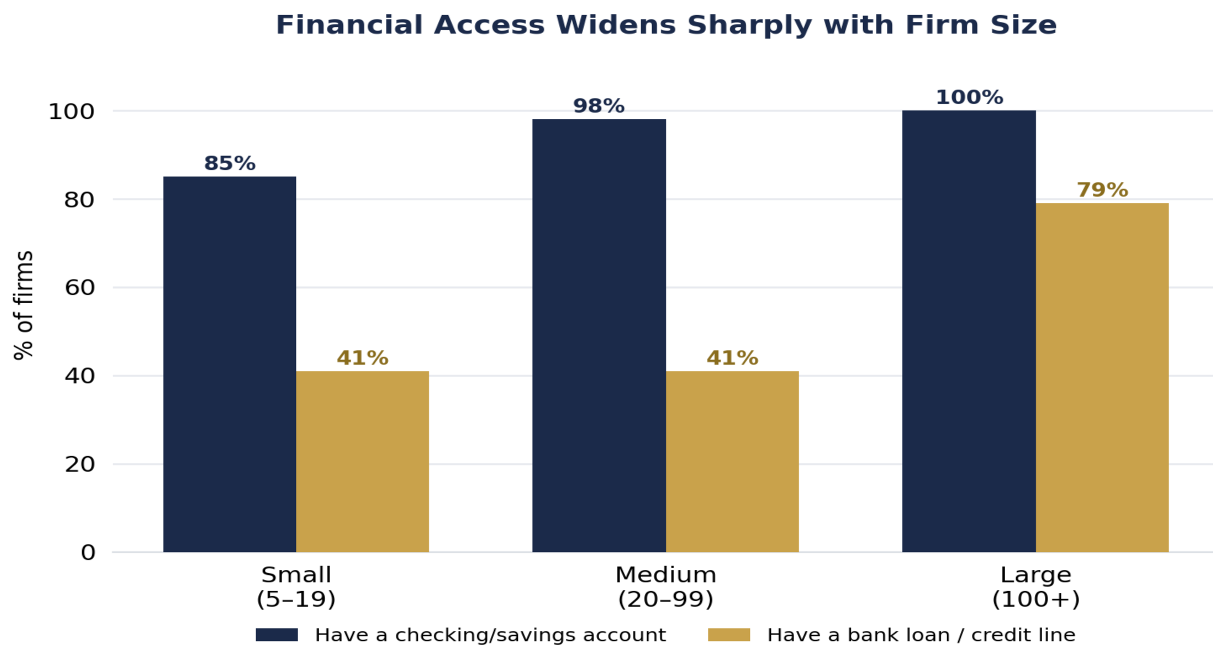
Source: World Bank Enterprise Surveys, Rwanda 2023 Country Profile (2024).

3.1 Access to Finance as the Dominant Constraint

Access to finance is the single largest obstacle to do business in Rwanda by 28.8% of all firms and by 30% of small firms specifically. This is consistent across firm size for small and medium firms, though large firms are somewhat less constrained 16.4%, reflecting their greater ability to draw on retained earnings, equity or foreign ownership.

The underlying financing pattern helps explain why this constraint persists. As Figure 3 shows, virtually all medium and large firms hold a bank account but the share of firms that actually hold a bank loan or line of credit is far lower and drops off sharply for small firms.

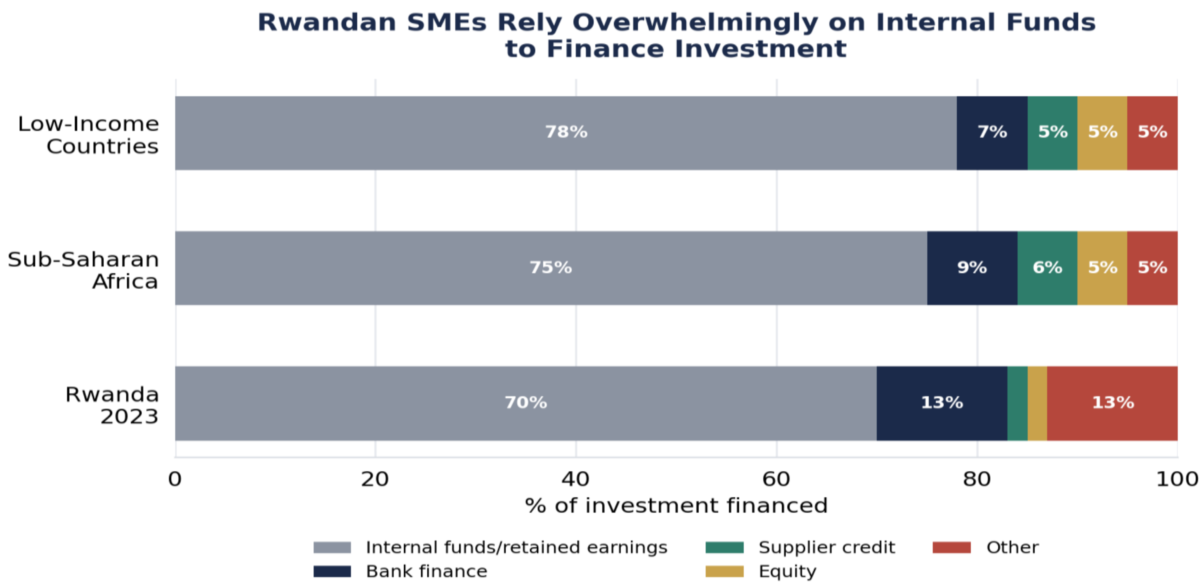
Figure 3: use of financial services by firm size: having an account is nearly universal but bank credit not.



Source: World Bank Enterprise Surveys, Rwanda 2023 Country Profile (2024).

The results show that Rwandan firms rely overwhelmingly on internal funds to finance investment 70.2% of fixed-asset investment is self-financed compared with 13% trough banks. Figure 4 shows this pattern is broadly consistent across the region but Rwanda's reliance on internal funds is still notable given the country's ambitions for private sector led investment growth.

Figure 4: Sources of financing for fixed asset investment, Rwanda vs Regional and income-group peers.



Source: World Bank Enterprise Surveys, Rwanda 2023 Country Profile (2024).

Several structural factors underlie the finance gap. According to 2025 assessment prepared for FSD Africa, Rwandan banks typically lend only around 30% of project costs to SMEs and collateral requirements can reach up to five times the loan value, a burden that excludes many smaller and younger businesses. The same assessment estimates the total SME financing gap in Rwanda at approximately US$1.8 billion. Separately, Access to Finance Rwanda's 2024 MSME FinMap found that 38% of MSMEs identify access to finance as their biggest challenge with the cost of finance 32.2% as a closely related secondary concern.

Government and development partners have already taken steps to close this gap. The Business Development Fund(BDF) provides loan guarantees and where firms also receive business advisory services, recipients are markedly more likely to report easy access to finance. The IFC's 2024 partnership with BPR Bank Rwanda channeled up to US$ 50 million toward SME lending with at least 25% earmarked for women-owned businesses and dedicated SME growth fund anchored by the Rwanda Social Security Board(RSSB) was under development as of 2025 with a initial target of US$50 million. These initiatives are promising but remain small relative to the scale of the financing gap.

3.2 Tax rates and Tax Administration

Tax rates are the second most shown obstacle overall 15.5% and roughly consistent across small 15.7% and medium 16.0% firms, though less so for large firms 8.2% Beyond the rate itself, compliance imposes a real time burden. Senior manager report spending on average 5.9 % of their time dealing with regulatory requirements and 76.8% of firms were visited by or required to meet with tax officials during the year, a notably higher share than the Sub-Saharan Africa average of 64.4%. Tax administration is the biggest obstacle by a further 4.1% of firms.

3.3 Access to Land

Access to land is the third-largest constraints nationally 15.2% and the single biggest obstacle reported by large firms 21.8% reflecting the difficulty of securing sites for expansion, industrial use or new facilities. Construction permits take an average of 24.2 days to obtain in Rwanda, actually faster than the Sub-Saharan Africa average of 38.5 days, suggesting the core issue is the availability and cost of land itself, particularly in and around Kigali rather than permitting bureaucracy alone.

3.4 Competition from the Informal Sector

Unfair competition from unregistered firms as the biggest obstacle by 8.7% of formal firms overall, but this issue falls disproportionately on small firms 9.1% compared with large firms 5.6%. Overall, 41.4% of formal firms report competing directly against informal or unregistered businesses with the figure rising to 48.1% among small firms. This aligns with NISR's finding that 88% of all business enterprises in Rwanda are informal and that the informal segment has been growing roughly eight times faster than the formal segment since 2020.

Informally creates an uneven playing field: informal firms avoid tax, regulatory compliance costs and formal labor obligations that registered SMEs must bear, effectively subsidizing their lower prices at the expense of formal competitors.

3.5 Workforce Skills

An inadequately educated workforce shown as another biggest obstacle by 5.2% of firms, rising to 6.5% for medium firms. Only 27.4 % of Rwandan firms offer formal training to employees though this varies enormously by size:21.4% of small firm train staff compared with 57.3% of large firms, indicating that smaller business in particular are not investing in workforce development likely due to cost issue and fear to losing trained staff to larger competitors.

3.6 Infrastructure Progress with Persistent Gaps

Rwanda's grid reliability compares favorably with regional peers around 60.6% of firms experienced an electrical outage in a typical month, versus 72.7% in the Sub-Saharan Africa average and the average firm experiences fewer outages(1.8 per month vs 7.7 regionally). However, obtaining a new electrical connection takes an average of 48 days in Rwanda, longer than both the regional 24 days and low-income country 22 days averages and water connections take ana average of 40 days. This suggests the issue is less about going reliability and more about the speed on new utility connections, which matters greatly for firms trying to open new premises or expand capacity.

3.7 Corruption and Governance

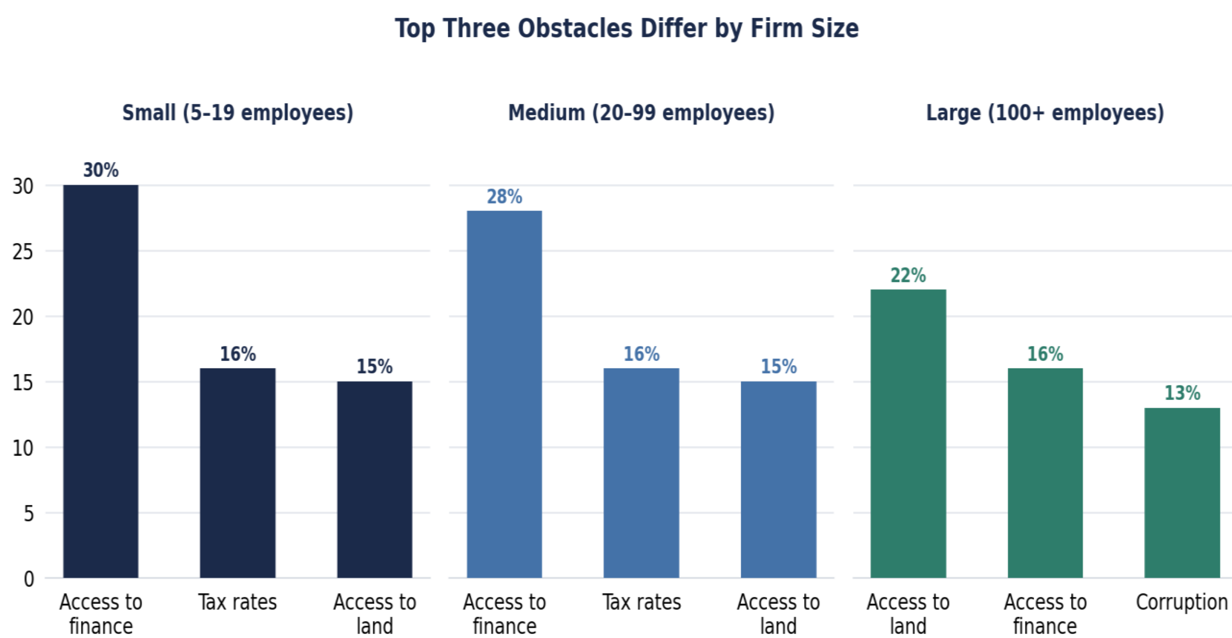
While corruption is rarely shown as the single biggest obstacle by small and medium firms, it ranks as the third biggest issue for large firms 13.4% and bribery incidence rises sharply with firm size

25.8 % of large firms report at least one bribe request across six types of transactions, compared with 9.0% of small firms. A striking one in four firms 25.8% reported being expected to give gifts or informal payments to obtain a construction permit, reinforcing the finding that land and construction related processes are a particular friction point.

3.8 How constraints Differ by Firm Size

The relative importance of each obstacle shifts meaningfully with firm size which has direct implications for how policy should be targeted(Figure 5). Small and medium firms share the same top three constraints; finance, tax rates and land. while large firms report a materially different profile, prioritizing land, finance and corruption. This suggests that access to finance interventions should be weighted toward small and micro firms, while land-marker and governance reforms will matter disproportionately to large more capita-l intensive businesses.

Figure 5: Top three business environment obstacles by firm size



Source: World Bank Enterprise Surveys, Rwanda 2023 Country Profile (2024).

4. Synthesis, These Constraint Persist

Taken together, the evidence points to a private sector environment in which formally registered SMEs are financially under-served relative to their growth ambitions, taxed and regulated in ways that consume significant management time, competing against a rapidly growing informal sector that does not bear the same costs and constrained in access to serviceable land and reliable new utility connections. These constraints interact; firms that can not access affordable credit are less able to invest in formalization, technology or training, firms facing high effective tax and compliance burdens have a greater incentive to remain informal or under-report and firms that can not secure land or timely utility connections can not scale even if financing were available.

This interconnection means that piecemeal interventions targeting a single constraint are unlikely to be sufficient. The recommendations below are therefore organized to be complementary targeting formalization land infrastructure cycle as a system rather than a isolated problems.

5. Policy Recommendations

The recommendations are grouped by the constraint they primarily address and where relevant, note existing Rwandan initiatives that could be scaled or refined rather than starting from scratch.

5.1 Closing the SMEs Finance Gap

- Expand partial credit guarantee schemes: scale up the business Development Fund's loan guarantee mechanism and pair every guarantee with mandatory business advisory support, since firms receiving BDF advisory services were found to be roughly four times more likely to report easy access to finance.
- Reform collateral requirements through a movable-asset registry: strengthen and promote use of Rwanda' collateral registry for movable assets(equipment, inventory, receivables) so SMEs are not required to pledge fixed assets worth up to five times the loan value.
- Fast-track the RSSB anchored SME Growth Fund: Prioritize operationalization of the proposed SME fund, with a phased capital plan moving from the initial US$ 50 million target toward the estimated US$100 million medium term demand and ring-fence a share for women-owned and youth-owned enterprises.
- Incentivize bank lending to SMEs through risk-sharing facilities: Build on the IFC-BPR bank model (US$ 60 million facility, 25% for women owned SMEs) by extending similar blended finance risk sharing lines to additional commercial banks and microfinance institutions.
- Develop alternative financing channels: Support supplier credit, warehouse receipt financing for agribusiness SMEs, leasing markets for equipment finance and simplified SME listing requirements on the capital markets to reduce dependence on traditional collateral.

5.2 Easing the tax and Regulatory Burden Without Losing Revenue

- Introduce a simplified, turnover-based tax regime for small firms: Reduce compliance time and the frequency of tax official visits for small firms by expanding presumptive or turnover-based tax brackets, reserving detailed audits for higher risk revenue firms.

- Digitize tax filling and payment further: continue expanding e-filling and mobile tax payment to reduce the 5.9% of senior- management time currently spent on regulatory compliance and to cut face to face interactions that create opportunities for informal payments.
- Publish clear, predictable audit and inspection criteria: Reduce the share of firms subject to discretionary tax-official visits(currently 76.8% above the regional average) by adopting risk-based, criteria driven audit selection.

5.3 Improving Access to Land and Construction

- Expand industrial and SME dedicated zoning: Increase the supply of serviced industrial park and business zone land outside central Kigali, where large firms report land access as the top issue , to reduce price pressure on scare urban land.
- Accelerate land-tittle digitization and dispute resolution: continue strengthening Rwanda's administration system to reduce delays and informal payments associated with land transactions and construction permits, given that a quarter of firm's report being expected to make informal payments for construction permits.
- Introduce SME- specific land-lease or rent to own schemes: Pilot long-term leasehold or rent-own arrangements in industrial parks to lower the upfront capital SMEs need to secure production space.

5.4 Leveling the Playing Field with the Informal Sector

- Pair formalization requirements with formalization benefits: link business registration to tangible incentives; access to the credit guarantee scheme, government procurement eligibility and simplified tax brackets so formalization is a rational choice rather than a pure cost.
- Simplify and consolidate the registration process: Continue reducing the time, cost and number of procedures required to register a business, particularly for micro and small enterprises ,to reduce the incentive to remain in the fast-growing informal segment.
- Strengthen targeted enforcement in high competition sector: In sectors where formal SMEs report the most direct informal competitions(retail, trade and light services) ,combine formalization incentives with proportionate enforcement against unregistered high-revenue operators, rather than blanket enforcement that could harm subsistence level informal workers.

5.5 Strengthening Infrastructure Delivery for SMEs

- Set service level targets for new utility connections: Establish and public maximum turnaround times for electricity and water connections(currently averaging 48 and 40 days respectively) with accountability mechanisms for the responsible utilities.
- Prioritize connection speed alongside reliability: given that Rwanda already outperforms regional peers on outage frequency, redirect a portion of infrastructure investment specifically toward new-connection progressing capacity rather than only grid reliability.
- Bundle utility connections into land/park allocation: For SMEs located in planned industrial zones, pre-install and pre-approve electricity and water connections before land allocation to eliminate connection delays entirely for firms in these zones.

5.6 Building Workforce Skills and Management Capacity

- Expand employer-linked TVET partnerships: Scale technical and vocational training programs co-designed with SME associations and the Private Sector Federation(PSF) so training content matches the 5.2 % firms citing workface skills as their biggest obstacle.
- Subsidize training costs for small firms: Introduce matching grant or voucher schemes for formal training, since small firms train staff at less than half the rate of large firms(21.4% vs 57.3%), largely due to cost.
- Pair finance access with management training: bundle basic financial management and business plan training with BDF loan guarantees and bank credit lines, addressing both the finance and management practice gaps simultaneously.

5.7 Strengthening Governance and Reducing Corruption Risk

- Digitize construction permitting end-to-end: Movement construction permit applications, fee payments and status tracking fully online to reduce the face-to-face interactions associated with the 25.8% of firms expected to give gifts for construction permits.
- Publish transparent, standardized fees schedules: Ensure all permit and license-related fees are published and standardized nationally, reducing discretion at the point of transaction.
- Extend e-procurement and grievance-redress mechanisms: continue expanding electronic government procurement and accessible complaint channels so firms particularly larger firms most exposed to bribery requests can report and resolve issues without direct negotiation with individual officials.

6. Implementation Roadmap

This table below sequences the recommendations into short, medium and long-term horizons, with an indicative lead actor for each. Many actions can procced in parallel, sequencing reflects implementation completely and dependency rather than strict priority.

Horizon	**Priority Actions**	**Lead Actors**
Short term(0-12 months)	Expand BDF loan guarantees bundled with advisory services, digitize contraction permit application, publish standardized permit fee schedules, publish utility connection service-level targets.	BRD, MINIFRA,WASAC/REG
Medium term(1-3)	Operationalize RSSB anchored SME Growth Fund(US $ 50 million initial tranche), expand movable asset collateral registry uptake, roll out turnover-based tax brackets for small firms, scale employer-linked TVET partnerships, expand risk sharing credit lines with commercial banks.	RSSB, BNR, RRA, MINICOM, PSF, Commercial Banks
Long term(3-5)	Expand industrial/SME zoned land supply with pre-installed utilities, grow SME Growth Fund Toward US$100 million , access for SMEs(simplified	RDB, MINICOFIN, Capital Market Authority and Ministry of Trade

	listing) , reduce national informality rate through sustained formalization incentives.	

7. Conclusion

The 2023 World Bank Enterprise Survey confirms that Rwanda's formally registered SMEs operate in an environment where access to finance remains the dominant issue, compounded by tax burdens ,land access facilities, informal-sector competition and infrastructure connection delays. These are not evenly distributed: small firms are most exposed to finance and tax pressures while large firms are more concerned with land and governance.

Rwanda has already built meaningful infrastructure to address these gaps, the Business Development Fund, Access to Finance Rwanda, a proposed RSSB anchored SME fund and blended finance partnership with the IFC and other development finance institutions. The priority now is to scale these mechanisms to match the estimated US$1.8 billion financing gap, fair financial access with business advisory and skills support and continue digitizing land, permitting and tax processes to reduce both delay and corruption risk. Addressing these issues as an interconnected system rather than in isolation, offers the clearest path to unlocking SME-led growth and formalization in Rwanda.