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Effect of Financing Sources on Performance of Selected Small and Medium Enterprises in Gasabo District, Rwanda

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Abstract: *This study examined the effect of financing sources on the performance of selected Small and Medium Enterprises (SMEs) in Gasabo District, Rwanda. Specifically, the study assessed the effect of Angel Investors on the Performance of SMEs in Gasabo District. The study adopted a descriptive and correlational research design using a quantitative approach. The target population comprised 4,866 SMEs, from which a sample size of 369 respondents was determined. Data were collected using structured questionnaires and analyzed using SPSS. Descriptive statistics, Pearson Product-Moment correlation analysis, and simple linear regression analysis were used to examine the relationship and effect of Angel Investors on the Performance of SMEs. The findings showed that angel investors provide financial support to SMEs, support business growth, and consider the potential and performance of businesses when making investment decisions. The findings also indicated that access to regular investment from angel investors remains a challenge for some SMEs. The correlation analysis indicated a strong positive relationship between Angel Investors and the Performance of SMEs ($r = .792$, $p < .001$). Regression analysis further showed that Angel Investors significantly influenced the Performance of SMEs, explaining 75.7% of its variation. The study concluded that Angel Investors play an important role in improving the Performance of SMEs in Gasabo District, Rwanda. The study recommends strengthening the accessibility and availability of angel investors, improving SMEs' investment readiness, and establishing stronger connections between SMEs and potential angel investors to support business growth and improve SME performance.*

Keywords: *Angel Investors, SME Performance, Small and Medium Enterprises, Business Financing, Gasabo District, Rwanda*

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1. Introduction

Small and medium-sized enterprises (SMEs) are widely recognized as the backbone of national economies, contributing significantly to employment creation, innovation, and overall economic growth (OECD, 2024). Despite their importance, SMEs frequently face challenges in accessing adequate and appropriate financing, which directly affects their financial performance. Financing sources for SMEs typically include internal funds such as retained earnings and owner's capital, debt financing from banks and microfinance institutions, equity financing including venture capital or business angel investment, and trade credit. Each source has unique implications for risk exposure, cost of capital, and investment flexibility, which in turn influence profitability, liquidity, and overall growth. Many firms rely heavily on internal funds or informal financing, which often limit their ability to expand operations or invest in growth opportunities. The relationship between financing sources and SME performance is therefore critical for entrepreneurs, investors, and policymakers seeking to enhance the sustainability of these enterprises (IFC, 2022).

At the global level, SMEs continue to encounter restrictive financing conditions, including high borrowing costs, stringent collateral requirements, and fluctuating availability of alternative funding sources. The Magazine Today (2024) highlights that inflationary pressures and monetary tightening have significantly reduced SME lending in many countries, while venture capital and other equity-based instruments remain concentrated in select markets. These constraints affect SME performance by limiting the capital available for investment, innovation, and scaling operations. For instance, firms that rely solely on internal funding may experience slower growth rates, lower profitability, and reduced competitiveness. Globally, empirical evidence suggests that SMEs with access to diversified financing sources tend to exhibit higher growth and stronger financial performance, demonstrating the importance of both the availability and structure of finance (IFC, 2022).

In developed countries, SMEs typically enjoy access to a broader spectrum of financing sources, including bank loans, leasing and factoring arrangements, capital market instruments, and equity investment (Beck & Demirguc-Kunt, 2022). Despite this, firms continue to face trade-offs that affect performance outcomes. Research indicates that many SMEs opt to use internal funds rather than external debt or equity to avoid high costs, administrative burdens, or stringent lending conditions. This preference, while reducing immediate financial risk, can limit investment in productive assets, hinder expansion, and ultimately constrain profitability. Even in well-regulated markets, financial decisions regarding the source of capital are central to the financial performance and long-term sustainability of SMEs, emphasizing the role of financing strategy in shaping enterprise outcomes (OECD, 2025).

In West Asia, SME financing is strongly influenced by regional policy environments and structural challenges (Al-Khater & Al-Saadi, 2022). For example, in Saudi Arabia and other Gulf Cooperation Council countries, SMEs have historically faced limited access to bank credit, despite recent policy initiatives under programs such as Vision 2030 aimed at increasing SME bank lending. Consequently, many firms rely on owner capital or informal credit sources, which often restrict the scale and speed of growth. These financial limitations can negatively affect SMEs' financial performance, including profitability, liquidity, and return on investment. Empirical evidence from the region underscores the importance of improving access to diverse financing options, including venture capital, trade finance, and structured debt products, to enhance SMEs' performance and contribute to broader economic development (World Bank, 2020).

In Sub-Saharan Africa, the financing gap for SMEs is particularly pronounced, with only a minority of firms having access to formal credit facilities. Approximately 20–35% of SMEs in the region have a line of credit from financial institutions, while the majority rely on internal funding or informal sources (AfDB, 2024). High interest rates, coupled with weak collateral frameworks and limited institutional support, exacerbate the financial constraints faced by SMEs. As a result, firms often struggle to invest in productive capacity, adopt new technologies, or expand operations, leading to suboptimal financial performance, including lower profitability, limited asset growth, and constrained return on investment. These challenges highlight the critical need for policy interventions and innovative financing mechanisms that can improve access to affordable, long-term finance for SMEs in the region (Beck et al., 2023).

In Southern Africa, particularly in countries such as South Africa, SMEs confront similar challenges despite relatively developed financial markets (Fatoki & Smit, 2021). Studies indicate that a significant number of SMEs face difficulties in securing formal credit due to poor credit histories, inadequate bookkeeping practices, and complex bank requirements. Consequently, many SMEs rely on internally generated funds or capital from family and business partners, which can limit investment opportunities, scale of operations, and overall SMEs performance. Research further suggests that access to alternative financing sources, such as venture capital and asset-based lending, can significantly enhance SME performance by providing more flexible funding options and reducing financial constraints (OECD, 2020).

In Eastern Africa, including Kenya, Uganda, and Tanzania, the relationship between financing sources and SME performance is well-documented (Kinyanjui, 2022). SMEs that have access to external financing, including venture capital and trade credit, tend to demonstrate superior financial outcomes, including higher sales turnover, increased profitability, and greater asset accumulation. However, many SMEs continue to face collateral and liquidity constraints, high borrowing costs, and limited availability of equity financing, which limits their growth potential and operational efficiency. These constraints highlight the importance of improving access to both debt and equity financing to enhance the performance of SMEs in the region (Wanjohi & Mugure, 2024).

In Rwanda, access to finance remains a pivotal factor influencing the performance of SMEs (Nkundabanyanga et al., 2023). Empirical evidence suggests that SMEs with access to formal external financing, such as bank loans, microfinance, or equity funding, tend to achieve higher profitability, improved asset quality, and stronger growth compared with those that rely solely on internal or informal sources of finance. Despite these benefits, a significant proportion of Rwandan SMEs continue to depend primarily on owner capital or informal financing, largely due to high collateral requirements, elevated transaction costs, and the limited availability of financial products tailored to the needs of small enterprises. These financial constraints can impede investment in productive assets, limit operational efficiency, and restrict overall business growth. Consequently, both the source and accessibility of finance are critical determinants of SME performance, highlighting the need for targeted interventions to improve financial inclusion and the availability of appropriate funding options for small and medium enterprises (Nsengiyumva, 2021).

1.2. Statement of the Problem

Small and Medium Enterprises (SMEs) play an important role in economic development through employment creation, income generation, innovation, and provision of goods and services. However, their ability to establish, expand, and sustain their operations depends partly on access to adequate and appropriate finance. Angel investors are an important source of finance for growth-oriented SMEs because they can provide capital together with mentorship, strategic advice, business networks, and other forms of managerial support (Mason & Harrison, 2023; Politis, 2024). In Rwanda, the development of early-stage private investment is increasingly recognized as a potential way of addressing the financing needs of growing enterprises. Nevertheless, access to finance remains a major challenge for MSMEs. The Rwanda MSME FinMap Report 2024 reported that access to finance was among the major challenges faced by MSMEs and that many enterprises had not accessed credit during the period covered by the survey (Access to Finance Rwanda [AFR], 2024). Rwanda's SME financing policy also identified limited availability of early-stage equity financing, including angel investment, as a challenge affecting SMEs (Ministry of Trade and Industry [MINICOM], 2020).

The limited accessibility of angel investment may affect the ability of SMEs to obtain the resources required for business expansion, product development, market development, technology adoption, and improvement of operational capacity. Angel investors can contribute not only financial capital but also business knowledge, mentorship, strategic guidance, and professional networks, which may improve the capacity and performance of supported enterprises (Mason & Harrison, 2023; Politis, 2024). However, SMEs may face difficulties in attracting angel investors because of limited investment readiness, inadequate business records, weak investor networks, limited awareness of investment opportunities, and difficulties in demonstrating their growth potential. At the same time, potential investors may experience difficulties identifying suitable and investment-ready SMEs. MINICOM (2020) noted challenges in the relationship between angel investors and MSMEs, including differences concerning business control, risk, and expected returns. These challenges may limit the ability of SMEs to obtain regular and adequate angel investment and consequently restrict their potential for growth and improved performance.

Although previous studies and reports have examined SME access to finance and business performance in Rwanda, limited empirical attention has been given specifically to the effect of angel investors on the performance of SMEs in Gasabo District. Existing evidence has largely considered access to finance broadly or examined other forms of investment rather than isolating angel investors as a specific financing mechanism (Access to Finance Rwanda [AFR], 2024; Ishimwe, 2011). Consequently, there is insufficient empirical evidence on whether access to angel investors, availability of investment, and investor-related support significantly influence the performance of selected SMEs in Gasabo District. This creates a contextual and empirical gap that needs to be addressed. Therefore, this study seeks to examine the effect of angel investors on the performance of selected Small and Medium Enterprises in Gasabo District, Rwanda

1.3. General Objectives

In this study, the general objective was to assess the effect of effect of financing sources on performance of selected Small and Medium Enterprises in Gasabo District, Rwanda

1.4 Specific Objectives

The study was guided by the following specific objectives:

To examine the effect of angel investors on performance of selected Small and Medium Enterprises (SMEs) in Gasabo District, Rwanda

2. Literature Review

Financing sources are the various channels through which Small and Medium Enterprises (SMEs) obtain the capital necessary to fund their operations, investments, and growth initiatives (Kinaki & Murui, 2022). These sources can be classified into internal sources and external sources, including Angel Investors, loan financing, and Crowdfunding. Internal financing allows SMEs to reinvest profits without incurring debt, thereby reducing financial risk and interest obligations, while external financing provides additional capital that can accelerate business growth, facilitate market expansion, and support investment in technology and human resources (Beck, 2024). Each financing source has distinct characteristics, advantages, and limitations that influence SMEs' ability to achieve profitability, maintain liquidity, and sustain long-term operations.

External financing sources, such as Angel Investors, loans, and Crowdfunding, offer SMEs not only capital but also additional resources. Angel Investors often provide mentorship, strategic guidance, and access to networks, which can significantly enhance business growth and competitiveness (Kenduiwo, 2024). Crowdfunding allows SMEs to raise small amounts of capital from a large number of contributors, often validating market demand while securing project-specific funding (Sanday, 2022). Loan financing, although critical for expansion and working capital, requires careful management due to interest obligations and collateral requirements, which, if mishandled, may constrain performance. Understanding the characteristics and trade-offs of each financing source is therefore essential for SMEs to optimize performance (Ngarukiye & Twesige, 2024).

In the context of Rwanda, access to these financing sources is a major determinant of SME performance. Many SMEs in Rwanda rely on internal funds or informal financing due to high collateral requirements, limited tailored financial products, and perceived lending risks. This study focuses on how Angel Investors and Loan Financing specifically influence the profitability, liquidity, and growth of SMEs in Rwanda. By analyzing these relationships, the study aims to provide insights into the most effective financing strategies for SMEs operating within the Rwandan economic and regulatory environment.

2.1.1. Angel Investors

Angel Investors are high-net-worth individuals who provide capital to early-stage or growing Small and Medium Enterprises (SMEs) in exchange for equity or convertible debt Kenduiwo, 2024). Unlike traditional financial institutions, Angel Investors often invest in businesses with high growth potential but limited access to formal financing. Beyond providing funds, they typically offer mentorship, business advice, and access to professional networks, which can significantly enhance strategic decision-making, operational efficiency, and market reach for SMEs. Angel investment is particularly valuable for startups and SMEs that may not have sufficient collateral to secure traditional bank loans ((Mason & Harrison, 2025).

Angel Investors play a critical role in improving SME performance (Politis, 2024). Their contributions are associated with higher profitability, increased sales growth, and improved operational management, as they provide both capital and knowledge resources that strengthen the firm's capabilities. By participating actively in business development, Angel Investors can also help SMEs navigate challenges, attract additional investors, and scale effectively. The mentorship and strategic support provided by Angel Investors often result in better resource allocation, risk management, and long-term sustainability (Wiltbank et al., 2023)

In the context of Rwanda, Angel Investors represent an emerging but important source of financing for SMEs, particularly those with innovative business models or high-growth potential. Access to Angel investment in Rwanda remains limited due to the nascent state of venture capital and private equity markets, but SMEs that secure such investment often experience improved profitability, enhanced business networks, and accelerated growth. This study therefore investigated the effect of Angel Investors on the performance of SMEs in Rwanda, aiming to provide insights into how this financing source can be leveraged to strengthen the SME sector.

2.1.2. Performance of Small and Medium Enterprises (SMEs)

The performance of Small and Medium Enterprises (SMEs) refers to the ability of these firms to achieve their financial and operational goals, sustain growth, and remain competitive in their respective markets. SME performance is often evaluated using financial indicators such as profitability, return on investment, sales growth, liquidity levels, and asset expansion, as well as non-financial indicators such as customer satisfaction, innovation, operational efficiency, and employee retention (Mutinda & Kinyua, 2021). A firm that demonstrates positive trends in these areas is considered to be performing well, as it is able to effectively manage resources, generate income, and respond to market demands. Performance measurement is therefore essential because it shows the overall health of the enterprise and guides strategic planning and managerial decision-making.

SME performance is influenced by both internal and external factors. Internally, the skills of the management team, business planning capacity, access to financial information, and efficiency in resource allocation play a significant role in determining outcomes. Externally, market competition, access to finance, government regulations, and economic conditions can either support or hinder growth (Agyapong, 2022). Limited access to capital, in particular, often restricts the ability of SMEs to invest in new technologies, expand production, or diversify product offerings. As a result, financial structure and financing strategies are closely linked to SME performance, since the choice of funding sources affects both risk exposure and growth potential. Successful SMEs typically adopt financing approaches that balance cost, availability, and long-term sustainability (Cierra & Wang, 2024)

In the context of this study, performance of SMEs in Rwanda especially those operating in Gasabo District remains a strategic concern due to persistent financial constraints and the competitive nature of the business environment. Many SMEs struggle to improve performance because the financing sources they rely on may be insufficient, costly, or unsustainable. For instance, inadequate retained earnings limit internal reinvestment, while high interest rates and collateral requirements reduce access to loan financing. Similarly, the potential benefits of angel investment and crowdfunding remain underutilized due to low awareness and weak investor networks. Therefore, assessing SME performance in relation to different financing sources provided insight into how financial strategies influence profitability, stability, and growth.

2.2. Theoretical Review

This study was anchored in Market Timing Theory, advanced by Baker and Wurgler (2002). The theory argues that firms strategically make financing decisions by considering prevailing market conditions, investor sentiment, and the relative attractiveness of different sources of capital. Firms tend to seek external equity when market conditions and investor perceptions are favourable because they can obtain capital under more attractive conditions. Conversely, when market conditions are unfavourable or investor confidence is low, firms may rely more on internal funds or other forms of financing to avoid unfavourable financing conditions (Raul & Terry, 2022). The theory therefore emphasizes that the timing and conditions under which firms seek external capital can influence their financing decisions. Penniha and Casirero (2024) further explain that firms' financing decisions are influenced by external market perceptions and the conditions surrounding capital availability.

Market Timing Theory is relevant to SMEs because they also make financing decisions in response to the availability and attractiveness of external capital. Unlike large firms, SMEs may have limited access to formal capital markets and may therefore depend on alternative sources of equity financing. Angel investors are particularly relevant in this context because they provide external equity capital to SMEs with promising business opportunities and growth potential. When market conditions are favourable and investor interest in promising businesses is high, SMEs may have greater opportunities to attract angel investment. Conversely, limited investor confidence, unfavourable business conditions, or weak investment opportunities may make it more difficult for SMEs to obtain angel investment. Thus, the theory helps explain why the availability and accessibility of angel investors may vary according to market conditions and why SMEs may seek angel investment when they perceive favourable opportunities for business growth.

In the context of this study, Market Timing Theory provides a theoretical explanation of how angel investment can contribute to SME performance in Gasabo District, Rwanda. When SMEs are able to obtain angel investment under favourable conditions, the capital can support business expansion, acquisition of productive resources, product development, market expansion, and improvement of operational activities. In addition to financial resources, angel investors may provide mentorship, strategic advice, managerial knowledge, and business networks that can strengthen the capacity of SMEs to utilize investment effectively (Mason & Harrison, 2023; Politis, 2024). Consequently, favourable opportunities to obtain angel investment may enable SMEs to strengthen their operations and improve performance. The theory therefore establishes a logical link between market conditions, access to angel investment, financing decisions, and SME performance, making it appropriate for examining the effect of angel investors on the performance of selected SMEs in Gasabo District.

3. Methodology

This study adopted a systematic methodological approach to examine the effect of Angel Investors on the performance of selected Small and Medium Enterprises (SMEs) in Gasabo District, Rwanda. The methodology covered the research design, target population, sample size, sampling techniques, nature of data, data collection instruments, validity and reliability of the instruments, data processing, data analysis, limitations of the study, and ethical considerations. These methodological procedures were used to collect and analyze relevant information concerning Angel Investors as the independent variable and Performance of SMEs as the dependent variable.

The study adopted a descriptive and correlational research design using a quantitative approach. The descriptive design was used to describe the existing use of Angel Investors among SMEs and the level of SME performance in Gasabo District. It enabled the researcher to obtain information concerning the availability of angel investment, access to angel investors, amount of investment received, investor support, mentorship, business guidance, and other forms of assistance provided by angel investors. The correlational design was used to determine the relationship between Angel Investors and

SME performance and to establish the direction and strength of this relationship. The combination of descriptive and correlational designs was appropriate because the study sought both to describe the existing situation concerning angel investment and to examine its relationship with SME performance.

The target population comprised 4,866 SMEs operating in Gasabo District, Rwanda. According to the 2023 Establishment Census by the National Institute of Statistics of Rwanda (NISR), the population consisted of 4,379 small enterprises and 487 medium enterprises, giving a total population of 4,866 SMEs. These SMEs were considered appropriate for the study because they represented the enterprises within the geographical scope of the research. SME owners and managers were selected as the target respondents because they possessed relevant information concerning access to and utilization of Angel Investors and the performance of their businesses.

A sample size of 369 respondents was selected from the target population using Yamane's (1967) formula. The sample was determined using a 5% margin of error, corresponding to a 95% confidence level. From the total population of 4,866 SMEs, 332 respondents were selected from small enterprises and 37 respondents from medium enterprises, giving a total sample size of 369 respondents. The sample distribution ensured that both small and medium enterprises were adequately represented in the study.

The study employed stratified random sampling to select respondents from the target population. Stratified sampling was appropriate because the SME population consisted of different categories, particularly small and medium enterprises, which differ in terms of size, capital, and operational characteristics. The population was divided into small and medium enterprise strata, after which respondents were selected proportionately from each category. Within each stratum, simple random sampling was used to select the required respondents. This approach provided each SME within the respective category with an equal opportunity of being selected and helped to reduce selection bias.

The study used primary data as the main source of information. Primary data were collected directly from SME owners and managers using structured questionnaires. The questionnaires obtained firsthand information concerning the role of Angel Investors in SME operations and business performance. Specifically, the information focused on SMEs' access to angel investment, adequacy of investment received, investment support, mentorship and business advice, networking opportunities, strategic guidance, and the contribution of angel investors to business development. Primary data were appropriate because they provided information directly from the individuals responsible for managing the SMEs and were specifically related to the objectives of the study.

The main research instrument was a structured questionnaire. The questionnaire consisted of closed-ended questions and Likert-scale statements measured using a five-point scale ranging from Strongly Disagree (1) to Strongly Agree (5). The questionnaire was divided into sections covering respondents' background information, Angel Investors, and Performance of SMEs. The items under Angel Investors focused on issues such as access to angel investment, adequacy of funding, investment availability, mentorship, strategic guidance, networking opportunities, and business support. The section on SME performance focused on indicators such as profitability, sales growth, business expansion, asset growth, and sustainability. The standardized Likert-scale format enabled the researcher to obtain comparable quantitative responses and facilitated statistical analysis.

The research instrument was subjected to piloting, validity, and reliability assessment before the main data collection exercise. A pilot study was conducted using respondents outside the main study sample to assess the clarity, relevance, consistency, and suitability of the questionnaire items. The pilot respondents were excluded from the final study to avoid possible bias. Content validity was assessed using expert judgment and the Content Validity Index (CVI). The questionnaire items were designed to cover the major dimensions of Angel Investors and SME performance. A CVI of 0.80 or above was considered acceptable and indicated that the questionnaire adequately represented the constructs under investigation. Face and construct validity were also enhanced through review by academic supervisors and relevant specialists.

Reliability of the questionnaire was assessed using Cronbach's Alpha coefficient. Reliability refers to the consistency of a research instrument in measuring the variables under study. The questionnaire was pilot-tested before the main data collection, and the responses were entered into SPSS Version 25 to determine the reliability coefficient. A Cronbach's Alpha value of 0.70 or above was considered acceptable for social science research. The Angel Investors variable recorded a Cronbach's Alpha coefficient of 0.824, while Performance of SMEs recorded 0.816. These values were above the recommended threshold of 0.70, indicating that the questionnaire items were internally consistent and reliable for data collection.

The collected data underwent a systematic data processing procedure before statistical analysis. The process involved editing, coding, data entry, cleaning, and transformation.

During editing, the researcher reviewed each completed questionnaire to identify missing, inconsistent, or incorrect responses. The questionnaire responses were then coded by assigning numerical values to the different response categories. For the five-point Likert scale, responses were assigned values from 1 to 5. The coded data were entered into SPSS Version 25 for processing and analysis. The dataset was subsequently cleaned to identify missing values, inconsistencies, and possible outliers. After cleaning, the data were organized according to the study objective concerning Angel Investors and SME performance.

The quantitative data were analyzed using SPSS Version 25. Both descriptive and inferential statistics were applied. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarize respondents' characteristics and their perceptions concerning Angel Investors and SME performance. These statistics provided a clear description of the extent to which SMEs accessed and benefited from angel investment and the prevailing level of SME performance.

Inferential statistics involved Pearson Product-Moment Correlation and simple linear regression analysis. Pearson correlation analysis was used to determine the direction, strength, and statistical significance of the relationship between Angel Investors and SME performance. A p-value of less than 0.05 was considered statistically significant. Simple linear regression analysis was then used to determine the effect of Angel Investors on SME performance and to test the research hypothesis. This analysis enabled the researcher to establish whether changes in Angel Investors were associated with changes in SME performance.

The simple linear regression model was expressed as:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where:

Y = Performance of SMEs
X_1 = Angel Investors
β_0 = Constant term (intercept)
β_1 = Regression coefficient of Angel Investors
ε = Error term representing other factors not included in the model.

The regression analysis generated the R-squared value, F-statistic, p-value, and regression coefficient. The R-squared value was used to determine the proportion of variation in SME performance explained by Angel Investors. The regression coefficient showed the direction and magnitude of the effect of Angel Investors on SME performance. The p-value was used to determine whether the effect was statistically significant. A p-value of less than 0.05 led to rejection of the null hypothesis, while a p-value greater than 0.05 led to failure to reject the null hypothesis.

The study recognized potential limitations that could affect the collection and interpretation of data. One major limitation was the possibility that SME owners or managers might be reluctant to provide accurate information concerning their financial performance and investment received from angel investors because such information could be considered confidential. To address this limitation, respondents were assured that all information provided would be treated confidentially and used strictly for academic purposes. Another possible limitation was response bias, whereby respondents could provide socially desirable information concerning the performance of their businesses. The researcher therefore used clear and neutral questionnaire items to minimize subjective responses.

Ethical principles were observed throughout the study by obtaining the necessary permission before data collection and explaining the purpose, objectives, and procedures of the research to the respondents. Participation was voluntary, and respondents were informed of their right to withdraw from the study at any time without negative consequences. Confidentiality and anonymity were maintained by ensuring that personal and business information provided by respondents was not disclosed in the research report. The collected information was used strictly for academic purposes and securely stored. The researcher also ensured that respondents were not exposed to physical, psychological, or social harm. All sources of information were properly acknowledged to maintain academic integrity and avoid plagiarism.

4. Results and Discussion

This section presents the findings and discussion of the study on the effect of Angel Investors on the performance of selected Small and Medium Enterprises in Gasabo District, Rwanda. The findings are presented and discussed in relation to the study objective, which was to examine the effect of Angel Investors on the performance of selected Small and Medium Enterprises in Gasabo District, Rwanda. The chapter presents the response rate, demographic characteristics of respondents, descriptive findings, correlation analysis, regression analysis, hypothesis testing, and discussion of the findings.

4.1 Findings

The findings are presented based on data collected from respondents through questionnaires. Quantitative data were analyzed using descriptive statistics, Pearson Product-Moment Correlation, and simple linear regression analysis. The presentation focuses specifically on the relationship between Angel Investors (X_1) and Performance of SMEs (Y).

4.1.1 Response Rate

The study targeted a sample size of 369 respondents selected from Small and Medium Enterprises in Gasabo District, Rwanda. Questionnaires were administered to the selected respondents to collect information concerning the effect of Angel Investors on the performance of SMEs. Out of the 369 questionnaires distributed, 320 questionnaires were successfully completed and returned, while 49 questionnaires were not returned. This provided a response rate of 86.7%.

Table 1: Response Rate of Respondents

Response Rate	Frequency	Percentage (%)
Questionnaires Returned	320	86.7
Questionnaires Not Returned	49	13.3
Total	**369**	**100**

Source: Field Data, 2026

The high response rate indicates a strong level of participation among the respondents and provided sufficient data for analysis and interpretation. The response rate of 86.7% achieved in this study was considered adequate for drawing conclusions regarding the effect of Angel Investors on the performance of selected SMEs in Gasabo District, Rwanda.

4.1.2 Descriptive Statistics of Angel Investors

Table 2 presents respondents' perceptions regarding Angel Investors and their contribution to the performance of selected Small and Medium Enterprises in Gasabo District, Rwanda. A five-point Likert scale was used where 5 = Strongly Agree (SA), 4 = Agree (A), 3 = Neutral (N), 2 = Disagree (D), and 1 = Strongly Disagree (SD). The analysis was intended to assess the extent to which Angel Investors contribute to the performance of SMEs in Gasabo District.

Table 2: Angel Investors and Performance of SMEs

Statements	N	M	SD
Angel investors are easily accessible to fund my business.	320	4.25	.932
There are sufficient angel investors in Gasabo District willing to invest.	320	4.39	.886
Angel investors frequently provide funding to support business growth.	320	4.41	.916
My business regularly receives investments from angel investors.	320	1.42	.643
Angel investors carefully select businesses based on potential and performance.	320	4.28	.931

Source: Field data, 2026-**Key:** M=Mean, SD=Standard Deviation

The findings presented in Table 2 indicate that respondents generally agreed that angel investors contribute positively to the performance of SMEs in Gasabo District, Rwanda. Most of the statements recorded mean scores above 4.00, suggesting a high level of agreement among respondents regarding the importance of angel investors in supporting business financing and growth. The statement that angel investors frequently provide funding to support business growth recorded the highest mean score (M = 4.41, SD = 0.916), followed by the statement that there are sufficient angel investors in Gasabo District willing to invest (M = 4.39, SD = 0.886). These findings suggest that respondents perceive angel investors as valuable sources of capital that can facilitate business expansion and development.

The results further reveal that respondents agreed that angel investors carefully select businesses based on potential and performance (M = 4.28, SD = 0.931) and that angel investors are easily accessible to fund their businesses (M = 4.25, SD = 0.932). The relatively high mean scores and low standard deviations indicate consistency in respondents' opinions regarding the role of angel investors. The findings imply that angel investors not only provide financial support but also assess business viability before making investment decisions, thereby encouraging SMEs to improve their operational and financial performance.

The statement that my business regularly receives investments from angel investors recorded the lowest mean score (M = 1.42, SD = 0.643), indicating disagreement among respondents. This finding suggests that although angel investors are perceived to exist and contribute to business growth, many SMEs do not receive regular investments from them. The results therefore imply that access to angel investor funding remains limited to a relatively small number of enterprises. Overall, the findings demonstrate that angel investors are considered important for SME development, although their direct financial involvement is not experienced equally by all businesses operating in Gasabo District.

The findings imply that angel investors play a potentially important role in enhancing the performance of SMEs by providing financial resources that support business growth and expansion. The high level of agreement regarding the availability and contribution of angel investors suggests that entrepreneurs recognize their importance in facilitating access to capital and improving business opportunities. Nevertheless, the low level of regular investments received by individual businesses indicates that access to angel investor funding remains limited for many SMEs. This implies that while angel investors can contribute significantly to SME performance, efforts are needed to strengthen connections between investors and SMEs, improve investment readiness among entrepreneurs, and create an enabling environment that encourages greater participation of angel investors in financing small and medium enterprises in Gasabo District.

These findings are in agreement with the findings of Mason and Harrison (2023), who established that angel investors contribute positively to the growth and performance of SMEs through the provision of financial resources, mentorship, and strategic guidance. The findings are also consistent with the African Business Angel Network Report (2021), which revealed that SMEs receiving angel investor funding experienced improvements in sales growth, operational efficiency, and market expansion. Similarly, Nambaje and Wamalwa (2022) found that SMEs supported by angel investors in Kenya recorded significant improvements in revenue growth due to enhanced access to capital and business expertise. In the Rwandan context, Murenzi (2023) reported that SMEs that secured angel financing demonstrated improvements in business planning, product development, and access to new markets, although access to angel investor funding remained limited due to inadequate investor networks and low awareness among entrepreneurs. These previous studies support the current findings that angel investors are perceived as important contributors to SME performance, despite the fact that many businesses do not receive regular investments from them.

4.1.3. Correlation Analysis

Pearson Product-Moment Correlation analysis was conducted to determine the direction and strength of the relationship between Angel Investors and Performance of SMEs in Gasabo District, Rwanda. The correlation coefficient (r) was used to establish the strength and direction of the relationship, while the significance value (p-value) was used to determine whether the observed relationship was statistically significant at the 5% level of significance. The results were presented in Table 3.:

Table 3: Pearson Matrix between independent variable and dependent variable

		Angel Investors	Performance of SMEs
Angel Investors	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	320	
Performance of SMEs	Pearson Correlation	.792**	1
	Sig. (2-tailed)	.000	
	N	320	320

Source: Field data, 2026

The results in Table 3 indicate that there is a strong positive relationship between Angel Investors and Performance of SMEs ($r = 0.792$, $p = 0.000$). The positive correlation coefficient implies that improvements in Angel Investor financing are associated with improvements in the performance of SMEs in Gasabo District. The significance value ($p < 0.05$) indicates that the relationship is statistically significant at the 5% level of significance. Therefore, the findings suggest that increased access to and utilization of Angel Investor financing contribute positively to the performance of selected SMEs in Gasabo District. This may be attributed to the ability of Angel Investors to provide financial resources that enable SMEs to expand their operations, improve business activities, increase profitability, and strengthen their market position

4.1.4. Regression analysis

Simple linear regression analysis was conducted to examine the effect of Angel Investors on the Performance of SMEs in Gasabo District, Rwanda. The analysis was used to determine whether Angel Investors significantly predicted changes in SME performance. The regression analysis focused on the direction and magnitude of the relationship between the independent variable and the dependent variable, as well as the proportion of variation in SME performance explained by Angel Investors. The statistical significance of the regression model and coefficient was assessed at the 5% level of significance ($p \leq 0.05$). The results of the regression analysis are presented in the following tables.

Table 4. Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.870[a]	.757	.754	.21829

a. Predictor: (Constant), Angel Investors

The results in Table 4 indicate a strong positive relationship between Angel Investors and the Performance of SMEs, as shown by R = 0.870. The R Square value of 0.757 indicates that Angel Investors explain 75.7% of the variation in the Performance of SMEs, while the remaining 24.3% is explained by other factors not included in the model. The Adjusted R Square of 0.754 shows that the model continues to explain approximately 75.4% of the variation in SME performance after adjustment. The small difference between R Square and Adjusted R Square indicates that the model has relatively stable explanatory power. The standard error of the estimate of 0.21829 indicates the average difference between the observed and predicted values of SME performance. Overall, the results suggest that Angel Investors have substantial explanatory power in relation to the Performance of SMEs in Gasabo District, Rwanda.

Table 5. ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	46.700	1	46.700	990.642	.000[b]
	Residual	14.991	318	0.047		
	Total	61.691	319			

a. Dependent Variable: Performance of SMEs

b. Predictors: (Constant), Angel Investors

The ANOVA results indicate that the regression model was statistically significant, $F(1, 318) = 990.642$, $p < .001$. This finding indicates that Angel Investors significantly influence the performance of selected SMEs in Gasabo District, Rwanda. The result suggests that the regression model provides a significant explanation of variations in SME performance. Furthermore, the R^2 value of .757 indicates that Angel Investors explain 75.7% of the variation in SME performance, while the remaining 24.3% is attributable to other factors not included in the model. Therefore, the null hypothesis was rejected, and the study concluded that Angel Investors have a statistically significant effect on the performance of selected SMEs in Gasabo District.

Table 6. Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.789	.144		5.480	.000
	Angel Investors	.873	.043	.776	20.457	.000

a. Dependent Variable: Performance of SMEs

The results in Table 6 show that Angel Investors have a positive and statistically significant effect on the Performance of SMEs in Gasabo District, Rwanda. The unstandardized coefficient (B = 0.873) indicates that a one-unit increase in Angel Investors is associated with a 0.873-unit increase in SME performance, holding other factors constant. The standardized beta coefficient ($\beta = 0.776$) further indicates a strong positive effect of Angel Investors on SME performance. The relationship is statistically significant because the significance value is 0.000, which is below the 0.05 level of significance, while the t-value of 20.457 further supports the statistical significance of the predictor. Therefore, the findings indicate that improvements in the accessibility, availability, provision, and utilization of Angel Investor financing are associated with improved Performance of SMEs in Gasabo District, Rwanda.

4.2 Discussion of Findings

This study examined the effect of Angel Investors on the Performance of selected Small and Medium Enterprises (SMEs) in Gasabo District, Rwanda. The findings indicate that angel investors make an important contribution to the performance and development of SMEs. Respondents generally indicated that angel investors are available to support businesses and that they can provide financial resources needed to support business growth. They also indicated that angel investors consider the potential and performance of businesses when making investment decisions. These findings suggest that angel investors can provide SMEs with opportunities to obtain capital that may not be easily available through other financing sources. Access to such investment can enable SMEs to strengthen their operations, expand their businesses, develop products and services, and take advantage of available market opportunities. However, the findings also suggest that regular access to angel investment remains a challenge for some SMEs. This means that the presence of potential angel investors does not necessarily guarantee that every SME will receive investment. Therefore, SMEs need to improve their investment readiness and ability to attract potential investors.

The findings from the correlation and regression analyses further demonstrate the important role of Angel Investors in the Performance of SMEs. The correlation analysis indicated a positive relationship between Angel Investors and SME Performance, showing that improvements in access to and utilization of angel investor financing are associated with improvements in SME performance. The regression analysis also demonstrated that Angel Investors significantly influence the Performance of SMEs. This finding suggests that increased access to angel investment can contribute to improved business growth, operational capacity, and overall performance. The finding may be explained by the ability of angel investors to provide capital that enables SMEs to finance business activities, expand their operations, improve products and services, and respond to changes in the market. In addition to financial resources, angel investors may provide business knowledge, guidance, mentorship, and professional networks that can assist SME owners in making better business decisions and managing their enterprises more effectively.

The findings are also supported by the Market Timing Theory developed by Baker and Wurgler (2002). The theory explains that firms consider prevailing market conditions when making financing decisions and tend to seek particular sources of finance when those sources are more favorable or attractive. In the context of SMEs, this theory helps explain why businesses may seek angel investors when external equity financing provides an appropriate opportunity to obtain capital for growth and expansion. When SMEs can identify favorable investment opportunities and attract angel investors, they can obtain financial resources that support business development and improve their ability to respond to market opportunities. Therefore, the positive contribution of angel investors to SME performance is consistent with the Market Timing Theory because SMEs can benefit from choosing financing opportunities that are favorable to their business needs and growth objectives.

The findings are consistent with previous studies cited in the research. Mason and Harrison (2023) emphasized the importance of business angel investment in supporting entrepreneurial businesses and their development. Similarly, the African Business Angel Network Report (2021) indicated that angel investors can provide important financial support to businesses and contribute to their development. Nambaje and Wamalwa (2022) also established that angel investors can support SME growth through the provision of financial resources and other forms of business support. In the Rwandan context, Murenzi (2023) reported that angel investment can support SME development through improved access to finance, business planning, product development, and market opportunities. The consistency between these previous findings and the present study indicates that angel investors can provide important financial and non-financial support to SMEs when businesses are able to access and effectively utilize such investment.

5. Conclusion and Recommendations

5.1 Conclusion

This study concludes that Angel Investors have a significant positive effect on the Performance of selected Small and Medium Enterprises (SMEs) in Gasabo District, Rwanda. The findings showed that angel investors provide SMEs with opportunities to access financial resources that support business growth, expansion, and improvement of business operations, although regular access to angel investment remains a challenge for some SMEs. The correlation and regression findings further confirmed a positive and statistically significant relationship between Angel Investors and the Performance of SMEs. Therefore, strengthening the accessibility, availability, and utilization of angel investor financing can contribute to improved business growth, operational capacity, and overall performance of SMEs in Gasabo District. This conclusion is supported by the Market Timing Theory, which explains that firms consider favorable financing opportunities when making financing decisions.

5.2. Recommendations

Based on the study findings on the effect of Angel Investors on the Performance of selected Small and Medium Enterprises (SMEs) in Gasabo District, Rwanda, the following recommendations are made:

1. SME owners and managers should strengthen their investment readiness by improving business plans, financial records, and information on business performance. This would increase their ability to demonstrate business potential and attract angel investors who carefully select enterprises based on their potential and performance.
2. Angel investors and SME support organizations should strengthen connections between angel investors and SMEs in Gasabo District by creating networking opportunities, investment forums, and business-matching platforms. This would improve the accessibility of angel investors and increase opportunities for SMEs to obtain financing for business growth and expansion.
3. Government authorities and other SME development stakeholders should create a supportive environment for angel investment through awareness programs, investment facilitation, and measures that encourage more angel investors to invest in SMEs. This would increase the availability of angel investment and help address the challenge of limited regular investment, thereby strengthening the contribution of angel investors to the performance and growth of SMEs in Gasabo District.

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