

## **ANALYZING THE IMPACT OF MICRO FINANCE INSTITUTES ON THE GROWTH OF SMES WITH SPECIAL REFERENCE TO KURUNEGALA DISTRICT IN SRI LANKA**

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### **Abstract**

*The SME (Small and Medium Enterprises) is the backbone of the Sri Lankan economy since it provides 45% of employment and contributes to 52% of Gross Domestic Production. 59 percent SME are highlighted that they face finance difficulties when they have conducted the daily operations. Further, it is emphasized that SMEs are often cannot afford to pay the high interest rate charged on loans. Micro finance institutes start to support the SME who hasn't access the formalized financial institutes to fulfill their capital requirements. This study is mainly focused to identify the impact of microfinance services on the growth of SMEs in Sri Lanka. Overall, the outcome revealed that Micro savings, Insurance, and Training significantly impact the Small and Medium Enterprises' growth except Microcredit. Micro Finance Services of Micro Finance Institutes are recommended for the Small and Medium Enterprises to achieve their financial growth.*

**Keywords:** *Micro Finance, Small and Medium Enterprises, Micro saving, Microloan, Training, Insurance*

### **Introduction**

Small and Medium Enterprises (SMEs) are played a significant role in the dynamic business environment as the most important sector for achieving a national goal. SMEs are focused on poverty eradication through employment creation and economic growth (Wambui, 2015). In the global context, SMEs are the main actor of employment creation and it will lead to making the key element of SMEs by achieving the “growth” and “employment” targets. In European Union (EU) approximately 26 million SMEs are operated and 109 million people are employed with them. SMEs' contribution toward the Gross Domestic Product is 2/3 (Papadopolus et al., 2018). Most of the African countries such as Kenya (Mbithe,

2010)(Kalui and Omwansa, 2015), Uganda (Wilfred et al., 2013), and Nigeria (Khan, 2020) highlighted that SMEs are most impacted on their economy. Asian countries such as India, South Korea, China, Malaysia, and Japan have enjoyed the benefits which are getting from SMEs. SMEs play a pivotal role in promoting grassroots economic growth and direct for equitable sustainable development (Kyale, 2013), job creation, and poverty alleviation in developing nations (Koech, 2011). SMEs are considered as the socio-economic and political development catalysts in developing and developed countries (Mbithe, 2010). SMEs have become the most important matrix in the global economy (Kyale, 2013). Thus, it is a vehicle for rapid growth and industrialization of the country's economy (Koech, 2011) and

impacts to increase the industrial production and exports (Kyale, 2013).

The Government of Sri Lanka (GOSL) identified the SME sector as an important strategic sector which is driven by inclusive economic growth, regional development, employment generation, and poverty reduction. SME is the backbone of the Sri Lankan economy and more than 75 percent of enterprises provide 45 percent of employment and contribute to 52 percent of Gross Domestic Production (Ministry of Industry and Commerce, 2015). Moreover, the National Export Strategy of Sri Lanka (2018-2022) explained that it is needed to support 'the integration of SMEs across Sri Lanka into the export value chain'. The report, 'non-agricultural economic activities in Sri Lanka (2013-2014) recorded that 71,126 small enterprises and 10,405 medium enterprises all over Sri Lanka are conducting their operations (Department of Census and Statistics, 2015a).

Finance is a key component for the initiation, development, and growth of enterprises. Large, medium or small businesses are required finance facilities for conducting their operations and expanding their business. Large organizations have their finance and most financial institutes are given financial facilities to large organizations under limited conditions (Kyale, 2013). However, SMEs are the main party who are facing financial problems and who haven't facilities to access finance. SMEs should have an access to finance and credit to sustain livelihoods and development. If SMEs haven't access to credit, it may cause to hinder company development (Sanya and Polly, 2017). Further, a lack of access to finance has been recognized as a constraint on the growth of SMEs (Lawson, 2007). Hence, financial problems are major issues faced by SMEs in each development stage.

GOSL suggested that financial institutions need to facilitate access to credit facilities with special desks for SMEs (Ministry of

Industry and Commerce, 2015). If the Sri Lankan SMEs have adequate resources and opportunities, it will lead that organization to plug in with the global value chain, international markets and drive innovations. Lack of finance has been identified as the key constraint of SMEs which is led to a minor contribution to the export portfolio. 59% of SMEs highlighted that they face financial difficulties when they conducted their daily operations. Further, it is emphasized that SMEs often cannot afford to pay the high-interest rate charged on loans (Ramanayake, 2019).

Financial institutions play a vigorous role to fulfill the finance requirements of the businesses (Kyale, 2013) and play a financial intermediation role by transferring the capital from the persons who have surplus to those in deficit (Ektepe and Iwedi, 2017). Large enterprises can easily obtain loan facilities from the financial institutes to conduct their business operations (Kyale, 2013) and have more accessibility to bank credit and financial services which are provided by local and foreign financial institutions rather than SMEs (World Bank, 2001). SMEs are considered risky and unprofitable businesses by the formal financial institution and hesitant to provide credit or loans to them (Sanya and Polly, 2017).

SMEs are facing difficulties in fulfilling the standards of the formal financial institute when obtaining loans. It was guided by stand-up formal and informal organizations such as social groups and Micro Finance Institute (MFI) on behalf of the SMEs to access the financial resource (Portes, 1998). Hence, MFI starts to support small businesses and poor households who haven't access the formalized financial institutes to fulfil their capital requirements (Mintah, Attefah, and Amoako-Agyeman, 2014).

However, MFI helps to economic growth and development of any government through poverty reduction (Adama, Duru, and Diyoke, 2017). MFI provides a diverse financial product portfolio and it is impacted

to achieving sustainability of the SMEs (Wambui, 2015). Further, MFIs made arrangements to provide secure credit to SMEs on easy terms (Babajide, 2012). Microfinance institutes affect the growth of SMEs (Aladejebi, 2019, Mintah, Attefah, and Amoako-Agyeman, 2014). Microfinance institutes are identified as effective instruments for poverty reduction and well-being improvements (Ebimobowei, Sophia, and Wisdom, 2012).

Microfinance services are provided in formal and informal ways. MFIs are licensed banks, licensed finance companies, co-operative rural banks, thrift and credit cooperative societies, microfinance institutes, and non-governmental institutes (Central bank of Sri Lanka, 2018). MFI has given facilities to SMEs for business startup, development, and growth. It is provided with both financial services such as loans, savings, micro insurance, money transfers and non-financial services such as financial education, training and advisory services (Badullahewage and Withanage, 2018). Several studies explained that microfinance institutes impact the growth of SMEs in their countries (Aladejebi, 2019)(Mintah, Attefah, and Amoako-Agyeman, 2014).

The SME sector provides job opportunities by reducing the unemployment rate and poverty and increasing productivity in the Sri Lankan context also. The number of microfinance institutes is gradually increased in Sri Lanka and their terms and conditions for the loan confirmation are also getting tufted (Badullahewage, 2020). There may be a linkage between SMEs' growth and the microfinance facilities of the MFI. There are limited studies conducted to identify the relationship between SME growth and the impact of MFI. Moreover, the third-highest number of business establishments is recorded in the selected district in Sri Lanka, and it is recorded 49.1 percent micro and 85 percent small business registrations (Department of Census and Statistics, 2015b).

There is no proper study to measure the impact of MFI on the income and productivity growth of SMEs in the Sri Lankan context. As an example; Senaratne & Wijewardena (2017) have identified that MFI initiative has proved to be a useful way of supporting small business and enhancing many women's lives. Further Wijewardana & Dedunu (2017) sate Micro Finance institute to increase the amount of loans to the poor women in Anuradhapura area and reduce the loan interest rate as lower as possible to enhance the living standard of poor people in the area. This study mainly focused on analyzing the impact of activities of microfinance institutes on the growth of SMEs in Sri Lanka. The main objective of this study is to identify the impact of the services of microfinance institutes on the growth of SMEs in Kurunegala district, Sri Lanka.

## **Literature Review**

The term Small and Medium Enterprises is unable to define with a single definition since it is defined differently by various organizations, persons, and countries according to their environment. Moreover, SMEs are defined by using their characteristics such as the size of capital invested, business turnover, number of employees, location, market share, and management style (Wairimu and Mwilaria, 2017). It is difficult to identify the universally accepted definition for SMEs and used a variety of benchmarks such as the total number of employees, annual turnover, and total investment to define the organizations. As commonly used yardsticks of SME definitions are the total number of employees, annual turnover, and total investment. The European Union (EU) defined SMEs as enterprises with less than 250 employees and less than 50 EUR million of annual turnover or a balance sheet that comes under EUR 43 million (European Commission, 2015). China defines SMEs are businesses with relatively small sizes in personnel and scope (EU SME Center, 2019). India defined SMEs using investment

and turnover thresholds (Ministry of MSME, 2020). Consequently, in the Sri Lankan context, SMEs are defined using turnover, the value of assets, and the number of the person engaged. It is shown in Table 1 (Ministry of Industry and Commerce, 2015).

SMEs are a key contributor to the economic development of any country. Hence, European Union highlighted that SMEs are the engine of the European economy which are contributed to job creation, economic growth, and social stability. Further, it is explained that 21 million SMEs in the European Union provided 88.8 million jobs. SMEs stimulate an entrepreneurial spirit and innovation (European Commission, 2015). 99.6 percent of companies are SMEs in China and it is offered 80 percent of the job positions. Furthermore, it is highlighted more than 70 percent of organization has their patents and SMEs are contributed 60 percent to Gross Domestic Production (GDP) and 50 percent of the taxes (EU SME Center, 2019). India also reported a 45 percent contribution to the total industrial production and 40 percent to the GDP through SMEs (Ministry of MSME, 2020). Further, 75 percent of

SMEs in Sri Lanka out of the total number of enterprises, 52 percent contribute to the Gross Domestic Product and 45 percent contribute to employment (Wickramathilaka, 2018).

Almost all the countries make arrangements to enhance the SMEs' contribution toward economic growth. Hence, the European Union is created policies to promote entrepreneurship and improve the business environment for SMEs (European Commission, 2015). The report called 'SMEs in China: Policy Environment Report' highlighted that china government focuses on the growth of SMEs and introduces new SME Promotion Law (EU SME Center, 2019). Consequently, the Sri Lankan government creates a platform for SMEs for reducing the unemployment rate by respecting population increment. According to the Department of Census and Statistics, Sri Lanka's unemployment rate was 4.4 percent at the end of 2016. However, the unemployment rate among youth (age 15 to 24 years) was much higher than the national average of 21.6 percent (Gunawardene, 2017).

Table 1: Definition of SME in Sri Lanka

Type	Annual Turnover (Rs.)		Number of Employees	
	Manufacturing	Service	Manufacturing	Service
Micro	15 Mn	15 Mn	10	10
Small	16 Mn-250 Mn	16 Mn-250 Mn	11-50	11-50
Medium	251 Mn-750 Mn	251 Mn-750 Mn	51-300	51-200

Source: Department of Census and Statistics, 2015b

#### Micro Finance

Micro Finance can be defined as provisions of financial services to low-income people by the Consultative Group to Assist the Poor (CGAP). Microfinance facilitates financial services with products namely microloans, savings, micro-leasing, micro-insurance, and money transfers. It is helped to assist the exceptionally poor in expanding or establishing their businesses. Microfinance services are provided by Non-Governmental

Organizations (NGOs), savings and loans cooperatives, credit unions, government banks, commercial banks, and non-bank financial institutions. Hence, microfinance is the key term in the financial sector which is focused on the persons and organizations that are looking for financial support.

Micro Finance institutions should enhance their management capacity and bring effort to reach the needy people in order to

eradicate poverty and promote the welfare of the society (Sugathadasa, 2018). MIF should develop to avoid multiple loans received by the beneficiaries. Because, when the poor women receive micro loans from several places then it can become burden for settling it (Kaluarachchi & Jahfer, 2014).

Sri Lanka's microfinance sector has grown with its diverse range of institutions and products. Micro Finance Institutes are important for the organization and people who are lacking financial resources. Central Bank of Sri Lanka recognizes Cooperative Rural Banks, Regional Development Banks and financial Non-Government Organizations as active members who are providing microfinance services in the country for the past many years (Central bank of Sri Lanka, 2018). Approximately 14,000 financial institutions are available in Sri Lanka to provide microcredit products for SMEs (Kongovi and Sinha, 2016).

Micro Finance services are supported to improve the capacity of rural households, improve technical skills, provision local support for enterprises with emphasis on marketing, and launch linkages among the business communities. Moreover, the financial control is a fundamental factor to attain SME's objectives (Nunden et al. 2022). Amin (2012) explained that business services such as loan application, bookkeeping, and accounting, training of rural in funds management and small-scale enterprise planning are increased access to microfinance.

#### *Micro saving*

People are engaged with different informal techniques to collect money with a small amount before the advent of the MFI. After initiating the MFI, it is started to provide Micro savings as the product to the persons and organizations who have limited income to build their funds (Kagan, 2020). Individuals and small businesses have been engaged daily, weekly, and monthly with providing contributions to enhance their savings. Often banking products are

developed for these micro-savings. MFI takes care of the micro-savings that are needed for small businesses to grow their businesses (Gyimah and Boachie, 2018). Micro savings provide an opportunity for low-income earners and SMEs to earn interest, enjoy higher loans, or acquire assets in the future (Aryeetey, 2008). Hence, micro saving is an effective product offered by the MFI for SMEs for enhancing the financial assets of the company little by little.

Micro savings are collected daily, weekly or monthly from the SMEs and individuals by the MFI. Micro savings are helped to increase the market share and grow the business (Gyimah and Boachie, 2018). Thus, most of the studies highlighted that micro-savings positively impacted the growth of SMEs (Aladejebi, 2019) (Wambui, 2015) (Mintah, Attefah, and Amoako-Agyeman, 2014) (Quaye, 2011). The first hypothesis was developed as follows;

H1: There is a significant impact of micro-savings on the growth of SMEs in Sri Lanka.

#### *Microloans*

Microloans or credits are funds that are given to SMEs or individuals over some time. In other words, Micro credits are the amount of money given by the MFI to SMEs and individuals. Further, SMEs are used microloans to increase their working capital, which leads to an increase in turnover and growth in terms of profit, and size of the firm (Aladejebi, 2019). MFI gives a small amount of money as loans to fulfill the finance requirement of the organization. It is given money to the small-scale borrowers who are facing financial issues, and have verifiable credit history. MFI mainly focused on two objectives namely poverty eradication and empowerment through microloans. Micro credits are used by SMEs to increase their working capital (Wambui, 2015). Thus, most studies are stated that microcredit leads to an increase in the turnover and growth of the firm (Aladejebi, 2019) (Babajide, 2012) (Wambui, 2015) (Mintah, Attefah, and Amoako-Agyeman, 2014) (Quaye, 2011).

The second hypothesis was developed as follows:

H2: There is a significant impact of microcredits on the growth of in Sri Lanka.

#### *Training*

An organization which is trying to earn a profit needs to consider working capital management (Wambui, 2015). Most of the studies highlighted that SMEs and working capital management have a negative relationship. Managers can improve business profitability through the reduction of inventory and shortening the cash conversion cycle (Snober, 2014). Micro Finance Institutes are provided training on working capital management such as inventory management and record keeping. MFI provides training facilities in business areas such as accounting, marketing, writing of business plans, etc. (Gyimah and Boachie, 2018). The workshops and educational training are recommended solutions for existing business challenges faced by SMEs (Sarpong-Danquah et al., 2018). MFIs support SMEs by providing training facilities.

MFIs are provided with education training to SMEs to effective utilization of resources, inventory control, and record-keeping as a non-financial service. Thus, this educational training guides for business development (Aladejebi, 2019). The third hypothesis was developed as follows:

H3: There is a significant impact of training on the growth of SMEs in Sri Lanka.

#### *Micro-insurance*

Risk is the possibility of economic or financial losses (Irene, Charles, and Japhet, 2015). Most SMEs have faced this uncertainty and MFI help to mitigate this risk. Thus micro-insurance is the insurance that is provided to their customers to mitigate risk (Oscar Akotey and Abor, 2013). MFI

provides micro-insurance for SMEs to manage their business in risky situations. Hence, most studies stated that micro-insurance positively impacts their growth in terms of sales level and profitability (Wambui, 2015). Micro-insurance is defined as a low-value product that requires different design and distribution schemes. Micro-insurance charged a low premium that is based on the community risk rate. Microfinance insurance involves life, health, property, and other valuable items of business (Gyimah and Boachie, 2018).

The fourth hypothesis was developed as follows:

H4: There is a significant impact of micro-insurance on the growth of SMEs in Sri Lanka.

#### *Micro Finance Services and Growth of SMEs*

Any organization mainly focused on profit and growth. Growth is defined as the increased size of the organization, physical resources, and intangible resources. The growth of the firm is defined based on the supply of capital, labour, and availability of resources to the firm (Gupta et al, 2013). SMEs are faced several constraints such as input, finance, labour market, equipment and technology, domestic demand, international market and regulations at the growing stage (Wang, 2016).

MFIs provide support to SMEs to grow their business in the aspects of micro-savings, microcredits, insurance, and training based on the literature. But it is very difficult to find the literature related to the impact of each component of microfinance on the growth of SMEs which is the aim of this study. The impact of microfinance institutes can be identified with the factors of micro-savings, microcredits, insurance, and training since those are the services offered by the MFIs.

Table 2: Operationalization of variables

Variable	Dimension	Source
Demographic factors	Gender	
	Education qualification	
	Industry	
	Legal Status	
	Business age	
	Number of Employees	
Micro Savings	Minimum saving	
	Saving rate	
	Mobile banking facilities	
	Micro saving services	
Micro credits	Loan duration	
	Interest rate	
	Mode of disbursement	
	Repayment period	
	Lending limit	
Micro-insurance	Coverage areas	Kalui, F. M. and Omwansa, D. M. (2015)
	Amount of insurance premium paid	
	Time period	
Training	Frequency of training	
	Training on management skills	
	Training on record keeping	
	Training on finance management	
	Training on investment area	
Growth of SMEs	Net/ Gross profit worth of the total business	(Wambui, 2015)
	No. of employees increased	Kalui, F. M. and Omwansa, D. M. (2015)
	Turnover rate	
	Use of micro finance product	

## Methodology

This study used both primary and secondary sources for data collection. Primary data refers to information obtained for the first time collected data by the researcher on the variables of interest for the specific purpose of the study. Primary data was collected first-hand for subsequent analysis to find solutions to the problem. Hence, primary data for the study is collected through a structured questionnaire. The questionnaire is comprised of questions under three sections namely demographic information, independent variables, and dependent variable. Secondary data refers to the information which is gathered from already existing sources. Thus, secondary data was

collected from research articles, textbooks, and other academic publications. SPSS package is used to analyse data since this is a quantitative study. Descriptive statistics, regression, correlation, ANOVA, and independent-sample t – test is used to analyse the data in this study.

The population of this study is registered SMEs in the Kurunegala district in Sri Lanka. The population size is 4,794 registered SMEs in Kurunegala district (Department of Census and Statistics, 2015b). The sample is selected using a simple random sampling technique using the Morgan table and the sample size is 354 (Krejcie & Morgan, 1970).

As a data collection tool, a questionnaire plays as a pre-formulated written set of questions that are used to record the answers of respondents. Questionnaires are an efficient data collection mechanism when the researcher knows exactly what is required and how to measure the variables of interest. Questionnaires can be administered personally, mailed to the responders, or electronically distributed (Sekaran, 2013). A questionnaire for the study is prepared with three sections to collect the data regarding demographic information, independent variables, and dependent variables. Hence, questions for the questionnaire are developed using the operationalization of variables.

Operationalization is the process of defining the measurement of a phenomenon. It is not straightly measurable through its existence phenomena. Operationalization defines as a fuzzy concept to create it distinguishable, measurable, and understandable by empirical observation (Sekaran, 2013). The operationalization of the variables has been defined based on the previous literature as shown in Table 2.

#### *Research Design*

Based on the literature, the conceptual framework has been developed to achieve the objectives of the proposed study. Further, it is identified four independent variables namely micro saving, microcredits, training, and micro insurance. The growth of SMEs identified as the dependent variable of the study.

#### **Data Analysis and Discussion**

Questionnaires were designed to determine the impact of Micro Finance Institutes on the growth of SMEs and it was distributed among the owners of Small and Medium Enterprises in Kurunegala District, Sri Lanka. Four hundred questionnaires were distributed and 387 questionnaires were analyzed. The response rate was 96.75 percent.

The respondents consist of 62 percent of

male owners and 38 percent of female owners. Further, most of the SME owners are diploma holders (46.8%), and others are qualified with advanced level (24%), certificate level (14.5%), and degree level (14%). 66.7 percent of respondents were in the service sector and the remaining 33.3 percent were in the manufacturing sector. Most of the companies (47.5%) started recently and 33 percent of companies are having five to ten years of experience in the industry.

Descriptive analysis was used to discuss the basic features of the data by mentioning distribution, central tendency, and dispersion. Further, it is given a summary of the characteristics of the selected data (Saunders, Lewis, and Thornhill, 2008).

Table 3: Descriptive Analysis Result

Variables	Mean Statistic	Std. Deviation Statistic
Growth of SMEs	3.1916	.61591
Micro Saving	3.4734	.53460
Micro Credit	3.5231	.59867
Insurance	3.3928	.52258
Training	3.3969	.53090

Table 3 is indicated the central tendency measurement, distribution, and dispersion measures through the value of the mean, standard deviation, and skewness relating to the study.

Accordingly, there was no significant difference among the mean values of each variable. Micro Credit represented the highest mean value (M=3.5231, SD=.59867) and the lowest mean value represented the Growth of SMEs (M=3.1916, SD=0.61591). There is no considerable variation among data when considering standard deviation and the mean value.

If any test is taken using any instrument for a particular subject and the result of the test is similar in every attempt then it is considered



reliable (Sekaran, 2013). Cronbach Alpha testing is used as it is the most well-accepted reliability test tool applied by researchers. If the Cronbach's Alpha is closure to 1.0, the reliability of the data set is higher (Sekaran, 2013). The Reliability analysis was performed with Cronbach's alpha test as shown in Table 4.

Cronbach's alpha value for the variables, micro saving, microcredit, training, and insurance is greater than 0.7. All the variables can be accepted since reliability in the range 0.7 is considered to be acceptable.

Table 4: Reliability Analysis

Variables	No of items	Cronbach's Alpha
Micro Saving	5	0.776
Micro Credit	9	0.931
Training	5	0.749
Insurance	3	0.773
Growth of SMEs	6	0.775

#### Correlation Analysis

The correlation measures the strength and direction of linear relationships between the

dependent and independent variables. The relationship between the growth of SMEs and independent variables, micro saving, microcredit, training, and insurance is measured using correlation analysis as shown in Table 5.

All the independent variables are correlated with the dependent variable at 0.01 levels. Further, it is showed that there is a strong positive relationship between independent and dependent variables because the correlation values are positive and those values are between 0.6 and 1.

#### Regression Analysis

A regression analysis was performed and the result is mentioned in Table 6. The adjusted R2 value is 0.845 which indicates that predictor variables for the test can explain 84.5 percent variation in the Growth of SMEs. Therefore, it can be concluded that this regression model is reasonably fit for the data. The R Square value is 0.847 and it indicates that independent variables explain 84.7% of the variability of growth of SMEs.

Table 1: Correlation Result

#### Correlations

		DE	I_ALL	T_ALL	S_ALL	C_ALL
DE	Pearson Correlation	1	.763**	.882**	.900**	.856**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	387	387	387	387	387
I_ALL	Pearson Correlation	.763**	1	.682**	.735**	.743**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	387	387	387	387	387
T_ALL	Pearson Correlation	.882**	.682**	1	.935**	.929**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	387	387	387	387	387
S_ALL	Pearson Correlation	.900**	.735**	.935**	1	.878**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	387	387	387	387	387
C_ALL	Pearson Correlation	.856**	.743**	.929**	.878**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	387	387	387	387	387

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

F value in the ANOVA table is denoted whether the overall regression model is a good fit for the data. The independent

variables are statistically significantly predicted the dependent variable as shown in Table 7,  $F(4,382) = 526.732, p < .005$ .

Table 6: Regression analysis (Model Summary)

<b>Regression analysis (Model Summary)</b>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.920 <sup>a</sup>	.847	.845	.24255	

a. Predictors: (Constant), micro saving, insurance, microcredit, and training

Table 7: Regression analysis (ANOVA Table)

<b>Regression analysis (ANOVA Table)</b>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	123.952	4	30.988	526.732	.000 <sup>a</sup>
	Residual	22.473	382	.059		
	Total	146.425	386			

a. Predictors: (Constant), micro saving, insurance, microcredit, and training b. Dependent Variable: Growth of SMEs

The result of the regression analysis is shown in Table 8 and it shows the statistical significance of each of the independent variables. It can be identified that insurance,

training, and micro saving are significantly impacted on the growth of SMEs because P-value is less than 0.05, and microcredit is not significantly impacted the growth of SMEs.

Table 2: Regression Analysis (Coefficient Table)

<b>Regression Analysis (Coefficient Table)</b>						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.691	.090		-7.711	.000
	Insurance	.245	.038	.208	6.400	.000
	Training	.307	.089	.265	3.450	.001
	Micro Saving	.504	.071	.438	7.130	.000
	Micro Credit	.073	.061	.071	1.195	.233

a. Dependent Variable: Growth of SMEs

### Hypothesis Testing

The result of the multiple regression analysis and correlation analysis shows the strength of relationships between two variables.

The correlation analysis shows that there is a significant relationship between the micro-savings and growth of SMEs highlighting with .900 significant values at 0.01 levels. Moreover, the results which are getting from the multiple regression analysis show that micro saving directly impacts the growth of

SMEs ( $\beta = 0.504, p = 0.000, p < 0.05$ ). Hence, the first hypothesis is accepted. There is a significant impact of micro-savings on the growth of SMEs in the Kurunegala district in Sri Lanka.

The correlation analysis shows that there is a significant relationship between the micro credits and growth of SMEs with highlighting .856 significant values at 0.01 levels. The results which are obtained from the multiple regression analysis show that

microcredits are not directly impacted the growth of SMEs ( $\beta = 0.073$ ,  $p=0.233$ ,  $p>0.05$ ). The second hypothesis is not accepted. There is no significant impact of microcredits on the growth of SMEs in the Kurunegala district in Sri Lanka.

The correlation analysis shows that there is a significant relationship between the training and growth of SMEs with indicating .882 significant values at 0.01 levels. The results of the multiple regression analysis show that training directly impacts the growth of SMEs ( $\beta = 0.307$ ,  $p=0.001$ ,  $p<0.05$ ). The third hypothesis is accepted. There is a significant impact of training on the growth of SMEs in the Kurunegala district in Sri Lanka.

The correlation analysis shows that there is a significant relationship between the insurance and growth of SMEs with .763 significant values at 0.01 levels. The results of the multiple regression analysis show that insurance directly impacts the growth of SMEs ( $\beta = 0.245$ ,  $p=0.000$ ,  $p<0.05$ ). The fourth hypothesis is accepted. There is a significant impact of micro-insurance on the growth of SMEs in the Kurunegala district in Sri Lanka.

## **Discussion**

This study aims to identify the impact of the services of microfinance institutions on the growth of SMEs in Sri Lanka. Micro financial services such as micro-credits, micro-savings, training, and insurance were considered to measure the services of microfinance institutions. Four hypotheses were developed to test the relationship between four independent variables with the growth of SMEs.

The first hypothesis, which was tested the impact of micro-savings on the growth of SMEs in Sri Lanka was accepted with a positive impact on the growth of SMEs. The result of this study is confirmed with the results of previous studies (Aladejebi, 2019; Wambui, 2015; Mintah, Attefah, and Amoako-Agyeman, 2014; Quaye, 2011).

The impact of microcredits on the growth of SMEs was tested secondly. The result is indicated that there is no relationship between microcredits on the growth of SMEs. The result of this study which is related to microcredit is not matched with the results of the previous studies (Aladejebi, 2019; Wambui, 2015; Mintah, Attefah, and Amoako-Agyeman, 2014; Quaye, 2011; Mbithe, 2010; Kyale, 2013; Badullahewage, 2020).

The relationship between training and the growth of SMEs was tested. The third hypothesis was accepted by indicating the positive impact of training on the growth of SMEs. Thus, it is agreed with the outcome of this research conducted to study the impact of microfinance services on the growth of SMEs and it is confirmed with the results of previous studies (Aladejebi, 2019; Wambui, 2015; Mintah, Attefah, and Amoako-Agyeman, 2014; Quaye, 2011; Badullahewage and Withanage, 2018; Kyale, 2013; Mbithe, 2010).

Then the impact of insurance on the growth of SMEs was checked and the hypothesis was accepted. There is a significant impact of micro-insurance on the growth of SMEs in Kurunegala district in Sri Lanka and it is agreed with the previous findings (Aladejebi, 2019; Wambui, 2015; Mintah, Attefah, and Amoako-Agyeman, 2014; Quaye, 2011; Badullahewage and Withanage, 2018; Kyale, 2013).

## **Conclusion**

SME is a trending sector in Sri Lanka since numbers of SMEs are growing faster. Further, the Microfinance sector is playing a critical role by providing its services formally and informally (Badullahewage and Withanage, 2018). This study is mainly focused on identifying the impact of microfinance services namely micro-savings, microcredits, insurance, and training on the growth of SMEs. Data which are collected from 387 respondents are analyzed and

tested hypothesis using the SPSS package. The finding of the study concluded that the growth in SMEs is happened due to changes in micro-savings, micro-insurance, and training provided by MFIs except for microcredit. The results of the study show a significant relationship between the microfinance services namely micro saving, micro insurance, and training with the growth of SMEs. This conclusion concurs with the result of the previous studies (Aladejebi, 2019; Wambui, 2015).

There was an insignificant relationship between microcredit and the growth of SMEs. The following points were suggested to enrich the impact of microcredit on the growth of SMEs.

As MFIs, it is needed to charge reasonable and affordable interest from the SMEs for their credit because they are conducting their business with marginalized capital.

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The government can be intervened to supply cash deficit requirements of SMEs through small micro-credit loan facilities at a lower rate.

Further, it can be introduced policy framework for MFIs to conduct their business with a lower rate of loan facilities. Moreover, the government should protect the SMEs from the MFIs who are charged higher loan rates, and higher insurance premiums.

## Future Research

While the research uses a mixed-methods approach, future research could focus on conducting a more extensive quantitative analysis of the data collected to establish statistical relationships between different variables. This approach could help provide more in-depth insights into the factors that influence the MFI to the growth of SMEs in the global market.

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