

THE IMPACT OF MICROFINANCE INSTITUTIONS ON SMALL- AND MEDIUM-SCALE ENTERPRISES

K.D. Lakmal¹, E.K. Jayampathi² and M.G.M. Dilrukshi²

¹Department of Commerce, Faculty of Commerce and Management, Eastern University of Sri Lanka, Chenkalady, Sri Lanka; ² Department of Management and Entrepreneurship, Faculty of Management and Finance, University of Ruhuna, Matara, Sri Lanka
Corresponding author: jayampathi2k@gmail.com

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist very or exceptionally poor in expanding or establishing their businesses. The concept of Microfinance is gradually drawing attention recently, and has been practiced by people since many decades ago. The microfinance institutions (MFIs) are providing savings and credit services for small and medium size enterprises (SMEs). The set of SMEs generates employment opportunities and creates wealth. In Sri Lanka, SMEs contributes approximately 1% of the GDP to the national economy. SME's need both financial and non-financial services to enhance their productivity, profitability and growth. Access to financial services is essential for growth and development of micro and small enterprises. The microfinance industry has become a major strength by providing enough financial assistance for the sustainability and survival of SMEs in Sri Lanka. This study was designed to identify the impact of MFIs on the growth of SMEs in Sri Lanka. By this study, the contribution of MFIs on the entrepreneurial activities that lead to sustainable growth of SMEs and challenges that faced by SMEs accessing credit was determined. The population for the study was small and medium-scale enterprises in Matara district. The sample (200 SMEs) was selected using simple random sampling technique. Both primary and secondary sources were used to gather relevant information and data. Primary data were collected using a structured questionnaire and research papers; books and journals were used as secondary sources. Qualitative as well as quantitative methods were used in the analysis of the primary data and descriptive statistical techniques such as total score and simple percentage were used. The findings exhibit a significant relationship between the services provided by the microfinance institutions and SMEs performance. Further, the study confirmed the positive contributions of MFIs loans towards promoting SMEs market share, production efficiencies and competitiveness. Accordingly, this study recommends formulating policies on SMEs to create a better platform for SMEs to access better financial services to be succeeded in their development agendas.

Keywords: Microfinance institutions, (MFIs), Small and medium-scale enterprises