

The impact of microfinance loans on growth of Small and Medium Enterprises in Anuradhapura district, Sri Lanka

A.G.A.U. Soamaratne and P.D.N.K. Palihena

*Department of Accountancy and Finance, Faculty of Management Studies,
Rajarata University of Sri Lanka, Mihintale
Corresponding author: ayanthikas@gmail.com*

Abstract

Small and Medium Enterprises (SMEs) play a key role in the development of Sri Lankan economy while SMEs are reported to have both high birth and death rate. It is because of the lack of firm resources and it is considered the major problem for the SMEs owners. To overcome this problem they need capital. Microfinance institutions mainly focus on economic development by extending small loans without any strict requirements and most of SME owners get loans from microfinance institutions to generate their capital. Through the extant literature, the previous studies identified that the Microfinance Loans have put an impact on the SMEs firm growth. Therefore, this study was conducted to examine the impact of Microfinance Loans on the growth of SMEs. The researcher has used Access to Loans (AL), Loan Period (LP), Interest Rate (IR) and Instalments (IN) as independent variables and to measure the growth of SMEs, the Growth of Sales (GS) and Growth of Assets (GA) of SMEs were used as dependent variables of this study. A self-administered questionnaire was used to collect the data from a targeted sample of 100 SMEs in Sri Lanka. The researcher has used descriptive statistics and inferential statistics. According to the findings, the AL shows a significant positive relationship with the growth of SMEs. IR and LP had partially accepted because IR has no relationship with GS while has a significant positive relationship with the GA and LP has no relationship with GA while has a significant positive relationship with the GS. Moreover, IN has no relationship with growth of SMEs. Therefore, the study found that the microfinance loan has a partial relationship with growth of SMEs. Accordingly, the AL is the main reason for the growth of SMEs and it is very important for both financial institutions and the government to provide loan facilities in the setting of the SME development.

Keywords: *Microfinance, SMEs, growth of firm*