

**The impact of microfinance on the development of Small and Medium Enterprises (SMEs) in Sri Lanka with special reference to Matale district**

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**Abstract**

Small and Medium Enterprises (SMEs) are vital to the Sri Lankan economy with their key role in the development of the economy by contributing to the economic growth, employment generation, regional development and poverty reduction. However, the survival of SMEs remains erratic with reporting both high starting rate and ending rate of SMEs because of the failure to continue their operations due to financial challenges and lack of resources. Microfinance institutions are contributing to economic development by fulfilling the financial needs of SMEs to invest and expand their businesses. The objective of this study is to examine the impact of Microfinance on the development of SMEs in Matale district. Microfinance services namely microcredit, micro savings, micro training and micro insurance are considered as the independent variables of the study and sales growth and asset growth are considered as the dependent variables in measuring the development of SMEs. The present study used a self-administered questionnaire for data collection from a sample of 100 SMEs in Matale district. Descriptive analysis, correlation and regression analysis were performed in the study. The results revealed that microcredit service has a significant positive impact on the development of SMEs. In addition, services such as micro-savings and micro-training have shown a significant positive impact on asset growth but have no significant impact on sales growth. However, the micro insurance service has no significant impact on either of the dependent variables. The study therefore found that microfinance services have a partial impact on the development of SMEs in Matale district. These findings provide important policy implications.

**Keywords:** *Asset growth, micro-finance services, sales growth, small and medium enterprises.*