

GOVERNMENT SUPPORT ON PERFORMANCE OF SMES DURING COVID-19 PANDEMIC: SPECIAL REFERENCE TO CENTRAL PROVINCE IN SRI LANKA

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INTRODUCTION

Small and medium-sized enterprises (SMEs) play a crucial role in the socio-economic development of countries, including Sri Lanka, where they contribute significantly to the GDP, accounting for 52% of the total (Gunawardana, 2020). However, the COVID-19 pandemic has severely impacted SMEs, disrupting their supply chains, reducing demand, and creating working capital challenges. Numerous studies have provided compelling evidence that the COVID-19 pandemic had a profound and adverse impact on small and medium-sized enterprises (SMEs) (Indika et al., 2020; Deyshappriya & Nawarathna, 2020; Shafi et al., 2020; Robinson & Kengatharan, 2020). These studies collectively emphasize the severe challenges SMEs faced due to the pandemic.

The Sri Lankan government has implemented various initiatives to support SMEs, including loan moratoriums, low interest rates, grants, tax relief, and concessionary credits (Central Bank of Sri Lanka Circular No. 10 of 2020). The effect of government support on SMEs in the context of the COVID-19 pandemic has been researched by numerous academics. For instance, Yang et al. (2021) investigated the impact of government subsidies on the survival of SMEs. They discovered that such support has a beneficial impact on the likelihood of survival for businesses. Moreover, some studies have demonstrated that during economic crises like the COVID-19 pandemic, government support is essential to the survival and expansion of SMEs (Ahsan et al., 2021). A study conducted by Zaazou and Salman (2022) on Egyptian SMEs' response to the COVID-19 pandemic found varying opinions on the government's measures. While some sectors, including chemists, benefited significantly, others expressed dissatisfaction. Similarly, a study in Nigeria highlighted the direct positive impact of facilitating access to finance on SMEs' performance (Peter et al., 2018). However, when considering Sri Lanka, the research indicates that SME operators expect more extensive government support to navigate the crisis successfully (James et al., 2020). Other studies conducted in Germany also show that the pandemic had mixed effects on SMEs, benefiting some entities while leaving others struggling (Fischer et al., 2020). Numerous studies have examined government support for SMEs during the pandemic, focusing on developed countries such as the United States, the United Kingdom, and Canada. Limited research exists on the effects of government interventions in Sri Lanka, creating an empirical gap that this study seeks to address. This highlights the need for a more localized examination of the Sri Lankan context and the challenges SMEs face during the pandemic.

Therefore, the study aims to investigate government support's impact on SMEs performance in Sri Lanka's Central Province during the COVID-19 pandemic. It fills a research gap by focusing on the specific region and examining the effects of various forms of government support, such as debt moratoriums, tax support, and credit support, on the performance of SMEs.

METHODOLOGY

The absence of a nationally accepted SME definition and limited information on SMEs in Sri Lanka make it challenging to identify the exact population (Amaradiwakara & Gunathilake, 2016). Due to practical limitations, a sample of 120 SMEs was selected using a simple random sampling technique. Data was collected through a structured questionnaire using a 1 to 5 Likert scale for standardized data collection and quantitative analysis. Descriptive and regression analyses were conducted to examine the impact of government support on SMEs' performance during the COVID-19.

The study's independent variable, government support (*GS*), encompassed three key aspects: facilities extended on debt moratorium (*DM*), tax supports (*TS*), and credit support (*CS*). Revenue growth, profitability, and liquidity are critical dimensions of SMEs' performance (*PRO*). Based on the support from the existing literature, the following hypotheses were formulated:

H₁: Government support significantly impacts the performances of SMEs during the COVID-19 pandemic.

H_{1a}: Debt moratorium significantly impacts the performances of SMEs during the COVID-19 pandemic.

H_{1b}: Tax support significantly impacts the performances of SMEs during the COVID-19 pandemic.

H_{1c}: Credit support significantly impacts the performances of SMEs during the COVID-19 pandemic.

According to the above hypotheses, the research model would be:

$$PRO = \beta_0 + \beta_1 DM + \beta_2 TS + \beta_3 CS + \epsilon$$

RESULTS AND DISCUSSION

The data obtained from the questionnaire underwent a descriptive analysis, which involves the generation of summary statistics to depict and summarize various features of the dataset quantitatively. Furthermore, the normality test confirmed the internal consistency of the dataset, as indicated by Cronbach's alpha values exceeding 0.7. Table 1 illustrates the correlation results, explicitly showing a statistically significant positive relationship between credit support (*CS*) and SME (*PRO*) performance.

Table 1

Correlation Results

	<i>DM</i>	<i>TS</i>	<i>CS</i>	<i>PRO</i>
<i>DM</i>	1			
<i>TS</i>	463**	1		
<i>CS</i>	-.296**	.301**	1	
<i>PRO</i>	-.131	.043	366**	1

**P<0.05

Table 2
Regression Output

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	β	Std. Error	β		
(Constant)	2.977	0.416		7.159	0.000
<i>DM</i>	-0.009	0.080	-0.019	-0.108	0.914
<i>TS</i>	0.072	0.089	-0.092	-0.808	0.421
<i>CS</i>	0.352	0.092	0.407	3.840	0.000
R-square	0.141				
Adj. R-square	0.111				
Durb. -Watson	1.666				
F Value	41.455				
Sig.	0.000				

a. Dependent Variable: *PRO*

Note. provides the R-square (R^2) and Adjusted R-square values. In this study, 14.1% (0.141) of the business performance of SMEs in Central Province in Sri Lanka can be explained by government support. The Durbin-Watson statistic shows 1.666, which is positive autocorrelation and relatively normal in empirical studies. The ANOVA extracts highlighted that the regression model predicts the dependent variable significantly well (Sig. = 0.000). The multiple regression analysis results confirmed the hypotheses on the significance of credit support (*CS*) towards the performance of SMEs ($p < 0.05$). Further, the government support extended through debt moratorium (*DM*) and tax supports (*TS*) were insignificant.

According to the results, the regression model can be depicted as follows:

$$PRO = 2.977 - 0.009DM + 0.072TS + 0.352CS + \varepsilon$$

CONCLUSION AND IMPLICATIONS

The study's findings indicate that credit support has a significant positive association with the business performance of SMEs in the central province of Sri Lanka. The government support programs, including tax help and debt moratorium, did not significantly affect SME business performance. These results align with previous research emphasizing the importance of financial aid in supporting SMEs during economic crises (Ahsan et al., 2021).

The study's outcome highlights the need for policymakers to prioritize providing credit support to boost the growth and sustainability of SMEs in the region. It suggests that tailored government assistance programs focused on credit support can substantially impact SMEs' performance. Furthermore, the study's findings serve as a valuable foundation for future research in understanding the effects of various forms of government support on SMEs. It underscores the importance of considering regional variations and the specific needs of SMEs when designing effective support programs. The COVID-19 pandemic has exposed the vulnerability of SMEs, making it even more critical to provide adequate support to ensure their survival and contribute to the nation's economic growth. In conclusion, the study highlights the significance of comprehending SMEs' unique requirements and implementing targeted government assistance to address their challenges effectively. By doing so, policymakers can play a crucial role in supporting SMEs and promoting economic prosperity in the Central Province and beyond.

Keywords: Credit support, debt moratorium, performance of SMEs, tax supports

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