

The Role of Microfinance Institutions on Growth of SMEs: Reference North Central Province

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Abstract

SMEs play a vital role in employment creation and income generation in many developing economies. Further, SMEs have been major beneficiaries of significant financial support from microfinance institutions (MFIs) in form of services such as micro-credit, micro-savings, micro-insurance, training, and advisory, and others. The objective of this research is to examine the effect of MFIs services on growth of SMEs. A sample of 100 SMEs located in the North Central Province of Sri Lanka was selected by using the convenience sampling technique. The data was collected through a self-administered questionnaire. The study's independent variables are micro-credit, micro-savings, micro-insurance, and training, whereas the dependent variable is growth of SMEs. The study used descriptive analysis to understand the behaviour of data and multiple regression analysis to test the developed four hypotheses. According to the regression results, MFIs services, namely micro-credit, micro-savings, micro-insurance, and training significantly affect the growth of SMEs. Accordingly, the study concludes that the MFIs facilitate education and financing for the development of SMEs. Hence, SMEs can get benefits through financial and non-financial services offered by MFIs. The findings of the study also hold practical implications for SMEs' owners, MFI holders, policy-makers, the government, and those who are looking to start a business in the future.

Keywords: Financial and non-financial services, microfinance institutions, SMEs