IMPACT OF CREDIT ACCESSIBILITY ON THE PERFORMANCE OF SMES IN SRI LANKA; EVIDENCE FROM NORTH CENTRAL PROVINCE

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INTRODUCTION

Numerous business surveys have found that financing is the most crucial factor influencing the survival and expansion of Small and Medium Enterprises (SMEs) in both developed and developing countries (Claessens, 2006; Osoro & Muturi, 2013). Akudugu et al. (2009) emphasized that access to credit was the situation where individuals have the right to make decisions related to the allocation in the short term and repay according to schedule and interest rate committed. Successful SMEs maintain success by adopting influential factors that influence their performance. According to Reijonen and Komppula (2007), more capital or lack of financial sources is needed for SMEs.

With over 10220 small and medium-sized businesses in North Central Province, which account for the majority of employment and revenue in the nation, face a widespread problem known as access to finance, which threatens the overall performance of SMEs in North Central Province. Most of these studies have been conducted in developing countries like Uganda, Malaysia, and Indonesia. Many studies have considered credit accessibility on financial performance (Eton et al., 2021; Obamuyi & Tomola, 2009). Hence, more research on performance, including financial and non-financial performance, should be conducted. However, it was challenging to find the impact of credit accessibility on the overall performance of the North Central Province SMEs in Sri Lanka. This study sought to answer the question: What is the impact of credit accessibility on the performance of SMEs in Sri Lanka? By examining the impact of credit availability on SMEs' overall performance, decision-makers can enhance the quality of their financial decisions.

METHODOLOGY

The conceptual framework is developed below based on comprehensive literature.

Figure 1

Conceptual Framework
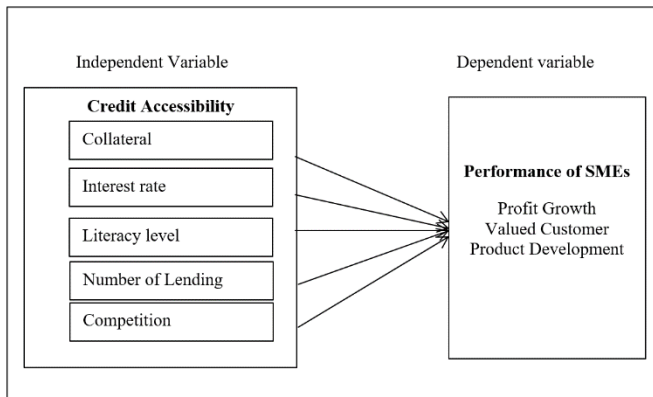
The study utilized a quantitative research approach, using a deductive approach to develop a theoretical framework and hypotheses, focusing on the owner of an SME organization in North

Central Province, Sri Lanka. The research adopted a survey method by focusing on 350 North Central Province SMEs and collecting primary data. Quantitative aspects were measured using a five-point Likert scale approach (from strongly agree to strongly disagree).

The data gathered were analyzed by using SPSS 20.0. To enhance the instrument's reliability, a reliability test was conducted, and as an analysis method, descriptive statistics, correlation analysis, and multiple regression analysis were used.

RESULTS AND DISCUSSION

Reliability test

The reliability of these variables was measured by using Cronbach's alpha and the acceptable alpha values indicate that the questionnaire is reliable in measuring the aforesaid constructs. The following table displays the alpha values.

Table 1

Reliability Test

Variable	Cronbach's Alpha value	No. of Items
Collateral (CO)	0.600	5
Interest rate (IR)	0.816	4
Literacy level (LL)	0.834	4
Number of Lending Institutions (NLI)	0.939	4
Competition (COM)	0.943	4
Profit Growth (PG)	0.863	3
Valued Customer (VC)	0.918	3
Product Development (PD)	0.804	3

Accordingly, the research found that all independent and dependent variables had acceptable Cronbach's alpha values.

Descriptive Statistics

Table 2
Descriptive Analysis for Independent Variable

Variables	Mean	Std. Deviation
Collateral	3.48	0.816
Interest Rate	3.34	1.193
Literacy Level	3.26	1.221
Number of Lending Institutions	3.29	1.375
Competition	3.23	1.398
Profit Growth	2.63	1.325
Valued Customer	2.58	1.378
Product Development	2.79	1.270

Table 2 shows collateral as the most crucial variable in SMEs' credit accessibility. Interest rate has the second highest mean value, while competition is low.

The mean value explains that most SMEs have favorable feelings regarding performance.

Correlation Analysis

The following table shows the correlation analysis if independent and dependent variables.

Table 3

Correlation

	PF	PG	VC	PD	CO	IR	LL	NLI	COM
PF	1								
PG	0.971**	1							
VC	0.969**	0.953**	1						
PD	0.916**	0.816**	0.810**	1					
CO	-0.737**	-0.713**	-0.741**	-0.648**	1				
IR	-0.776**	-0.781**	-0.792**	-0.641**	0.709**	1			
LL	-0.645**	-0.608**	-0.637**	-0.598**	0.523**	0.833**	1		
NLI	-0.807**	-0.694**	-0.725**	-0.895**	0.537**	0.548**	0.510**	1	
COM	-0.828**	-0.841**	-0.750**	-0.776**	0.658**	0.636**	0.509**	0.542*	1

Note: * $P< 0.05$, ** $P< 0.01$

A P-value of 0.000 emphasizes that the independent variable significantly affects the dependent variable of SMEs. Table 3 shows a negative association between collateral, interest rate, literacy level, number of lending institutions, and competition with the performance of SMEs. There are negative associations between collateral, interest rate, literacy levels, Number of lending institutions, and competition with the profit growth of SMEs. There are negative associations between collateral, interest rate, literacy levels, number of lending institutions, and competition with valued customers of SMEs. Association between collateral, interest rate, literacy levels, and number of lending institutions, competitions, and product development were negative.

Regression Analysis

Regression Model 01 – Impact of credit accessibility on profit growth
Table 4
Regression Model 01

Dependent - PG	Coeff.	Std. Error
Collateral	-0.042	0.053
Interest Rate	-0.486**	0.052
Literacy Level	0.157**	0.042
Number of Lending Institutions	-0.243**	0.026
Competition	-0.457**	0.028
Constant		6.167
R-Square		0.853
F		398.214**

Note. **$p<0.01$, n= 350

According to Table 4, the R^2 value of 0.853 indicates that predictor variables for the test can explain an 85.3% variation in the profit growth variable. F value of 398.214 was significant for profit growth at 0.000 ($P \leq 0.01$) and fit for the study.

The regression equation is:
$$Y = 6.167 - 0.042X_1 - 0.486X_2 + 0.157X_3 - 0.243X_4 - 0.457X_5 + \mu$$

As a result, interest rate, literacy level, number of lending institutions, and competition impact the profit growth of SMEs. Consequently, the H_{2a}, H_{3a}, H_{4a}, and H_{5a} hypotheses were supported.

Regression Model 02 - Impact of credit accessibility on the valued customer

Table 5
Regression Model 02

Dependent – VC	Coeff.	Std. Error
Collateral	-0.252**	0.063
Interest Rate	-0.477**	0.061
Literacy Level	0.087	0.049
Number of Lending Institutions	-0.320**	0.030
Competition	-0.252**	0.033
Constant		6.628
R-Square		0.811
F		294.910**

Note. **$p<0.00$, n= 350

The R^2 value of 0.811 indicates that predictor variables for the test can explain the 81.1% variation of the valued customer variable. F value of 294.910 was significant for the valued customer at 0.000 ($P \leq 0.01$) and fit for the study.

The regression equation is:
$$Y = 6.628 - 0.252X_1 - 0.477X_2 + 0.087X_3 - 0.320X_4 - 0.252X_5 + \mu$$

As a result, collateral, interest rate, number of lending institutions, and competition impact the profit growth of SMEs. Consequently, the H_{1b}, H_{2b}, H_{4b}, and H_{5b} hypotheses were supported.

Regression Model 03 - Impact of credit accessibility on the product development

Finally, the R^2 value of 0.926 indicates that predictor variables for the test can explain 92.6% variation of the product development variable. F value of 866.862 was significant for product development at 0.000 ($P \leq 0.01$) and fit for the study.

Table 6
Regression Model 03

Dependent – PD	Coeff.	Std. Error
Collateral	-0.080**	0.036
Interest Rate	0.126**	0.035
Literacy Level	-.144**	0.028
Number of Lending Institutions	-0.597**	0.017
Competition	-0.360**	0.019
Constant	6.248	
R-Square	0.926	
F	866.862**	

Note. **$p<0.01$, n= 350

The regression equation is:
$$Y = 6.248 - 0.080X_1 + 0.126X_2 - 0.144X_3 - 0.597X_4 - 0.360X_5 + \mu$$

As a result, collateral, interest rate, literacy level, number of lending institutions, and competition impact the product development of SMEs. Thus, the H_{1c}, H_{2c}, H_{3c}, H_{4c}, and H_{5c} hypotheses were supported.

CONCLUSION AND IMPLICATIONS

This study aimed to investigate the impact of credit accessibility on the performance of SMEs in North Central Province. The research was deemed relevant considering the lack of research on credit accessibility and performance within the Sri Lankan context. Based on the findings, interest rate, literacy level, number of lending institutions, and competition were significant in determining the profit growth of SMEs. Collateral, interest rate, number of lending institutions, and competition significantly impact the valued customers of SMEs. Finally, collateral, interest rate, literacy level, number of lending institutions, and competition significantly impact the product development of SMEs. While collateral does not impact profit growth, literacy levels do not impact valued customers of SMEs.

This study provides empirical evidence of the relationship between credit accessibility and SMEs' performance measured by profit growth, valued customers, and product development. In this research, there are five aspects of measuring credit accessibility. The study found that, as a developing country, the accessibility of SMEs to credit needs to be enhanced by the credit schemes. Recommend policies simplifying loan access for SMEs, reducing bureaucracy, simplifying strict requirements, implementing interest rate strategies, educating business owners on borrowing value, and partnering with investors to ensure financial institution availability and accessibility.

Keywords: Credit accessibility, north central province, performance, small and medium enterprises.

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