

PERFORMANCE OF SMALL AND MEDIUM SCALE AGRICULTURAL ENTERPRISES (SMES) IN KANDY DISTRICT AND THEIR ACCESS TO CREDIT

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Small and Medium Scale Enterprises sector is considered as an important source of economic growth and job creation in developing as well as developed countries. Achieving the economic development by developing the SMEs is considered as a popular development strategy for most of the third world countries. However it has been reported that financial limitations are the major problems faced by these SMEs in adopting new technologies and increasing capacities their business. Although Sri Lankan government has implemented several policy measures to enhance the access to finance, still SMEs are reluctant to deal with formal credit sources.

The purpose of this study was to analyze the performances and credit access in the context of the SMEs in Kandy district, including the : (1) factors affecting performances (2) significant factors affecting to access to credits (3) constraints faced by the entrepreneurs (4) Strengths, Weaknesses, Opportunities and Threats .Direct interviewing the SME owners using a pre-tested structured questionnaire from forty selected agricultural SMEs registered at the Industrial Development Board was done. Data were analyzed by multiple regression and Chi-square techniques using SPSS computer package.

Results revealed that variables vis-à-vis number of employees, level of education, experience and access to credit by SMEs were significantly associated with it's performances. Fifty six per cent of owners have accessed to informal sources when credit needs aroused. Forty nine per cent of the respondents have acquired initial capital from their own savings and 35 per cent from informal sources. However, only 7 per cent have been accessed to obtain bank loans. When consider the operating capital requirement, as much as 65 per cent have used the credit facility from either formal or informal, while 35 percent have not used operating capital. High mortgage expectation, difficulties in finding guarantors, problems due to low income from the enterprises and documentation problems were among the major constraints in accessing formal credit. The factors such as education level of the enterprise owner, connection with credit agency, provision of collaterals, distance to credit sources and Monthly Average Profit (MAP) were significantly associated with the access to credit. Majority of SMEs have a negative perception on institutional borrowing.

Key words: Small and Medium scale enterprises, Performance of SMEs, Access to credits