



Impact of Microfinance Services on Growth of Micro Small and Medium Scale Enterprises: Empirical Evidence from Micro, Small and Medium Scale Enterprises in Kalutara district

Rathnayake K.M.N.D, Fernando P. I. N, Fernando A.G.N.K.

Department of Management Sciences, Uva Wellassa University, Sri Lanka

Department of Management Sciences, Uva Wellassa University, Sri Lanka

Department of Management Sciences, Uva Wellassa University, Sri Lanka

Article Information

© 2019 Faculty of Management, Uva Wellassa University. All rights reserved.

To Cite This Article:

Rathnayake K.M.N.D, Fernando P. I. N, Fernando A.G.N.K., (2019), Impact of Microfinance Services on Growth of Micro Small and Medium Scale Enterprises: Empirical Evidence from Micro, Small and Medium Scale Enterprises in Kalutara district, *Journal of Management and Tourism Research*, Vol II Issue I, pp. 49-63,

http://www.uwu.ac.lk/wp-content/uploads/2019/JMTR_V2I1_cH4.PDF

Keywords:

Micro Finance Services

Micro Small and Medium Scale Enterprises

Entrepreneurs

Micro credit

Abstract

Micro, Small and Medium Scale Enterprises (MSME) sector is identified as an important strategic sector to create economic and social sustainability in Sri Lanka. This sector is playing a vital role in economic growth, regional development, employment generation and poverty reduction in the emerging economy of Sri Lanka. The Micro Finance Institution (MFI) has been developed a variety of services to assist the financial and non- financial needs of the entrepreneurs including credit, saving, leasing, insurance facilities, and training programs. The sample has been derived from Kalutara district and 100 numbers of respondents have been selected through the random sampling method. Primary data has been collected and administered through a questionnaire. The data were analyzed using descriptive analysis, correlation coefficient analysis, Regression analysis, Baron and Kenny mediator analysis method and Sobel test. The findings revealed the positive relationship between Microfinance services and the growth of MSMEs. Mediator analysis and the Sobel test identified that experience level partially mediates the relationship between the microfinance services and the growth of MSMEs. Study recommends to government to implement different tax policies for this sector, increase the investment on infrastructure in rural areas and this enables MFIs to maintain the lowest rate of interest, increase their outlets in rural areas and to deliver more effective on training programs in order to empower the MSMEs in Sri Lanka to achieve long term sustainability in Sri Lanka.

Introduction

The Micro Small and Medium Scale Enterprise (MSME) sector has been identified as an important strategic sector in Sri Lanka and it is a driver of change for inclusive economic growth, regional development, employment generation, and poverty reduction. The government had played down its role as the major driving force of the economy by a process of commercialization and privatization. The emphasis, therefore, shifted from large-scale industries mainly to small and medium scale industries, which have the potentials for developing domestic linkages for rapid and sustainable industrial development. Attention was focused on the organized private sector to spearhead subsequent industrialization programs. Incentives given to encourage increased participation in these sectors were directed at solving and alleviating the problems encountered by industrialists in the country, thereby giving them greater leeway towards increasing their contribution to the national economy.

There is no proper definition for defined MSMEs and different institutions defined in different ways to MSMEs. As defined in most cases, the number of employees and the value of assets are considered. Adam (2008) defines enterprise size by value of the asset as less than 1 million are micro, assets value between 20-50 million are medium, and more than 50 are large. And the department of census and statistics identify small industry as employees less than 10 and more than 10 are micro and small in respectively.

The practice of microcredit dates back to as early as 1700 and over the years it spread to Asia. The current use of the expression of micro-financing has its following in the 1970s when organizations such as Grameen Bank of Bangladesh with microfinance pioneer Mohammad Yunus, were starting the

modern industry of micro-financing (Mawangi, 2011). Microfinance emerged to fill the gap left by formal banks in providing a broad range of financial services that includes services such as deposit, loans, payment services, and insurance to individuals, micro, small, and medium enterprises which were on the rise during this period (Gamage, 2000). Microcredit is a variation on traditional credit service which involves providing small loans to people who would otherwise be unable to secure credit, because of poverty. Microcredit is one component of microfinance and there are services such as insurance, money transfers leasing and micro-savings. Micro saving is similar to the traditional savings account, but designed for small deposits with low minimum deposits or no minimum deposit and typically no service charge. And microfinance institutions provide a training facility for selected SME, with the support from the central bank of Sri Lanka. The training for one day or one-week training which helps the micro-enterprise to become a small enterprise. The growth of micro-enterprises can measure by identifying their expansion of production, the increment of the employees, turnover, income, physical assets. In this research, the growth was measured by using changes in profitability, sales volume, employees and physical assets of the micro-enterprises (Penrose, 1959)

Problem Statement

Despite of MSMEs large contribution in countries development and economic growth in various aspects such as increased profit, increase of business outlets, creation of employment, leads into increase business assets, business diversification and sales return, however their growth and development in developing countries are mainly limited by access to finance, poor managerial skills and lack of training opportunities and high-cost inputs (Cook, 2000)

Microfinance institutions are set up to provide funding for enterprising poor. Through cycles of loan and repayment, it is expected that the SME is increasingly empowered and grow. According to Mosely (2001), Micro Finance Institution (MFI) is said to be a cheaper way of source of finance to SMEs. Despite MFI service been a cheaper way of source of finance to SMEs, very little is known on the actual cost for microfinance clients to access these services, except interest rates. The interest rate is not the only cost of credit incurred by SMEs, there are also other costs related to the process of obtaining information about the services and the whole process of applying for the loan, cost of getting transportation to make loan payments, time spent obtaining loan and tracking the debt all these are referred to as transaction costs. There is some contradictory argument on the utilization of microfinance services. Some users of microfinance services graduated from their first and second loan on average experienced significantly higher growth in their profit and household income, as compared with other similar business operators. But some borrowers left the program after receiving only one loan (Copstake, 2000). Therefore, this study investigated the impact of microfinance services on the growth of MSMEs in Kalutara district.

The micro small and medium scale enterprises are playing a vital role in the emerging economy of Sri Lanka. But they are still facing the problem which is the access to financial services. Even though there were more kinds of credit facilities, it's difficult to obtain for MSME because most of them are not having necessary collaterals. But the microfinance offers more credit and extra facilities for entrepreneurs who are in the lower level of their business.

The small business is playing a vital role in creating sustainable Sri Lanka which creates the employment generation, regional development, resource utilization and its high impact on Gross Domestic Production of Sri Lanka. The development of this sector will enable a lot of opportunities for all levels of people in society by creating opportunities for employment. This sector is still emerging, therefore, there is limited research conducted in this area which is the identification of the impact of microfinance services on the growth of MSME, therefore still not builds the proper background on that, which leads to the theoretical gap in this sector. There is a lack of research conduct on to identify the impact between microcredit, micro saving, and training on the growth of the MSMEs in the Sri Lankan context. Therefore, there is an empirical gap also. This research identified how microfinance services impact on the growth of MSME with the level of experience of the owner of the business with special reference to Kalutara district.

Therefore, drawing from these gaps researcher develop primary research question as How Microfinance services impact on growth of Micro Small and Medium Scale Enterprises (MSME) in Sri Lankan context? Secondly, the researcher tries to give answers for How micro credit impact on growth of MSME sector? How micro savings impact on growth of MSME sector? Which ways the training impact on growth of MSME Sector? As well as in which ways the microfinance services impact on growth of MSME through experience level?

In order to address above research questions researcher formulated four research objectives as to identify the impact of micro credit on growth of MSME, to identify the impact of micro savings on growth of MSME, to identify the impact of training on growth of MSME and to identify the impact of microfinance services on growth of MSME through experience level.

Literature Review

Microfinance is defined as a development tool that provides financial services and products such as very small loans, savings, micro leasing, and money transfer to assist the very poor in expanding or establishing their business. It's mostly used in emerging economies where SMEs do not have access to other sources of financial assistance (Marguerite, 1998). The industrial development bank defines a small industry as an establishment whose capital investment in plant & machinery doesn't exceed Rs 4million (US\$ 4200) & the total number of regular employees doesn't exceed 50 persons (Margueite, 1998).

There is a different kind of definitions on MSME. The Department of Small Industries (DSI) classified enterprise with capital investment less than 5 million (US\$ 52500) & fewer than 50 employees as SMEs (Ponnamperuma, 2000). World Bank-financed investment assistant scheme, the financial institution

defines a SME as those enterprise whose investment in fixed assets at original book value, excluding land and building and Sri Lanka Export Development Board (SLEDB) identified the export-oriented enterprise do not exceed Rs 8 Million (US\$ 84000) (Hewaliyanage, 2001).

The firm growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements. The firm size is the result of firm growth over some time and it should be noted that firm growth is a process while the firm size is a state (Penrose, 1959). The growth of a firm can be determined by the supply of capital, labor and appropriate management and opportunities for investments that are profitable. The determining factor for a firm's growth is the availability of resources to the firm (Mambula, 2002)

The research has undertaken the mediator variable as the experience level of the entrepreneur. The attributes of the business person are generally acknowledged as imperative fixing that impacts growth. Research indicates that particular characteristics of the entrepreneur that are associated with the growth of the enterprise include motivation, previous management, and business experience and demographics of the entrepreneur such as age, education (Dutta, 2006). On the off chance that the business person's explanations behind beginning the business began in force or opportunity-driven spurs rather than push" or need-driven propels, the subsequent venture will probably develop. Research in developed countries has shown that an entrepreneur's level of experience may be associated with MSEs' characteristics such as growth and performance.

Several studies have been conducted on microfinance services. Copstake (2000) did a study on the impact of microcredit on poverty. The program was not directed towards the poorest business operators but one-third of the clients who were below the national poverty line. Those who graduated from their first to a second loan on average experienced significantly higher growth in their profit and household income, as compared with otherwise similar business operators. The borrowers also diversified their business activities more rapidly. However, some borrowers were worse off especially among the 50% or so who left the program after receiving only one loan.

Nelson (2010) conducted a study to investigate the impact of microfinance institutions (MFIs) on the

Fatchamp (1997) contends that with lacking assets, ranchers and fishers can't put resources into new gear and apparatus, and it winds up hard to connect with new markets and items. He further contends that without financial assistance, small farmers and artisanal fishermen cannot cope with temporary cash flow problems, and are thus slowed down in their desire to innovate and expand. The general perception is that access to external finance is critical for poor entrepreneurs, who may never have funds proportional to their ambitions.

Margueite (1998) highlighted that there exists a direct relationship between microfinance access and the growth of SMEs. The paper evaluated SMEs Proprietors who have gotten credits just from money related credit. Findings of the study showed that an increase in business profits, employments, outlets, sales volume, all these, were observed to be statistically significant improved by microfinance. Except for an increase in the capital structure which has no direct relationship to microfinance access.

The study also revealed that many problems faced by enterprises are not related microfinance received, but are related to macro-economic institutional constraints, such as demand and supply problems, tax regime and energy problems thus microfinance access is an important aspect of business growth.

The growth can be determined by the supply of capital, labor & appropriate management & opportunities for investment that are profitable. The determining factor for a firm's growth is the availability of resources to the firm (Gay, 1981). Nelson (2010) Concludes his study by stating microfinance is an important asset to developing countries since it can cater for financing needs of the very poor in the society. Economies need to emphasize the development of SME as they provide employment & generation incomes in an economy (Mwangi, 2011). Finance is the lifeblood of any business & SME cannot be set up if there is a lack of finance which the financial institution & government can provide at cost or no cost. It's vital to understand that 70% of SME fail because of poor capital

funding in the first & second year (Finweek, 2008). According to the Asia Pacific Economic Cooperation (2003), it's recognized that the roles of microfinance institutions are very important for the development of SME.

Conceptual Framework

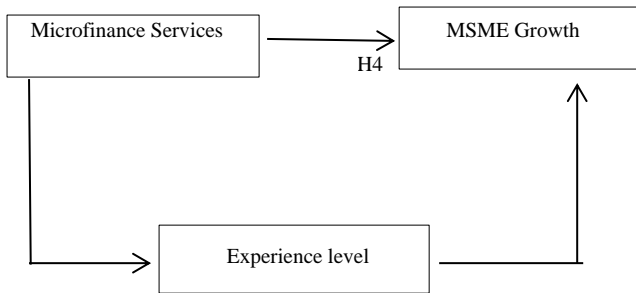


Figure 1: Conceptual Model

Source: Based on literatures

Research Methodology

According to Kothari (2004), a research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is the theoretical structure inside which looks into is led; it constitutes the blueprint for information accumulation, estimation, and examination of information. This study sample was drawn as 100 MSME in Kalutara district and data collected by using questionnaire and it consisted of both the quantitative and qualitative questions. Data analyzed through the correlations and regressions analysis by using Statistical Package for Social Scientists (SPSS).

The research population is Micro small and medium scale entrepreneurs in Kalutara district because Western province is the province which having highest level of micro small and medium scale enterprises and Kalutara district is the area which has the highest level of micro-entrepreneurs as 93% from 60717 of micro small and medium scale enterprises in Kalutara district (Department of census and statistic 2013-2014).

This study is a special reference to the Kalutara district, due to the Department of census and statistic (2013-2014) the western province is the province which is having the highest number of SMEs establishment and the highest number of persons involved in SMEs from the whole island. The Kalutara district is the area which is having the highest percentage of micro-enterprises and micro-entrepreneurs as 93% and 47% respectively. The Kalutara, Panadura and Bandaragama are the areas that were chosen as sample because these are having the highest level of micr enterprise as well as micro entrepreneurs. Cluster sampling technique involves the selection of an entire group from a list of groups (Adam, 2008). The aggregate populace is partitioned into various moderately little subdivisions which themselves are groups of little units. Some of these clusters are then randomly selected for inclusion in the overall sample. Then use the simple random sampling techniques to choose the respondent from each cluster. The researcher selected respondents from their clusters/groups receiving financial services from their micro finance institute. Under this cluster sampling technique, one hundred (100) respondents were selected from their groups to constitute the sample by using a simple random method.

Sampling Frame of the Research

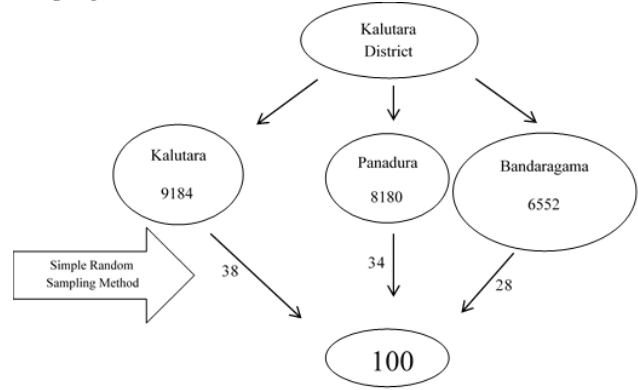


Figure 2: Research Sample and Sampling technique

Source: Department of census and statistic 2013-2014

Data Collection Methods

To collect the data needed this research survey by using a questionnaire for collecting primary data. The questionnaire is designed to obtain both qualitative and quantitative data and it does include both open-ended and close-ended questions. Those questions were created based on a five-point Likert scale. The Likert scale is ranging from strongly agree to strongly disagree. The questionnaire of this survey consisted of two parts as part A and part B. The part a collected demographic information like age, gender, business experience, education, etc. Part B collected the information about microfinance services and the growth of MSMEs.

Data Analyzing Method

After collecting data, it is necessary to utilize statistical techniques to analyze the information to extend the objective of the research. Therefore, the survey data analyzed through descriptive analysis, correlation coefficient and regression, methods by using an SPSS (version 21

Mediator Analysis Model

Mediation is a hypothesized causal chain in which one variable affects a second variable that, in turn, affects a third variable.

Barons and Kenny Mediator Analysis Model

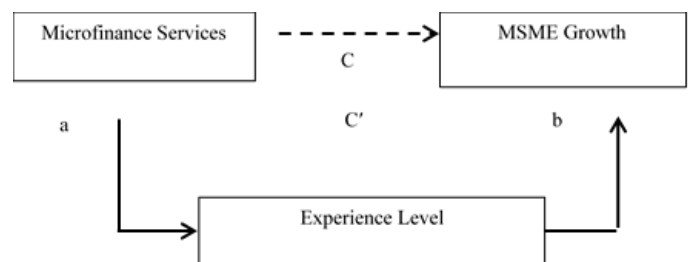


Figure 3: Barons and Kenny Mediator Analysis Model

Source: Mediation model of Baron and Kenny (1986)

a = Regression weight on Microfinance services when predicting Experience level

b and (c) are the regression weights on experience level and microfinance services respectively, when both are used together to predict MSME growth

I Testing direct effect for mediation

Baron and Kenny (1986) proposed a four step approach in which several regression analyses are conducted and significance of the coefficients is examined at each step,

Step one

Simple regression analysis with microfinance services predicting growth of MSME to test for path c alone,

$$MSME = \beta_0 + \beta_1 MFS + \varepsilon$$

Step two

Conduct a simple regression analysis with microfinance services (MFS) predicting experience level (EL) to test for path a,

$$EX = \beta_0 + \beta_1 MFS + \varepsilon$$

Step three

Conduct a simple regression analysis with experience level (EL) predicting growth of MSME to test the significance of path b alone,

$$MSME = \beta_0 + \beta_1 EL + \varepsilon$$

Step four

Conduct a multiple regression analysis with microfinance services (MFS) and experience level (EL) predicting growth of MSME

$$MSME = \beta_0 + \beta_1 MFS + \beta_2 EL + \varepsilon$$

II Sobel Test-Testing indirect effect of mediation (Sobel, 1982)

$$MSME = \beta_0 + \beta_1 MFS + \beta_2 EL + \varepsilon$$

$$EX = \beta_0 + \beta_1 MFS + \varepsilon$$

Testing total effect

Total effect is equal to the direct effect plus the indirect effect

$$c = c' + a * b$$

Results and Discussion

Regression Analysis

According to correlation analysis, it's at a significant level of 0.000 the correlation between Microfinance Services and MSME growth is 0.820. Since the Pearson Correlation is 0.820 it implies that there is a strong positive correlation between Microfinance Services and the growth of MSMEs. The research hypothesis was checked by using regression analysis. According to the first hypothesis of the research, its coefficients table revealed, the intercept equals 0.102, and the slope, (B) equals 1.034. The standard error of b is estimated at .0074. The p-value of t-test for User Microfinance services is 0.000 less than 0.05. The assumption of H1 is accepted. Therefore, it could be concluded that Microfinance Services have a significant linear relationship with the growth of MSME at a significance level of 0.05. The second hypothesis is "there is a positive impact of microfinance services on experience level". Its coefficients table revealed, the intercept equals 0.892, and the slope, (B) equals 0.785. The standard error of b is estimated at 0.059. The p-value of t test for User Microfinance services is 0.000 less than 0.05. The assumption of H2 is accepted. Therefore, it could be concluded that Microfinance Services has a significant linear relationship with the Experience level of entrepreneur at a significance level of 0.05. The assumption of H3 is accepted which there is a positive impact of Experience level on the growth of MSME. The Coefficients table revealed, the intercept equals 0.331, and the slope, (B) equals 0.926. The standard error of b is estimated at 0.091. The p-value of t-test for User Microfinance services is 0.000 less than 0.05. Therefore, it could be concluded that the Experience Level has a significant linear relationship with the growth of MSME at a significance level of 0.05. Another coefficients table revealed, the intercept equals -0.293, and the slope, (B) equals 0.866 and 0.214 of Microfinance services and Experience level in respectively. The standard error of b is estimated at 0.121 and 0.124. The p-value of the t test is 0.000 and 0.008 less than 0.05. The assumption of H4 is accepted. Therefore, it could be concluded that Microfinance services have a significant linear relationship on the growth of MSME through experience level at a significance level of 0.05.

That revealed that all four paths are significant with the coefficients of 1.034, 0.785, 0.926, and 0.866 at the 0.05 significant levels. Following the unstandardized coefficient between Microfinance services and MSME growth, it can be identified that there is a strong positive relationship between both variables. Because of it implied value as 1.034. In addition to that p, value

denotes 0.000. Therefore, it is significance at 0.05 levels. Hence it can be concluded that there is a strong positive relationship between the independent and dependent variables without having any mediator. Additionally, according to the Baron and Kenny mediation model c path is significant.

Moreover, the unstandardized coefficient between microfinance services and experience level is 0.785. It suggested that strong positive relationship between independent and the mediating variable. With reference to the Baron and Kenny a path also significant at 0.05 levels because the calculated p value is 0.000.

Similarly, the unstandardized coefficient between experience level and growth of MSME is 0.926. It illustrates that there is a strong positive relationship between the mediating variable and the dependent variable, with reference to the Baron and Kenny mediation b path also significant at 0.05 levels because the calculated p-value is 0.000.

As per the table, the data support for a statistically significant relationship ($P < 0.05$) between the variables when analyzing the independent variable and Mediating variable in predicting the dependent variable. It implied the unstandardized coefficient value as 0.866. Hence there is a strong positive relationship between variables when mediator is in the model. Therefore, the c' path also significant and When compare the c path and c' path there is a significant difference between the unstandardized coefficients of the two paths.

$$C \text{ path} - C' \text{ path} = 1.034 - 0.866 = 0.168$$

Based on the above difference, when a mediator is in the model, the effect of the independent variable on the dependent variable is reduced. The unstandardized coefficient difference is 0.168. It implied that the Experience level partially mediates the relationship between microfinance services and the growth of MSME at 0.05 significant level.

Sobel Test-Calculating the Indirect Effect

The above four-step approach is the general approach many researchers use. There are potential problems with this approach; however, one problem is that it does not ever really test the significance of the indirect pathway that X affects Y through the compound pathway of a and b. A second problem is that the Barron and Kenny approach tends to miss some true mediation effects. An alternative, and preferable approach, is to calculate the indirect effect and test it for significance. The regression coefficient for the indirect effect represents the change in Y for every unit change in X that is mediated by M. Therefore, Sobel test is used to illustrate the indirect effect between the variables.

Where,

Sb = Standard error of path b

Sa = Standard error of path a

a = coefficient of path a

b = coefficient of path b

$$\begin{aligned} \text{Sobel's SE} &= \sqrt{(Sb \cdot a)^2 + (Sa \cdot b)^2} \\ &= 0.0899 \end{aligned}$$

Source: <http://quantpsy.org/sobel/sobel.htm>

Based on the above Sobel calculation, it illustrates the portion of microfinance services on growth of MSME due to the mediating effect of experience level it is 16.25% at the 0.05 significant levels.

Conclusions and Recommendations

To identify the relationship between microfinance services and the growth of MSME researcher has conducted simple linear regression analysis. The correlation between microfinance services and the growth of MSME is 0.820. Since the Pearson correlation is 0.820 it implies that there is a strong positive correlation between those variables. The researcher has found that 67.3% percent of the variation in the MSME growth interpreted by the variable of microfinance services. Most of the research found growth can't be done only through bank loans; therefore microfinance services provided a variety of services. Through that most researchers have concluded their research, there is

a significant impact of microfinance services on the growth of entrepreneurs. According to the coefficient table p-value of 0.00 which is less than 0.05 researches has concluded, there is a positive relationship between microfinance service and growth of MSME. Li (2006) Conclude that microfinance has offered an effective finance method for the construction of new socialist rural regions and has won the support of small and medium scale enterprises. This finding suggested that there is a strong positive relationship between microfinance services and the growth of MSME on that the primary objective of the study is achieved. It likewise concurs with the discoveries of cooper (2012) that microfinance administrations had a solid positive effect on the development of SMEs. The study further concluded that the effect of microcredit, micro insurance and training on the growth of SMEs was high positive performance ($p = 0.011$)

To identify the relationship between microcredit and dependent variable the researcher has conducted simple linear regression analysis. The coefficient of this is 0.444 and the p-value of this study is 0.000 which is less than 0.05. Therefore it could be concluded microcredit is having a significant impact on MSME growth. From the result of the Model Summary table, the coefficient of determination R^2 is 0.677. It shows that 67.7 percent of the variation in the dependent variable could be interpreted by the variable of Microcredit. The microfinance services had a strong positive impact on the growth of SMEs. The study further concluded that the effect of microcredit on the growth of the micro business was high positive performance (cooper, 2012). Most researches have concluded MSME has grown when they are using a microfinance credit facility rather than joining with the bank loans. A positive relationship has been built up between MFIs advances and SMEs execution, development, and manageability. The investigation affirms the positive commitments of MFIs credits towards advancing SMEs creation, efficiencies, and aggressiveness. Although the MFI sector faces insufficient funds problems that militate against their efforts to grant sufficient loans to SMEs, yet their tendencies to boost the financial needs of entrepreneurs are considerably acknowledged. It can be concluded that most SMEs use loans as working capital mainly to source raw materials for production. The research findings confirmed that the role of financial institutions toward SMEs success is a vital importance. Also, some beneficiaries benefited from the loan once acquired for example according to the results in the field some of the respondents interviewed concluded that there are positive changes in terms of sales revenues, physical assets, employment level among others. The researcher also concludes that when making decisions on credit, most borrowers considered flexibility, loan size, and collateral security as the most important aspects. It is therefore important for MFIs to appreciate that if the three aspects are favorable, they would be a necessary infrastructure to facilitate good relations between the MFIs and MSMEs. This helps to step up the MSME performance.

To identify the relationship between micro-savings and the growth of MSME researcher has conducted simple linear regression analysis. The coefficient of this is 0.362 and p-value of this study is 0.000 which is less than 0.05. Therefore it could be concluded micro-savings is having a significant impact on growth. From the result of the Model Summary table, the coefficient of determination R^2 is 0.677. It shows that 67.7 percent of the variation in the MSME could be interpreted by the variable of Micro savings. Most studies have concluded by stating the positive impact of micro-savings on growth of MSMEs. The research finding is also consistent with the findings of cooper (2012) that microfinance services have a strong positive impact on the growth of SMEs. A further conclusion on the study can be made that the effect of microcredit, micro insurance, training and Micro savings on the growth of SMEs in developing county was high positive performance ($p = 0.001$). The research findings consistent with the findings of (Zeller (2002)) have concluded their study that savings and credit facilities help individuals or households build-up or acquire funds for all kinds of investments.

To identify the relationship between training and the growth of MSME researcher has conducted simple linear regression analysis. The coefficient of this is 0.229 and p-value of this study is 0.000 which is less than 0.05. Therefore it could be conclude training is having a significant impact of MSME growth. From the result of the Model Summary table, the coefficient of determination R^2 is 0.677. It shows that 67.7 percent of the variation in the MSME could be interpreted by the variable of training. A majority of MSMEs revealed that they

have been beneficiaries of the Business, Financial and Managerial training activities of MFIs. Realizing that most business visionaries need or have next to no information in money related administration, these help administrations have gone far to make them more aggressive and exceptionally aware of the implication of their budgetary choices. In most of the researches have concluded that all microfinance services had effects on the growth of SMEs. Microcredit had the greatest positive impact on SMEs growth, followed by training while micro-insurance and micro-savings had the least impact on SMEs growth.

The Coefficients table revealed, the intercept equals 0.293, and the slope, (β) equals 0.866 and 0.214 of Microfinance services and Experience level in respectively. The standard error of b is estimated at 0.121 and 0.124. The p-value is 0.000 and 0.008 less than 0.05. Therefore, it could be concluded that Microfinance services have a significant linear relationship on the growth of MSME through experience level at a significance level of 0.05. Most of the researches concluded that demographic factors of entrepreneurs have a greater impact on their success and the variety of microfinance services will more worthy when entrepreneur having proper experience on the utilization of services which provided by MFIs. The attributes of the business person are generally acknowledged as imperative fixing that impacts growth. Research indicates that particular characteristics of the entrepreneur that are associated with the growth of the enterprise include motivation, previous management and business experience (Dutta, 2006). Therefore the final objective of research was achieved.

Managerial Implication and Recommendations

To ensure that microfinance services enhance assistance in MSMEs, sustain the growth and maximal contribution to economic growth and development of the nation, the following recommendations are hereby proffered. The most recommendations are derived by analyzing the open-ended questions of the questionnaire. Based on the available findings the following are the managerial implication and recommendations,

Government and MFIs themselves should enhance the out-reach of microfinance through creating awareness of the activities and operations to SMEs especially those in rural and semi-urban areas that are yet to appreciate the benefits of the scheme. Consistent battles at the nearby government and ward levels will accomplish this adequately. More so, the expansion of MFIs through the establishment of rural branches is imperative for increasing access to microfinance services. Due to the findings of research enable, there is a lack of awareness of the actual advance of microfinance services to the entrepreneurs.

Businesses should maintain adequate liquidity levels by designing strategies to meet their revenue targets. It also requires effective current asset management such as maintaining adequate stock levels which enables them to avoid stock-outs while avoiding dead stock because it also creates losses. The collection of data emphasized the businesses do not maintain a bookkeeping system or any other transaction recording system. This will enable MFI to develop training programs related to this area.

Easy accessibility to credit through specialized or development-oriented banking or financial institutions should be encouraged. This fund should be made available to the SMEs at a reduced interest rate. Establishment of a National fund will assist micro-loan facilities from the banks and other financial institutions. This will help reduce the excessive demand for collateral security.

MSME owners need to ensure that they maintain adequate cash levels to be able to meet their working capital obligations such as paying their staff on time so that the motivation of timely salaries enable them to continue being committed to the delivery of results. These cash levels also help to pay the business suppliers on time because the survival of any business depends on how reliable its suppliers. If the government can provide more subsidiaries on raw materials, machineries and other equipment the micro-entrepreneurs will be easy to manage their seed financing. Apart from the provision of tax incentives, and financial supports, it is recommended that the Government should try to provide sufficient infrastructural facilities such as electricity, good road network, and training institutions.

According to the findings of research most of the entrepreneurs have low level of education; the government should design a way to enhance entrepreneurial

skills in this segment by offering them education on business initiation skills and management. This can be done by incorporating entrepreneurial-based curriculum in teaching subjects in schools at all levels, to inculcate entrepreneurial spirit, especially among the youth.

Finally, the findings of research embark the seminars and workshops should be organized by the microfinance institutions to educate entrepreneurs on their policies and judicious use of funds and what it takes to assess loans. Also, microfinance institutions should initiate more developmental projects to win the confidence and trust of the businesses.

References

- Adam. (2008). *Research methods for business and social studies*, Mzumbe book project, Mzumbe Morogoro, Tanzania.
- Chaliand, G. (2003). Role of microfinance in poverty reduction.
- Chestnut, G. (2010). Role of Microfinance Institutions.
- Cook, P. N. (2000). Finance and small and medium sized enterprise development, *Journal of development of entrepreneurship*.
- Cooper, N. (2012). The impact of microfinance service on the Growth of small and medium enterprises in Kenya.
- Assessing the impact of microcredit on Poverty. (2000). Department of census and statistic , M. o. p. e. A., Child and Youth and Cultural Affairs. (2013-2014). Non agricultural economics in Sri Lanka.
- Dutta, D. a. M., Ihab (2006). A Socio-economic Study of the Borrowing Process. *The Case of Microentrepreneurs*.
- Finweek. (2008). Not only one option, Special section, pp.7-8. (Online). Available from: (Accessed May 2015) [
- Gamage, A. (2000). Effectiveness of entrepreneurship Development programs in the creation and Growth of SMEs in Sri Lanka, University of Sri Jayawardenapura.
- Gay, L. R. (1981). Competences and Analysis and Application. Columbus: Charles E. Merrill Publishing Company.
- Hewaliyanage, R. M. (2001). Export Orientation for Small and Medium enterprises, Policies, Strategies and Programs, Asian productivity organization.
- Kothari, C. R. (2004). Research Methodology, methods and techniques, K K Gupta for new age international (pvt) ltd, New Delhi.
- Li, C. (2006). Research on Rural Microfinance Serving *Information and Business Intelligence Berlin Heidelberg, 2012.693-699*.
- Mambula, C. (2002). Perceptions of SME Growth Constraints. *Journal of Small Business Management, Vol. 40 No.1*
- Margueite, R. (1998). The pradiqmshift from credit delivery to sustainble.
- Mwangi, S. W. (2011). Factors affecting growth of micro and small enterprises funded by Microfinance institute
- Mosely, P. (2001). Microfinance and Poverty in Bolivia, *Journal of Development Studies, . Vol. 37 (4), 101-132. .*
- Mwangi, S. W. (2011). Factors affecting growth of micro and small enterprses funded by MFI.
- Nelson, J. (2010). The impact of microfinance institution (MFI) on the SME. *Swedish University of agricultural sciences*.
- Penrose. (1959). The theory of the growth of the firm.
- Ponnamperuma, E. N. (2000). SMEs in competitive market, Country Paper, Asian productivty organization, Tokyo
- Ranasinghe, R. (2019). Antecedents of Job Performance of Tourism Graduates: Evidence from State University-Graduated Employees in Sri Lanka. *Journal of Tourism and Services, 10(18), 16-34*.
- Tilakarathna, G. a. W., U. (2007). Micro finance in Sri Lanka - A Household Level Analysis of Outreach and Impact on Poverty. *International Development Research Center (IDRC)*.
- Zeller, M. M., Richard L. (2002). The Triangle of Microfinance – Financial Sustainability, Outreach, and Impact