

CONSTRUCTING AN INDEX FOR SMES FINANCIAL INCLUSION AND ITS DETERMINANTS

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Abstract

Greater access to finance by SMEs in developing countries is one of the most significant strategies to be used in reducing poverty, reducing unemployment issues, and promoting economic growth. The main objective of this study is to construct financial inclusion index for SMEs and identify the determinants for SMEs financial inclusion. To achieve the above aims, the data are collected from the primary survey conducted in Sabaragamuwa province using the Stratified Random sampling method. A sample of 117 SMEs is utilized to analyse the data collected from the well-structured questionnaire. Principal Component Analysis (PCA) and Multiple Regression analysis are applied to deal with over constructing index and identifying factors, respectively. The finding of the study reveals that the financial inclusion index for SMEs is weighted equally by access and quality of the financial services as the pillars. Further, the financial inclusion of SME is mainly determined by demand-side factors (ability to manage financial changes, proper bookkeeping, willingness to expand the business), supply-side factors (collateral requirements, application procedure), institutional factors (ownership type, sector of firm) and some demographic factors of owner-manager of SMEs. The study recommends that the state bankers, commercial bankers, and policymakers should put in place policies that encourage financial service providers to set up their operations much closer and innovative approaches to ensure that they adopt technologies and financial services are more accessible.

Keywords: Factors, Financial inclusion index, Small medium enterprises, Sri Lanka