

CATALYSTS FOR GROWTH: THE ROLE OF MICROFINANCE SERVICES IN EMPOWERING SMES IN WESTERN PROVINCE, SRI LANKA

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This study investigates the impact of microfinance services on the development of Small and Medium Scale Enterprises (SMEs) in the Western Province of Sri Lanka. Recognized as a crucial sector for economic growth, regional development, employment generation, and poverty reduction, SMEs in Sri Lanka benefit significantly from the tailored financial and non-financial services provided by Microfinance Institutions (MFIs). Despite the recognized importance of SMEs, many in Sri Lanka face significant challenges in accessing traditional financial services, hindering their growth potential. This study addresses the gap in understanding how microfinance services specifically impact SME development in the Western Province, a key economic region. By examining this relationship, the research aims to provide insights for enhancing microfinance programs and policies to better support SME growth and economic development in the area. This study aims to explore the specific contributions of microfinance services, including microcredit, micro-savings, and training programs, to the growth and sustainability of SMEs in the region. Primary data was collected through a structured questionnaire administered to a random sample of 162 SME owners in the Western Province. The analysis employed descriptive statistics, correlation, and multiple regression analyses to examine the relationships between microfinance services and SME development. The findings reveal a positive and significant relationship between microfinance services and the growth of SMEs. Microcredit and micro-savings were found to have a substantial impact on SME development, while training programs, although beneficial, did not show a statistically significant effect. The study also revealed that the entrepreneur's experience level partially mediates the relationship between microfinance services and SME development. Furthermore, demographic factors such as gender, age, and education level of the entrepreneurs were found to moderate the effectiveness of microfinance services on SME growth. These findings have important implications for policymakers and MFIs to enhance the effectiveness of microfinance programs, suggesting the need for improved infrastructure, favourable tax policies, and more accessible training programs to empower SMEs and promote long-term economic sustainability in the region.

Keywords: Economic growth, Microfinance, Micro-credit, SME development, Sri Lanka