

THE IMPACT OF ACCESS TO FINANCE ON FIRM PERFORMANCE: EVIDENCE FROM MICROENTERPRISES OF SRI LANKA

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Abstract

Lack of access to finance constantly emerges as one of the most imperative and robust underlying factors restricting firm growth and performance. Even though there were many literatures found on global scale there is very limited research conduct in Sri Lankan context, especially on the microenterprise's perspective. Therefore, the main purpose of this study to fulfill this gap and investigate the role of access to finance on the performance of microenterprises in Sri Lanka. The study followed positivism philosophy and a deductive approach. As survey strategy was chosen, a structured questionnaire was used as the data collection tool from a sample of 385 Sri Lankan microentrepreneurs. The author has developed hypothesis and test them using the SPSS software. The findings indicate that increased access to finance has positive effects on the growth of profit, sales, and asset base of the micro enterprises. However, its impact of access to finance on employment generation was weak. Further, the study confirms the assumption that employment generation within microenterprise sector is persistently low. This study contributed to the local body of literature by analyzing the different employment groups of microenterprises and their relationship to access to finance in Sri Lankan context.

Keywords: Access to Finance, Employment Generation, Firm Performance

JEL Classification: G21

1 Introduction

The contribution of the microenterprise sector to the national economy is significant. Sri Lanka is not an exception in this regard. The sector helps to reduce unemployment rates and stimulate economic growth of a country. Many literature and reports revealed how much

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micro enterprises contribute to the increase of economic indicators of a county. While microenterprises help increase the Gross Domestic Product (GDP) of a nation, they also create many employment opportunities. Muritala et al., (2012), claimed that microenterprises tend to introduce sophisticated technologies and help to minimize unemployment in peripheral countries. Due to this enormous contribution of microenterprises towards the economic growth of a nation, governments throughout the world have made significant investments to develop this sector to promote economic growth and employment. In Sri Lanka, according to the Department of Census and Statistics (DCS) in 2014 there are 935,736 microenterprises around the country. These microenterprises contribute 91.76 percent of the total business establishments in Sri Lanka. These provide numerous services and have generated over a million employment opportunities. The numerical value is an indication of its silent but significant contribution. Further, the statistics present that more than 90 percent of the total establishments in Sri Lanka have less than five employees.

Table 1 Distribution of Micro Small Medium-sized Enterprises by Sector

Sector	Total		Urban		Rural		Estate	
	Number	Number	Raw %	Number	Raw %	Number	Raw %	
Total	1,019,681	250,828	24.6	753,655	73.9	15,198	1.5	
Micro	935,736	216,204	23.1	705,074	75.3	14,458	1.5	
Small	71,126	27,999	39.4	42,683	60	444	0.6	
Medium	10,405	5,164	49.6	4,989	47.9	252	2.4	
Large	2,414	1,461	60.5	909	37.7	44	1.8	

Source: Department of Census and Statistics Report (2014)

International Labour Organisation (ILO) country report (2020) estimated that this sector has generated over 35 percent of job opportunities in Sri Lanka. As the capital to be invested in this sector is low, it is easy for individuals to develop an interest and create job opportunities. A considerable number of researchers around the globe (Beck and Demirguc-kunt, 2006; Klonowski, 2012; Leeds 2013) have found that access to finance plays a critical role in microenterprise growth. It is important to highlight that these studies have utilized many indicators such as an increase in sales volume, revenue, profit, number of employees, and asset base to measure the growth rate of the microenterprise.

While discussing the significance of microenterprises it is important to analyze the main features and obstacles they face as a sector as well. The annual report (2013) of Organisation

for Economic Co-operation and Development(OECD) highlights the main features of employment in this sector as high job turnover, employment insecurity, low pay, and leaving the job without informing the owner or the employer. It is understood that the firms too are not interested in providing better training for the employees since there is no assurance that they will continue with the firm for over a long period of time.

There are many problems confronted by microenterprises. The Outlook Report of OECD (2013), expressed that there are five main barriers faced by microenterprises namely finding money, having a favorable environment, sophisticated technology, capacity to manage things and having access to sell the products. Report also identified that the microenterprises face many challenges, including complex regulations, lack of entrepreneurial skills, technical knowledge, and limited access to markets.

Access to finance is the ability of enterprises to obtain financial services including credit, deposit, payments, insurance, and risk management services. Most firms need access to finance to take advantage of new business opportunities, grow their revenue, become more competitive, and minimize risks. ILO (2014) highlights that small businesses need a many services including leasing, credit, insurance, investments and payments, based on firm size, stage of their development, and type of business model. Small businesses require finances due to different reasons and to fulfill the different requirements. Initially to find a place and purchase fixed assets and then to buy stocks, hire staff and settle payments. Further, to expand the business and to improve infrastructure facilities of the business. However, it is confirmed that access to finance is not the sole criterion to create jobs, but factors such as novel technologies, research, and development can also generate more positive and fruitful returns (World Bank, 2014).

CBSL (2019), Socio-Economic Data confirms that the self-employment category of the total labour force in Sri Lanka has not grown over the years. Further, it was found that mere financial access may not lead to employment generation or economic success in Sri Lanka (Colombage, 2010). This study found a lack of evidence to suggest growth and employment even if financial facilities are available to micro-enterprises. It also asserts that the recipient of finance cannot become an entrepreneur and contribute to economic growth or be a part of the poverty reduction process. This study recommends further research to explore the reasons behind low employment generation and to analyze the link between access to finance and employment generation. One of the potential outcomes of microenterprise development is the creation of employment opportunities for the vastly unutilized and underutilized manpower

resources. However, based on the findings of Yakandawala et al.,(2013) there is a positive relationship between a firm's growth and access to finance but no employment generation in the selected firms.

These findings have given the researcher the chance to further examine the reasons for this problem. Especially to understand why microenterprises have not been able to achieve their potential growth and why new enterprises have not been created even with the provision of financial facilities. With the understanding of the prevailing issues in the said areas, a study has been developed with the following research questions.

- (i) To what extent does access to finance determine the microenterprise growth and development?
- (ii) What role do microenterprises play in employment generation in Sri Lanka?

In light of the research questions established above, the research objective of this paper is to study the nexus between access to finance and development of microenterprises and to ascertain the causes of employment in the microenterprise sector in Sri Lanka. Further to examine the role of micro-enterprises in employment generation and the likelihood of creating jobs.

2 Literature Review

2.1 Access to Finance

Access to financial services entails eliminating the barriers in using financial services It can be broadly defined as an entrance to financial products and services at a reasonable cost. In other words, firms and individuals have access to financial services such as loans, trade credit, deposits, payments, and insurance without any difficulties. (Jing and Adam, 2022) found that Access to finance had a large positive direct effect on the performance of the firms. Klonowski (2012), found that lack of finance can affect microenterprise at two business phases: the start-up phase and the expansion phase. Access to finance is determined by many factors such as income, collateral, cost of capital and other services, conditions to open an account, or availability of information.

Literature reveals that lack of continuous financing assistance may adversely impact the microenterprise's performance and also affect the lifetime of the firm. Financial assistance can contribute to a firm in many ways. Some of the fundamental aims of financial access are the initial setup of the firm, day-to-day operational fund requirements (short-term), and

expansion needs (long-term). Further, it acts as a driving factor behind the innovation and application of new technology to the firm. However, funding long-term business projects has become a challenge for many micro-entrepreneurs, and it was found that it is one of the biggest obstacles in both developed and developing countries. Based on the evidence gathered empirically, it was revealed that Sri Lanka has a high level of access to finance (GTZ ProMiS, 2010). The report also found that 82.5 percent of the nation's households were accessing financial services, mainly loans and savings in the year 2006/07. Kelegama & Tilakaratane (2014), found that approximately 92 percent of the households in Sri Lanka had access to loans and savings in the year 2006/ 07 has increased to 98 percent in the year 2009/10. The study has further revealed that access to the formal and semi-formal financial systems was significant across all income groups. These statistics are at an abnormally high level for a developing country like Sri Lanka and much higher than other South Asian countries. (CBSL, 2022) report also confirmed that access to finance in Sri Lanka is comparatively high among the south Asian countries.

2.2 2.2 Microenterprise Sector and its Contribution.

Micro, Small and Medium-scale enterprises (MSME) are important due to their critical role in wealth creation, employment generation, poverty alleviation, innovation, social cohesion, and both local and regional development of a country (Bidja & Mandizvidza, 2017). MSMEs contribute considerably and play a major role in the national economies in most countries around the world; for example, MSMEs in the United States accounts for 99 percent of all businesses, this sector has given employment for more than 50 percent of the private sector, accounts for over 39 percent of the Gross Domestic Production of the USA, and contributes 98 percent of all exporters and 34 percent of USA export revenue (Ngek & Smit, 2013). Similarly, other industrialized countries also have a high degree of Micro, Small, and medium firms. MSMEs in Japan account for 99 percent of the total firms in the country and account for 55.3 percent of the total GDP (IFC, 2010). MSMEs in Germany account for 87.7 percent of the GDP and 75 percent of the country's workforce. In Spain, it accounts for 64.3 percent of the GDP. But in Austria, the contribution is only 44 percent (Savlovschi & Robu, 2011). Further, it was also argued that micro-entrepreneurs act as innovators and thereby acting as a source of change in the market (Acs & Audretsch, 1993). Similarly, in Sri Lanka, microenterprises play a major role by accounting for more than 90 percent of the businesses (CBSL, 2022). Also, they contribute to the national development by acting as a

key supplier to major companies and support the trade balance of Sri Lanka through import substitution or export earnings.

2.3 Employment Generation

Employment generation is another major role in the microenterprise sector. Smallbone (2001) has expressed that the prime role of the microenterprise sector is to generate employment and thus help to absorb any labour surpluses which result from economic restructuring. Further Subhan, (Mehmood and Sattar, 2013) found in industrialized countries, MSMEs are key contributors to private sector employment. Empirical studies have shown that MSMEs contribute to over 55 percent of GDP and over 65 percent of total employment in high-income countries. Moreover, they account for over 60 percent of GDP and over 70 percent of total employment in low-income countries, while they contribute about 70 percent of GDP and 95 percent of total employment in middle-income countries. (Dunne and Hughes, 1997) concluded that even though micro and small businesses are expressed as employment generators, there is a growing body of research that reveals that there is no evidence of strong employment generation in the sector. CBSL (2013) confirmed that around 93% of MSME's account for 29.6% total employment. Therefore, even though MSME's have accounted for a significant percentage of establishments in the country, its share on Sri Lankan employment is low.

3 Methodology

3.1 Research Method

The study intends to measure as well as understand certain elements of measurement as to what extent access to finance influences microenterprise growth and advancement. This needs to be achieved by measuring the relationship through a quantitative approach. The study has used descriptive statistics for initial analysis and other advanced statistical tests to examine the proposed hypotheses. Based on the past literature of (Ayyagari et al.,2008; Beck & Demirgüç-Kunt, 2006; Colombage, 2010), the following, conceptual framework has been developed.

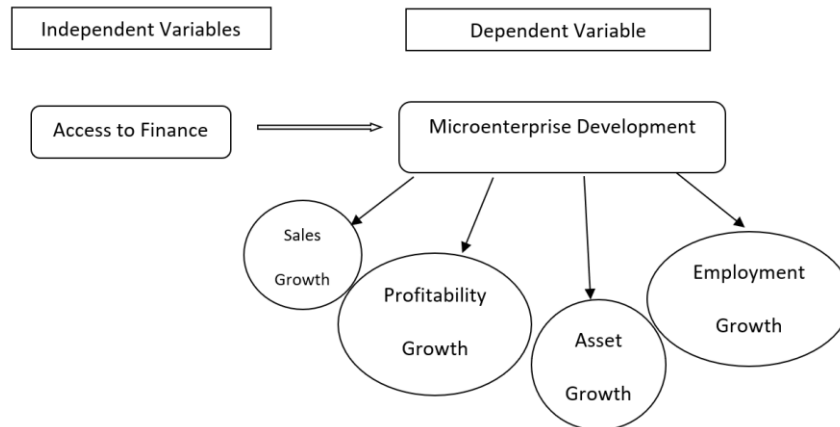


Figure 1 - Conceptual Framework

Source: Developed by the author.

The following definitions are adopted in this paper. A microenterprise is identified as the smallest business entity which operates with the least capital and a few employees, usually with less than five. Microenterprise development has been defined as the propagation of economic activity that offers an opportunity for poor people to engage in self-employment as a part of their livelihood. The ability of individuals or enterprises to obtain financial services, including credit, deposit, payment, insurance, and other risk management services are considered as access to finance. Employment is explained as a relationship between two parties usually based on a contract where work is paid for in which one party is the micro-entrepreneur as the employer and the other is the employee.

(Jing and Adam 2022) found that Access to finance had a large positive direct effect on the performance of the firms. Further, Ayyagari et al., (2008) has found that microenterprises with greater access to finance are also more likely to have strong profit growth rates. (Beck and Demirgüç-Kunt, 2006) found that microenterprises with greater access to finance are also more likely to have strong sales growth. Human Development Report (2011) of United Nations Development Program, found that access to finance and asset productivity and growth are positively correlated. Based on the above literature, the following hypotheses were developed.

H₁: Having access to finance has a positive effect on growth in Microenterprise's profitability.

H₂: Having access to finance has a positive effect on growth in Microenterprise's sales.

H₃: Having access to finance has a positive effect on growth in Microenterprise's assets.

H₄: Having access to finance has a positive effect on growth in Microenterprise's employment.

H₅: Having access to finance has a positive effect on growth in salary paid staff.

H₆: Having access to finance has a positive effect on growth in non-paid family members.

The study has used questionnaire as the key instrument to collect data through a survey. It mostly consists of close-ended questions where the respondent has the option to select from one to five using the Likert scale. Structurally, this questionnaire consists of two sections namely, Demographical information and the measurement of key variables. The demographic information section consists of fifteen questions to understand the background of the respondent and their firm such as age, gender, educational qualifications, experience, location, type of business, size of the firm etc. The other section consists of the three main research areas of this study namely, access to finance, microenterprise development, and employment generation.

A firm's performance can be measured by many indicators such as total assets, profitability, total revenue, and the number of employees. Countries use the number of employees, total assets, and total revenue when categorizing microenterprises. Based on this, information was obtained from owners/managers of microenterprises about the number of employees and the annual sales turnover of their firms. In addition, the participants were requested to measure the growth in terms of sales, profits, assets, and employment generation over the last three years. When collecting information, the entrepreneurs were requested to provide their perspectives about their competitors in their immediate environment, in comparison to their own firms, using a five-point likert scale. Studies such as (Sarapaivanich and Kotey, 2006; Tigges and Green, 1994) have used return on capital employed (ROCE), return on investment (ROI), and leverage ratios to measure microenterprise performances. However, it was noted that most firms do not maintain a proper accounting system for day-to-day operations, and thus capturing that information has been a challenge.

The study adopted the stratified random sampling method as the respondents are unequally spread across twenty-five districts across the country. The below table explains the process of selecting the sample from the total population of the study. Colum (a) refers to total firms (Micro, small, medium & large) in each district of Sri Lanka. Column (b) represents both registered and unregistered microenterprises in each district. This study only focuses on registered microenterprises of Sri Lanka. Therefore, Colum (c) represents the registered microenterprises of Sri Lanka for each district. Hence, the total population of the intended

study accounts for 511,426 registered microenterprises in Sri Lanka. Based on the population size, confidence level and margin of error, the author used both Bukhari sample size calculator and Morgan table to derive the sample size of the study. Therefore, this study selected a sample of 385 micro-entrepreneurs across all the administrative districts.

Table 2 - Sample Distribution of the Study

Province	District	Total firms in Sri Lanka (a)	Registered and not registered Micro-enterprises (b)	Registered Micro enterprises (c)	Registered Micro enterprises as a % (c)/(b)*100	Sample Size (d) (C)/Σ(C)* 385
Western	Colombo	135,998	115,598	66,007	57	50
	Gampaha	127,734	116,621	56,445	48	42
	Kalutara	60,717	56,467	31,226	55	23
Central	Kandy	62,062	56,228	37,673	67	28
	Matale	25,784	23,747	14,676	62	11
	NuwaraEliya	24,779	23,292	15,489	67	11
Southern	Galle	48,584	44,989	25,329	56	19
	Matara	43,423	40,601	21,681	53	17
	Hambantota	31,638	29,961	13,213	44	10
North	Jaffna	34,128	31,705	20,196	64	15
	Mannar	4,481	4,266	2,820	66	2
	Vavuniya	7,251	6,403	3,874	61	3
	Mullathivu	4,122	3,862	2,599	67	2
	Kilinochchi	6,238	5,639	4,049	72	4
Eastern	Batticalo	29,135	27,649	14,046	51	11
	Ampara	30,550	28,992	15,453	53	11
	Trincomalee	16,565	15,670	8,901	57	7
North	Kurunegala	86,788	81,494	40,014	49	30
Western	Puttalam	44,894	41,572	17,086	41	13
North	Anuradapura	43,715	41,048	18,759	46	14

Central	Polonnaruwa	21,030	19,747	8,333	42	7
Uva	Badulla	30,457	28,264	20,209	72	15
	Moneragala	18,846	17,904	9,417	53	8
Sabaragamuwa	Ratnapura	45,210	41,232	24,945	61	19
	Kegalle	35,452	33,254	18,988	57	14
		1,019,581	936,205	511,426		385

Source: Developed by the author

Since the intended sample size is 385, the study calculated the sample size (Column d) for each district based on the weightage to the total population. The district secretariats of each district in Sri Lanka maintain a list of its registered micro-entrepreneurs. The register consists of the names of the businesses and their contact details. The questionnaires were translated into Sinhala and Tamil by certified translators. As the first step of the data collection process, the study conducted a pilot survey on 35 micro-entrepreneurs, and based on their feedback the relevant modifications were made.

4 Results

4.1 Results of the Demographic Factors

When analyzing the demographic factors, it was found that the majority (n=206, 53.60 percent) of the survey respondents were female entrepreneurs and, out of them, the majority were married. In terms of business experience in relation to gender, it is observed that more than one-third (n=139, 36 percent) of the micro-entrepreneurs had 1-3 years of business experience (Female majority) and another one-third (n=123, 32 percent) of the sample had 4-10 years of business experience (male majority) from their 1st business registration. Further, most of the people surveyed were educated up to the secondary level, and a few have pursued their studies to the postgraduate level. It was also noted that only 13% of the total sample has professional training or professional qualifications. When analyzing the monthly turnover, most of the entrepreneurs (n=236, 61.4 percent) generate less than Rs 50,000 of monthly sales turnover. Only 15.9 percent of the firms generate a monthly sales turnover of over Rs 200,000. Results conclude that 78.7 percent of the firms do not follow a formal accounting system and have not produced any form of financial statements. The results were similar to the findings of the national-level statistics on micro-entrepreneurs (DCS report, 2013/2014). Based on the results it was clear that most of the respondents (n=283, 73.5 percent) own

immovable long-term assets which leads to a higher level of access to finance. It is also important to recognize that irrespective of the formal credit providers, a considerable figure (n=85, 22.2 percent) still rely on friends and family to fulfill their financial needs. It was clear that micro-entrepreneurs closely associate with the financial institutions mostly for borrowing purposes (72.3 percent) and to maintain the savings account (71.5 percent). Only 24.5 percent of the sample is recorded as having a current account and 21.6 percent of the firms have opened fixed deposit accounts. Further, it was revealed that, apart from the own account holders, most of the businesses employed unpaid family members and friends (52 percent), and the permanent employment percentage was as low as 27 percent.

One of the main objectives of this paper is to examine the relationship between access to finance and microenterprise development. The study formulated the following questions and measured the responses on a Likert scale of 1-5 to understand and measure this variable. Statistics of the variable “Access to finance” were tabulated in Table 4.1. Based on the responses it is clear that the means of questions ranged from 3.77 to 3.99 and Standard deviations from 0.775 to 0.942. It is found that most of the micro-entrepreneurs had financial support.

Table 3 Survey Statistics of Access to Finance

	Mean	Std. Deviation	N
My firm has taken loans in the past.	3.77	0.942	385
My firm has alternative ways to obtain loans (friends, relatives, private lenders)	3.9	0.767	385
My firm has never been rejected when applied for a loan.	3.99	0.745	385
It is easy for our firm to get a loan	3.99	0.775	385

Source: Author developed based on survey data

Statistics of the variable “Development of Microenterprises” are tabulated in Table 4.2. The Mean of questions ranged from 2.38 to 3.93 and standard deviations vary from 0.670 to 1.219. It is evident that most of the micro-entrepreneurs believed that their businesses showed progress during the last three financial years. However, it was observed that the statement “I have added more salary paid staff of my business growth has received poor responses (mean= 2.74). This implies that microenterprises did not lead to employment generation although they have experienced progress in many forms. The above findings are consistent with the earlier findings by Colombage (2010).

Table 4 Detail Statistics of Microenterprise Development

	Mean	Std. Deviation	N
I have added more salary paid staff to my business growth.	2.74	1.219	385
I have added more family members and friends due to my business growth.	3.33	1.153	385
My business recorded profits during the past three years.	3.93	0.749	385
My business has an asset growth during the past three years.	3.94	0.769	385
My business has a sales growth during the past three years.	4.05	0.67	385

Source: Author developed based on survey data

One of the main objectives of this research is to measure the relationship between access to finance and Microenterprise development. In this study, microenterprise development is measured by variables such as growth in profitability, growth in sales, growth in assets, and growth in employment opportunities.

In further elaborating on the findings of the said hypotheses it was found that access to finance has a significant positive correlation ($r = 0.870$) with the profit growth of the microenterprise. This is also found in literature, where Ayyagari et al., (2008) has found that microenterprises with greater access to finance are also more likely to have strong profit growth rates. Literature has identified that growth in profit is an indicator of a firm's growth. The results of this study indicate a statistically strong correlation ($r = 0.760$) between Access to finance and sales growth even at the more stringent 0.01 alpha level. This confirms the findings by Beck and Demirgüç-Kunt (2006) where they found that microenterprises with greater access to finance are also more likely to have strong sales growth.

Literature has identified that growth in the asset base is also an indicator of a firm's growth. Accordingly, the test results found a statistically significant correlation ($r = 0.760$) between access to finance and asset growth. These findings confirm the earlier findings by Human Development Report (2011) of United Nations Development Program, which measured the relationship between access to finance and asset productivity & growth. The findings indicated that they are positively correlated. This study further attempted to explore the impact of microenterprise development on employment generation. A much-expected socio-economic outcome of enterprise development remains as employment creation. Results

confirm a weak correlation ($r = 0.171$) between access to finance and employment growth. The above finding confirms Colombage (2010) who argued that even with the advancement of microenterprises the employment generation was low. Since employment is a broader concept, the study has further categorized them as the employment of family and friends, and paid staff. The association between firm's growth with employment growth in non-paid Family members and Friends and paid employment was found to be weak as shown by the correlations between microenterprise development and employment of non-paid family and friends ($r = 0.232$), paid staff ($r = 0.107$).

5 Conclusion

5.1 Contribution of the Study

The study has found that there are many economic, social, and financial factors that influence access to finance of micro-entrepreneurs in Sri Lanka. It can be concluded that access to finance plays a critical role in enterprise development as found in earlier studies. Specifically, the study found that access to finance, particularly in the microfinance sector, does not necessarily lead to enterprise formation and employment creation in Sri Lanka. The study has found that there are many economic, social, and financial factors that influence access to finance of micro-entrepreneurs in Sri Lanka. It can be concluded that access to finance plays a critical role in enterprise development as found in earlier studies. Specifically, the study found that access to finance, particularly in the microfinance sector, does not necessarily lead to enterprise formation and employment creation in Sri Lanka. Furthermore, the findings of this study provide policy makers awareness on areas to focus on targeted policy interventions. Study also provides micro entrepreneurs with useful insights into problems they face when obtaining financial assistance and how to overcome them.

The main objective of this paper is to study the nexus between access to finance and development of microenterprises and to examine the role of micro-enterprises in employment generation in Sri Lanka. The study confirmed that micro firm's access to finance has a significant positive correlation ($r = 0.870$) with its profit growth. Further, the results indicated statistically strong correlation between access to finance and sales growth and asset growth. However, results confirmed a weak correlation ($r = 0.171$) between access to finance and employment growth. The employment was further categorized as the employment of family and friends, and paid staff. The association between firm's growth with employment growth in non-paid Family members and Friends and paid employment was found to be weak as

shown by the correlations between microenterprise development and employment of non-paid family and friends ($r = 0.232$), paid staff ($r = 0.107$). The above findings may contribute to the current body of knowledge confirming that the promoting access to finance may lead to growth in microenterprises, Sri Lanka. Further, it is very important to perceive that promoting access to finance may not achieve the expected growth of employment generation in Sri Lanka microenterprise sector. Hence, new strategies should be crafted to promote new employment generation in this sector.

Therefore, this paper suggests the following recommendations to develop the microenterprise sector for micro-entrepreneurs and policy-setters of Sri Lanka.

5.2 Recommendations for Micro Entrepreneurs

This study found that most microenterprises in Sri Lanka do not maintain any form of accounting system or information system. It is believed and proven that maintaining accounting functions are very important to take effective decision making for an organization. Gilbert (2013) confirmed that majority of the small business in Ghana do not maintain any accounting system highlights the need of maintaining proper books of accounts. It is therefore vital that micro-entrepreneurs of Sri Lanka should focus on maintaining an accounting system. This will not only help in understanding how a company performs but also will help in forecasting. Therefore, budgeting, planning, and forecasting functions should be linked with accounting. This paper also identifies that financial support alone may not lead towards the development of microenterprises. There are many other factors that contribute to the success of a firm. Gilbert (2013) highlights that most microenterprises encounter difficulties with sales and marketing, customer satisfaction, and competitors, which are the secrets to success. Hence, it is a necessity for the firms to develop their marketing skills to grow the customer base and stimulate their products and services in appropriate ways. Therefore, entrepreneurs should invest in training in areas such as marketing, customer care, leadership, and financial management. Skills enhancement in these areas would lead to more expansion and employment creation.

5.3 Policy Related Recommendations

It was found that even with the high level of access to finance the expected growth of microenterprises was not satisfactory, especially with employment growth. Therefore, it is

important to develop new strategies to grow microenterprises in Sri Lanka. Hence, the author recommends developing industrial clusters for micro-enterprises. The United Nations Industrial Development Organization (UNIDO) defines industrial cluster as: "Geographic and economic concentration of manufacturing activities which produce and sell a domain of interrelated and complementary products and having common problems and opportunities". The main objective behind this concept is to form groups who produce homogeneous products and services to work as a team and help each other and to combat common challenges. (Begum and Abdi, 2015) highlights that this concept has been heavily used in Bangladesh and they were able to generate large number of employment opportunities in Bangladesh.

Liu (2008), suggesting a policy framework to follow as a guide for these industrial clusters on micro enterprises. Such a framework can guide Sri Lanka on how to form a cluster, how to finance a cluster and how to form promotional institutions to develop technological partnerships among microentrepreneurs and other research organizations. The framework can extend further support specifically for cultivate markets; innovation; and attract human capital, among others.

5.4 Limitation and Further Research

This study is limited to registered micro-entrepreneurs in Sri Lanka. Future research can focus on expanding the study into unregistered microenterprises to understand better the dynamics of this sector, and to develop new insights.

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