



Financial Access Constraints and Coping Mechanisms among SMEs in Killinochchi District, Sri Lanka

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Abstract

Small and medium-sized enterprises (SMEs) play a key role in rebuilding economies and creating jobs, especially in post-conflict areas. In places like Killinochchi in Northern Sri Lanka, however, many SMEs still face serious difficulties in accessing formal finance. This study explores the financial barriers faced by SMEs in a post-war setting and looks at how they manage when banks and financial institutions do not support them. Using interviews with 20 SME owners, the study uses qualitative thematic analysis to identify five main challenges, namely lack of clear land deeds that stop them from using property as collateral, strict and slow loan procedures, damage to credit history due to group loans and guarantor problems, low trust in institutions due to bad practices by collectors, and working capital shortages when they receive large orders. To survive these challenges, SMEs turn to coping strategies such as borrowing from informal lenders at high interest, using customer payments to fund orders, and limiting their growth. This study shows that such financial behaviour is not simply a choice but a response to exclusion by the system. It also introduces the idea of documentary collateral exclusion, which means SMEs are blocked from loans because they cannot provide legal proof of their land. The paper suggests that policies should focus on improving movable asset lending systems, making credit reports fairer for guarantors, strengthening the regulation of loan collectors, and providing quicker working capital options for small firms. These findings show how post-conflict history, financial rules, and trust in institutions all shape SMEs' financial access in regions like Northern Sri Lanka.

Keywords: CRIB constraints, credit exclusion; documentary collateral; Informal lending; Northern Sri Lanka; SME finance