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The Role of Micro Finance Institutions on the Development of Micro Enterprises (MEs) in Sri Lanka

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Author's contribution

The sole author designed, analysed, interpreted and prepared the manuscript.

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ABSTRACT

Aim: The study investigates the impact of microfinance practices on the growth of micro-enterprises (MEs) concerning the Central Province, Sri Lanka. It has been discovered that the growth of microbusinesses is dependent on gender, age, education level and nature of the industry.

Design/Methodology/Approach: Multinomial Logistic Regression models was applied in this study. Multinomial logistic regression is frequently used for the analysis of categorical response data with continuous or categorical explanatory variables. Parameter estimates are usually obtained through direct maximum likelihood estimation. Two models were used to test the hypothesis concerning the three practices, micro-credit, training and advisory services. Primary data were obtained from 200 registered microenterprises (ME) owners in the Central Province through convenience sampling methods. Data collection was conducted using a self-structured questionnaire.

Results and Conclusion: According to the results, microfinance practices have a significant relationship with the development of MEs, while Microcredit and advisory services have a significant impact on the development of MEs. Training programmes have not significantly impacted on the development of MEs. The research concludes that microfinance as a whole

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educates and helps to develop micro financed micro-scale enterprise businesses and positively impact those families in the Central Province, Sri Lanka.

Research limitations/implications: Data were limited to select only one province in Sri Lanka out of nine using a self-structured questionnaire. Also considering the response rate and sample size, there are limitations to generalize the findings. This research was restricted to three variables micro-credit; Training and Advisory services impact of other factors that can influence the growth of MEs did not fall under the scope of this study.

Originality and Value: The impact of microfinance practices on MEs growth in Central Province in Sri Lanka is an under-researched area of study. The findings of this study can act as a guideline in the future for decision-makers to identify factors that influence more on MEs development.

Keywords: Microfinance Institutes; microcredit; advisory services; training, microbusinesses; Sri Lanka.

1. INTRODUCTION

Microfinance has a long history of innovative finance. However, still in some developing countries, the concept of microfinance is considered a relatively new term of financing. Currently, microcredit has become a more popular and practical term that focusses on micro-businesses. The most common variable used by economists to identify the shape and size of a business is the number of people engaged in a business and as well as the total employment data which reflect a clear picture on a certain economy [1]. In Sri Lanka, micro-enterprises (MEs) employ fewer than 10 employees and engage in small scale business activity, with a high proportion of family employees and limited capital, minor equipment, labour-intensive process, and less access to organised markets [2].

Access to financial services for MEs is crucial in developing entrepreneurship, competition, innovation and the growth of an economy. Around 90% of the low-income cannot access financial services in developing countries due to lack of income and wealth [3]. Microbusinesses in Sri Lanka face challenges in financing start-up micro-scale enterprises, as it is difficult for them to obtain loans from licensed commercial banks which adopt formal procedures, due to the high risk involved and no collateral pledged [4]. Thus, the difficulty to obtain loans from commercial banks constitutes a major setback for micro-entrepreneurial development [5].

The development of MEs should be encouraged to accelerate economic growth and development, alleviate poverty and improve the standard of living in the country. Economists say more often there is a positive relationship between poverty alleviation, economic sector, and finance sector

development of a country; also economic theory says that financial sector developments pave the way to economic growth [6]. Commonly, micro-businesses are represented in the form of micro, small and medium enterprises (MSMEs), which consist of service sub-sectors such as small grocery stores, computer and information-related services, fisheries, bridal dressing, etc. [3].

In Sri Lanka, microfinance institutions (MFIs) play a vital role in providing a range of financial and non-financial services to both urban and rural communities. The research is based on impact of microfinance on the development of MEs in the region of Kandy. Currently, this is an under-studied area, where limited studies have been carried out in this sphere of research regarding a Sri Lankan setting. Thus, a research gap exists in terms literature in the local context. By addressing this knowledge gap in the Sri Lankan market in a fiscally sustainable manner, MFIs can play an important role in Sri Lanka's formal financial system, thereby reach to an increasing number of micro-scale entrepreneurs. In addition, MFIs can create new opportunities by enabling the poor to secure finance with limited collateral in order to develop their business.

The provision of financial services for MEs is important as a medium to mobilise financial resources for micro-scale entrepreneurs to make them more productive [7]. Mohammad Yunus is the pioneer of an improved concept of microfinance in the world, named Grameen Bank. The bank appoints field managers and bank employees to communicate this model to villagers. Here, the employees visit the selected villages and explain this model to improve the quality of life. Groups of five borrowers join together get for the scheme. Initially only two in a group will receive the loan and the group will be observed for one or two months and evaluate the

group. The other three participators will receive the loan only if the whole group conform to the rules and regulations of the bank [8]. Accordingly, it is crowdfunding based institutional lending inspired especially in Bangladesh for poverty alleviation [9]. In the Sri Lankan context, the microfinance regulatory bill was passed in Sri Lankan parliament in 2015 to improve the flow of financial services to the poor. This led private sectors to participate in the microfinance sector and join with the government to develop processes on financing for poor with simple laws [3].

In Sri Lanka various models are used like, Village Banking, Individual Lending, Self-help Groups etc. Village banking is a model which functions as semi-formal or formal institutions through which microfinance is served. This is also called as Community Banking Model, which treats whole community in a village as one unit. Commercial Banks and Regional Development Banks in Sri Lanka followed Individual Lending model. Instead of formation of groups the banks ask for collateral or letters from guarantors for loan. A small group of 5 to 20 women, create the Self-help Groups, where they will finance themselves with their savings itself. Each group will be provided with the initial capital for the start-ups and needed trainings by the initiator (NGOs). Though this model is not popular, it is actively used in few areas in Sri Lanka [3,10].

With MFIs playing an active role, micro-businesses would be able to raise capital much easily than before. Such a scenario can create an income source for the poor entrepreneur, which itself alleviates poverty in Sri Lanka. Researchers have observed that while some of the borrowers experience business growth, most of them are unable to expand their businesses and rid poverty in line with their expectations. Initial investment of these borrowers does not generate adequate income, at least to repay their monthly loan instalments. Due to bad repayments in servicing debt and therefore with poor credit rating, these borrowers are not allowed to obtain new credit facilities. Thus, they fall into the deep end of poverty and often get trapped in it. Since there is no adequate statistical evidence available to indicate the contribution of microfinance service delivery in bridging the growing gap of micro-businesses, the borrowers are suspicious about the contribution of these microfinance loans to their business growth. Further, the MF clients have shown disinclination in accessing the non-financial services provided by the MFIs.

Based on this view, the present research intends to study the impact of microfinance on the development of micro-scale enterprises in Sri Lanka concerning the Central Province. Determining whether access to financing on micro-businesses will be of significance to the government and non-governmental organisations (NGOs) which are interested in improving the standards of the micro scale businesses.

The research question that this research seeks to address is "Do microfinance practices affect the development of micro-businesses in Sri Lanka?"

By undertaking this study, it is expected to identify the effect of microfinance and non-financial services towards the development of micro-businesses in the Central Province, Sri Lanka. If results indicate that the contribution of MF practices is significant on developing the MEs, thus it can help improve, promote and encourage the MF programmes in this respective area. The findings of this study can be considered as an eye-opener for ME owners to develop their businesses with the opportunities provided by the MFIs; besides, it assists MEs to have a better awareness of the MF services, for success of their businesses. This final output of this study can be a foundation for the government and government officials in the Central Province to develop policies concerning microbusiness development in the selected area. There is a dearth of literature and research on microfinancing in the Sri Lankan context. As such, this study can contribute with its valuable insights into the existing research gap. Besides, the results of the present study will be a source for literature for other researchers who are keen to carry out investigations in the same field.

2. REVIEW OF LITERATURE AND HYPO THESES FORMULATION

2.1 Microfinance

The concept of "microfinance" has been defined by numerous scholars and international institutions. Microfinance is known as micro-scale financial and non-financial services available and served for indigent people to facilitate their involvement in MEs [11]. In addition to credit and training facilities, some MFIs provide related advisory services such as managing money and also getting involved in social intermediation such as the development of social capital and external support services [4]. The unique

features of microfinance are, the low value of the loan which is not based on collateral, group guarantee, compulsory, informal appraisal of borrowers and investors and access to repeat and bigger loans based on MEs repayment performance. Microfinance is a platform for underprivileged clients to enter the financial market and access to financial services, which are not only limited to credit but also open to a range of other non-financial services [11]. The prominent attribute of microfinance is lending money to those who do not have access to credit through formal financial institutions.

2.2 The Microfinance Industry in Sri Lanka

Microfinance practices have become highly popular in the arena of Sri Lanka's finance market, especially among its micro scale players. The history of microfinance in Sri Lanka goes back to the British colonial era. The British government ruling initiated microfinance as an economic tool for the first time in Sri Lanka in 1911. Anyhow microfinance did not grow much due to lack of education of the poor and controls were held by landlords.

Meanwhile, by 1940 there were problems like food distribution crisis and other agricultural problems due to the World War II. As a result of these problems Co-operative Agriculture Production and sales Society (CAPS) was initiated and showed a quick growth. "CAPS" is functioning as a mediator between government and people specially in funding for farming purposes [12]. The next significant contribution by the government for microfinance after the independence is establishment of Co-operative Rural Banks which was running efficiently until 1991 [13].

After 1991, many NGOs and programs were initiated relating to microfinance like SEEDS and Regional development bank in 1986, Janasaviya Trust in 1990, Small farmer and Landless Credit Project in 1991, Samurdhi Authority and Regional Development Bank was restructured into 6 regional banks in 1997. Currently many commercial banks and financial institutions have also intervened in microfinance (HNB Grameen, LOLC, MBSL... etc.). Apart from these institutions, Sanasa Development Bank, Bimputh Finance and Nation Lanka Finance PLC are some of the fully fledged microfinance service providers which are registered as associate members of Lanka Microfinance Practitioners'

Association. The demanders for micro finance in Sri Lanka consisted with small farmers, fisherman, landless labours, self-employed women etc. [10].

Nowadays, microfinance services are available in Sri Lanka through participation of governmental and private organisations as well as NGOs in both rural and urban areas, mainly targeting low-income earners. The Lanka Microfinance Practitioners Association is the pioneer network among the Sri Lankan microfinance practitioners which is incorporated as a non-profit organisation [14,12,15].

Based on the past literature and the following model discussed above (Fig. 1) is proposed for the study. Accordingly, hypotheses will be developed for the study. The purpose model is to identify the impact of microfinance practices regarding the development of MEs. Sources of the determinant factors of the dependent and independent variables and measurement scales are shown in Table 1.

2.3 Development of Micro-Enterprise

Micro Enterprise development is the process of increasing the number of employees, turnover, sales, production and technological advancement in MEs. Development cannot be achieved swiftly, instead, it can only be achieved over time. Development of MEs does not solely connect only with business aspects but also impacts the development of society. Many of the micro-businesses and entrepreneurs are nearly poor. Therefore, the development of MEs directs the upliftment of a near-poor family [16].

Various researchers have measured the development of the micro business in different ways from their perspectives. Small enterprise development is the progress of positive change of a business. The growth of the business is typically considered an essential objective for MEs [17]. Progress of MEs is the process of increasing the value of the business and an increase in the quality of life of ME owners and employees [18]. Facilities provided by the MFIs such as microloans, advisory services and micro savings have a significant impact on the entrepreneurial success of women, while micro insurance does not have a substantial effect on women's entrepreneurial success [19,20], and [21]. The household income level increase before receiving microcredit and the age of the household head has been significantly affecting

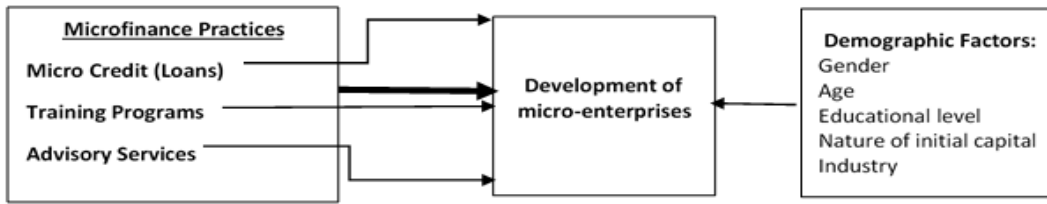


Fig. 1. Proposed conceptual model
 Source: Authors' illustration

Table 1. Variables and Attributes of the Study

Variable	Sources	Measurement (Attributes)	Measure
Microfinance Practices (Independent Variable)			
Micro Credit (Loans)	[21,8,22-28]	Easiness of access; sufficient loan amount; interest rates; repayment process; awareness	5 Point Likert Scale
Training Programs	[24,29-39]	Easiness of access; sufficient for the business; management skills	5 Point Likert Scale
Advisory Service	[4,35,21,40-44]	Easiness of access; sufficient for the business; commission amounts,	5 Point Likert Scale
Demographic Factors	[16,17,19,21]	Gender, Age, Educational level, Nature of initial capital, Industry	Nominal and ordinal
Dependent Variable			
Development of Microbusiness	[18-21,45]	Increase in the business revenue (Sales turnover, Increase in the number of employees, Increase in the capital invested, Change in the business expansion	5 Point Likert Scale

women empowerment [45]. In Nairobi, the microcredit, micro saving and training programmes have a positive effect on the growth of small and micro businesses [46]. A majority of SMEs access microloans. The research discovered that most SMEs indicated a positive effect of MFI loans towards promoting their quality and the capacity range, to expand the branch network. Improved cash flow levels can be identified with an increase in market share [20]. Practices in MFIs can affect the growth of the MEs as mentioned in the following hypothesis. (First hypothesis- H_1).

H_1 : Microfinance practices have a positive impact on the development of micro-enterprises.

2.4 Practices in Microfinance Institutions (MFIs)

The study will evaluate how each microfinance practice impact the development of MEs based

on the Microfinance Act No 6 of 2016 [46]. Accordingly, three practices; microcredit, training programme and advisory services are considered for this study.

2.4.1 Micro credit and development of micro-enterprise

Access to funding is essential with the end goal to begin or extend a business. Yunus [8] stated that the purpose of microcredit is to grant small scale loans to impoverished individuals, particularly to women. The idea of mobilising microfinance savings and lending increased the amount of investment in micro scale businesses and their growth. Babagana [22] has proved how crucial is the provision of formal microloans for the needy people, who are traditionally neglected by formal commercial banks. The MFIs provides a platform to sustain the livelihood of the poor by providing micro-credits [21,23-25]. Microfinance establishment ought to consider the social

condition of business needs. Therefore, it can be comprehended what hinders or promotes its development in the business activities and the equivalent ought to be conveyed to borrowers [26,27] and [28]. Thus, microcredit facilities of micro firms can affect the development of micro-businesses, as highlighted in the second hypothesis (H_2).

H₂: Microcredit facilities have a positive impact on the development of micro-enterprises.

2.4.2 Training programmes and development of micro-enterprise

Offering training to ME entrepreneurs is another service provided by the MFIs. The development of a business cannot solely rely on the funds of the business but also the entrepreneurs should be motivated in the correct path to achieve enterprise development. The objective of training programmes is to impart knowledge, education, and other related skills to business personals to enhance their behaviour and how they perceive their daily business activities efficiently and effectively [29,30]. Many studies have proved that training sessions to gain skills such as finance management, human resource management, marketing management, capital management and technological skills and information are constantly valuable to micro-scale business people; additionally, these would prompt expand development of business exercises and the repayment of loans taken in the long run [24,31,32] and [33]. MFIs provide financial training and advisory services to the people borrowing loans for their entrepreneurial activities. Hence, prior to taking the loan, borrowers are now aware of its prerequisites. In this setting, there is a guarantee to the loan repayment investment-wise [34,35], and [36]. Many researchers discovered that training can improve the business performance of rural poor women entrepreneurs [37,38] and [39]. Based on the above discussion, it is evident that a training programme has an impact on the growth of micro-businesses, as highlighted in the third hypothesis (H_3).

H₃: Training Programmes have a positive impact on the development of micro-enterprises.

2.4.3 Advisory services and development of micro-enterprise

MFIs are willing to work on growth in business investment with the initiation of advisory services

for the entrepreneurs to continue seeking and wisely use their services. MFIs provide financial training and advisory services to the people taking up their loans for entrepreneurial activities so that there is a guarantee to the loan repayment via wise investment [35]. Consequently, MFIs have tailored with customised or more suitable financial products to many micro-scale clients who seek microloans as well as advice on how to wisely utilise the loans borrowed [40,41] and [42]. MFIs are willing to work on growth in business investment with the initiation of advisory services for entrepreneurs to continue seeking and wisely use their services [21]. MFIs interaction with small scale businesses, advisory services have a huge effect on microscale merchants; the latter are advised on which activities would be radical or advantageous to their business, thus empowering supportable innovative development. Microfinance services act as the key support for the entrepreneurs for their business growth [4,43] and [44]. This discussion proved that the advisory services of the MFIs have an impact on micro-businesses as mentioned in hypothesis 4 (H_4).

H₄: Advisory Services have a positive impact on the development of micro-enterprises.

3. METHODOLOGY

3.1 Sample and Data Collection

This is a cross-sectional study focussed on four types of micro firms in Sri Lanka namely, tailoring, food manufacturing and catering, retailing and trading, and beauty care and bridal dressing. The majority of registered micro firms who has obtained facilities of MFIs are under these four categories. These sectors are considered as crucial because services offered by most of these businesses are essential for day-to-day use. Thus, scope of this study is limited to these four industries. Most micro firms are not registered under government authorities. Therefore, for data collection to be manageable, this study was limited to the Central Province in Sri Lanka, which recorded the highest percentage to total poverty (16.8%). Also, according to available sources, no previous studies have been conducted in Sri Lanka [47]. The population of the study consisted of 496 ME owners who have registered in the MEs list in the Kandy District Secretaries Office as of 30.06.2019. Also, 200 respondents were selected based on convenience sampling

method who obtain microfinance services from the registered list of MEs. Hence, all ME owners are not empowered from the MFIs. Therefore, the scholars deployed the users' convenience sampling to reach the relevant respondents, as the sample population. In doing so, the study aims to collect data for a meaningful and reliable analysis. Data were gathered through questionnaires and interviews.

3.2 Method of Data Analysis

For analysis data, Multinomial Logistic Regression was used to estimate the microfinance practices of MFIs and also businesses and demographic factors of the respondents on a probability of identifying the growth of micro-businesses. Multinomial Logistic Regression is also a linear regression analysis used where the dependent variable is nominal with more than two levels. This is a predictive analysis techniques apply to determine the relationship between one dependent nominal variable and independent variables. Therefore it is an extension of logistic regression, which analyses dichotomous dependent variables [48]. For the estimation of the growth of microbusiness, the following single logit model was used.

$$L = \ln \left(\frac{\text{prob}(\text{event})}{1 - \text{prob}(\text{event})} \right) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_k X_k + \varepsilon \quad (1)$$

Where L= Log of the ratio; p= probability of growth of microbusinesses; 1- p= probability of no growth of microbusinesses; X_i is microfinance practices, ε is Error term

The first model tests the relationship between demographic factors and the development of micro-businesses (dependent variable). The second model determines the relationship between microfinance practices and the development of micro-businesses. Also, the two Multinomial Logistic Regression models were used to test the hypotheses, based on the three practices which are independent variables in this study: micro-credit, training and advisory services.

The study use three scalar measures of model fit to determine the goodness of fit. McFadden's adjusted R^2 is known as Likelihood ratio index. It compares full model (which contains all the parameters) with the model which contains intercept. R^2 from 0.2 to 0.4 indicates very good

model fit. Cox and Snell's R^2 is used to calculate unexplained variances. If Cox and Snell R^2 is less than 1 is considered as good model. Nagelkerke's

R^2 is adjusts the scale of the statistic to cover the full range from 0 to 1 [49].

4. RESULTS OF THE STUDY

4.1 Profile of the Respondents

As per the descriptive statistics, presented at Table 2 majority of respondents are female (77.5%), ages (60.5%) between 31 to 40 and had studied up to Advanced level (45.1%) indicates that young women who has high school qualification has higher intention to engage in microfinance activities in the Central province. The finding was matched with few previous studies [19,21]. According to initial capital distribution of sample, survey conducted 36.0% of personal saving to start up the business. The study identified that most of sample is based on beauty care and bridal dressing. It is about 32% of total sample.

4.2 Results of the Reliability Test

Cronbach's alpha reliability coefficient is used to test the reliability of the questionnaire. The reliability of the microfinance practices questionnaire contained 15 questions equal to a value of 0.708, of which four questions regarding the development of micro business on knowledge sharing equal to a value of 0.81. The minimum reliability coefficient for research questionnaires is considered to be an alpha value of 0.70. Thus, the obtained Cronbach's alpha coefficient is higher than the required value of 0.70. In other words, the questionnaire can be confirmed as reliable.

4.3 Multinomial Logistic Regression Analysis on Demographic Factors and Development of Microbusinesses

The demographic variables are gender, age, educational level, nature of initial capital, and industry. Multinomial logistic regression is applied to determine the relationship between demographic factors and the growth of micro-businesses. Results are summarised in Table 3. The results of the model fitting information show that the model is significant at a 5% level of significance. Thus, there is a significant relationship between demographic factors and the growth of micro-businesses.

Table 2. Profile of the respondents

Attribute	Factors	Percentage
Gender	Male	77.5%
	Female	22.5%
Age	20 – 30 Years	11.5%
	31- 40 Years	60.5%
	41- 50 Years	16.0%
	More than 50 Years	12.0%
Education	Primary level	11.0%
	Ordinary level	39.0%
	Advanced Level	45.5%
	Diploma/ Degree	8.0%
Initial Capital	Personal Saving	36.0%
	Personal Saving and loans from MF Banks	30.0%
	Personal saving and borrowing from friends	4.0%
	Loans from MF intuitions	30.0%
Industry	Tailoring	29%
	Food manufacturing and catering	25%
	Retailing and trading	14%
	Beauty care and bridal dressing	32%

Table 3. Model fitting information for the model between employee satisfaction and demographic factors

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	Degrees of Freedom	Significance
Intercept Only	518.804			
Final	339.256	168.548	90	.000

The Nagelkerke R-square value is 0.382, as shown in Table 4 indicates that the model can explain 38.2% of the variation of the dependent variable, i.e. development of MEs. R^2 values of Cox and Snell (.361); Nagelkerke, (.382) and McFadden (.125) are less than 1 indicated that model is fit for the analysis [49].

Table 4. Pseudo R-Square the model between employee satisfaction and demographic factors

Cox and Snell	.361
Nagelkerke	.382
McFadden	.125

Table 5. Likelihood ratio tests and significance of the parameters

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	Degrees of Freedom	Significance
Intercept	139.256 ^a	.000	0	.
Gender	356.528	27.272	4	.002
Age	368.672	29.417	4	.001
Education	349.908	11.652	4	.321
Initial Capital	347.008	14.532	4	.000
Industry	355.001	10.987	4	.000

The results of Table 5, gender, age, educational level, nature of initial capital and industry are significant at a 5% confidence level, while educational level is not significantly related to the dependent variable. In terms of their growth, microbusinesses depend on gender, age, and nature of the industry. For this study, data were collected from four industries; tailoring, food manufacturing and catering, retailing and trading, and beauty care and bridal dressing. The findings aligned with a similar few previous studies [19,21].

4.4 Multinomial Logistic Regression Analysis on Micro Finance Practices and Development of Microbusinesses

Table 6 indicates the model fitting information for the multinomial logistic regression model between Micro Finance Practices and Development of Microbusinesses. The significant value of the chi-square suggested that the model is fit at the 5% significance level.

Table 6. Model Fitting Information for the model between employee Satisfaction and main factors

Model	Model Fitting Criteria		Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	Degrees of Freedom	Significance	
Intercept Only	350.665				
Final	171.590	279.075	191	.000	

Table 8. Likelihood Ratio Tests and Significance of the parameters

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	Degrees of Freedom	Significance
Intercept	671.590 ^a	.000	0	.
Micro Finance Practices	435.005	123.432	18	.000
Microcredit	615.921	244.330	16	.000
Training	601.166	229.576	16	.531
Advisory services	623.125	251.535	16	.000

5. DISCUSSION

Hypothesis one indicated that H_1 : *Microfinance practices have a positive impact on the development of micro-enterprises* is accepted.

Table 8 shows that in H_1 , the regression test uncovers the impact of MF practices on the development of MEs in the Central Province. According to test results, the regression coefficient of microfinance practices is significant at a 95% confidence level. In other words, MF practices have a statistically significant positive impact on the development of MEs in the Central Province. Therefore, the study has accepted hypothesis one (H_1). The findings and results are similar to those of some past researches [3,7,17,19-21,45].

The Nagelkerke R-square value is 0.696 as shown in Table 7. Therefore, the model can explain that 69.6% of the variation of the dependent variable, i.e. development of MEs. R2 values of Cox and Snell (.643); Nagelkerke, (.696) and McFadden (.424) are less than 1 indicated that model is fit for the analysis [49].

Table 7. Pseudo R-Square the model between employee Satisfaction and main factors

Cox and Snell	.643
Nagelkerke	.696
McFadden	.424

As shown in Table 8, two microfinance practices namely micro-credit and advisory services are statistically significant at the 5% level, whereas training is not significant. Therefore, the study has accepted hypothesis one (H_1), hypothesis two (H_2), and hypothesis four (H_4) and rejected hypothesis three (H_3).

Hypothesis 2, indicated that H_2 : *Microcredit facilities have a positive impact on the development of micro-enterprises* is accepted.

The result of the analysis indicates that microcredit has a relatively significant positive impact on ME development of microfinance recipients in Central Province as shown in Table 08. In like manner, the study accepts hypothesis two (H_2) that microcredit has an impact on the development of MEs in the Central Province, while a change miniaturised in advance by 1 percent will lead to variation in development. This causes mainly increasing microloans to enhance ME business owners' working capital management, investment ability, purchasing capacity, and income-generating power.

Many MF beneficiaries have utilised loans as capital investments. Most cases highlighted that the business capital surged due to microloans while it mainly caused the development of their businesses and business expansion. Besides, respondents signposted that part of the loans was used for their private needs (e.g. pay children's school fees, house maintenance) at times. Nevertheless, the main purpose of contracting loans was to capitalise their businesses. Providing access to credit lead has commenced expansion of small businesses, to enhance community status for local and nationwide advancement. Further, in this setting, it altogether upsurges family income [50,51].

The result related to the micro-credit demonstrates that respondents of the investigation concurred and were satisfied with the small scale credit facilities provided by the MFIs. Respondents also stated that they were able to obtain the loan within three weeks of the date of application using a simple process and basic documents, such as copy of the national identity card and without the requirement to obtain the guarantee of a government employee. The majority of ME owners agreed that the obtaining process and the time duration are both convenient to obtain a loan from a MFI rather than from a licensed commercial bank and other financial institutions. However, respondents neither agree nor disagree about the loan amount received. The reason is that the majority have been granted loans less than the amount they applied for with a comparatively high-interest rate in the market. Generally, the microfinance loans are granted, each within the

range of LKR 45,000 to LKR 120,000. The interest rates were different in each scenario and according to the majority of respondents, rates were nearly around 30 percent. The responses indicated that interest rates of loans were mostly high which set a much higher burden on MF beneficiaries on their ability to repay loans. This is a threat to enhance the breadth and depth of outreach. Since the majority of MFI clients may find it difficult if impossible to repay loans and hence, would not go in for them at all. Helms [52] indicates that rates of MF products are to be priced at levels where MFIs and the clients can each stay in business as a means of ensuring sustainable microfinance. Relatively high interest rates are the major drawback of MF loans. When analysing the regional context, Mittal & Srivastava [53] claimed that in various states in India especially in Andhra and Kerala where MFIs were involved in unhealthy MF schemes charging higher interest rates. Furthermore, respondents agree about the loan repayment period being fair and easy regarding the duration of repayment of contracted loans. Responses also indicated that a high portion of MF loans repayment period lasts six to twelve months on a weekly payment basis, while some MFIs issued loans on a monthly repayment basis. However, the respondents stated that the repayment process is not flexible. Overall, the ME owners have a positive perception of the repayment process and period.

Hypothesis 3, indicated that H_3 : *Training programme has a positive impact on the development of micro-enterprises* is rejected. In line with the test results, the sig value is 0.531 reveals that training programmes do not have a significant impact on development in MEs of microfinance beneficiaries in the Central Province. Consequently, the study rejects hypothesis three (H_3).

The study found that at present most private financial institutions and other MFIs are operating with a profit motive. These mainly focus on microloans and have just relinquished their other services. The majority of respondents are sluggish to participate in these training programmes. Even though respondents have participated in training, they have discontinued it later. These ME owners emphasise that it is important to carry on the business rather than joining the training sessions sacrificing their time and business. Researchers found only limited cases where ME owners have utilised those

training programmes effectively and applied that knowledge which gained the aid of upsurge of the business. The lack of basic knowledge of fundamental financial concepts is the main barrier for the ME owners to realise the benefit of those training. Some respondents stated that this type of barriers caused them to give up a training session. Hence, most ME owners are educated up to the secondary level, where the concepts and theories are outlandish to them.

The findings are confirmed by previous researchers. When analysing a concept, a paradigm in detail, it was found that all respondents were aware of the training programmes through the majority of them were disinclined to participate in them. As noted previously, the researchers discovered that majority of the respondents have not participated continuously in the training sessions. The training programmes were mainly based on the areas of financial management, record keeping and other general business-related undertakings which focussed to improve their skills in managing a micro scale financial institutions, i.e. MEs. The respondents who have continuously participated expressed a positive attitude towards the loan obtaining process, content and effectiveness of those training sessions. Sessions of this type assisted them to manage their business well than before. Helms [52] states knowledge and skills are the key to the financial sustainability of MFIs. This finding suggests that assisting MEs in a holistic approach goes beyond merely giving physical cash to people but to provide with what it takes to better utilise the services offered to them.

Hypothesis 4, indicated that *H₄: Advisory services have a positive impact on the development of micro-enterprises* is accepted. Finally, the significant value is less than the standard level (0.05) which demonstrates that the advisory services provided by the MFIs have a statistically significant impact on the development of the MEs in Sri Lanka's Central Province. The resulting study accepts hypothesis four (*H₄*). Financial literacy is one of the major hindrances in the growth of the microfinance sector [53]. As MEs owners are armed with the required knowledge to utilise money, manage a business and repay loans without hindering the functioning of the business, they are in a better position to effectively utilise the loan to enhance the development of MEs.

Machingambi, [54] showed provision of knowledge and skills of entrepreneurship is critical in the development of MEs. If MEs miss this crucial element, it can decelerate the development of MEs. Financial illiteracy and knowledge are the major hindrances in the progression of MEs [43]. The Advisory services provided by the MFIs cause a significant impact on the development of businesses. MEs, therefore need to assign more weight to these important measures, to boost up their growth as business firms.

When ME owners who are microloan holders are fortified with adequate knowledge and skills and to manage a business, utilise and handle funds and reimburse loans without delay, ultimately, they will be able to effectively deploy the loan to develop their business. Responses mainly indicated the contribution of advisory services and those services have persuaded and created the platform allowing MEs to savings. ME owners agreed that the advice on financial management and saving habit caused sustainable development of their businesses.

Consequently, respondents demonstrated that due to the advisory services (e.g. such as proper loan utilisation, savings techniques) that were provided by the MFIs in the respective areas, they were later proficient enough to manage their businesses than before. According to respondents, these kinds of advisory services enabled them to understanding the required traits that could make them successful in their businesses [55].

Advisory services, the final independent variable of the study, is measured using five attributes; gender, age, educational level, nature of initial capital and industry. MFIs provided sound advice to credit holders about ways of handling cash purposefully among fundamental needs and institutions are always prepared to prompt advice loan holders about formulating business plans, financial statements, market identification and the basic business process. Besides, business idea generation and merchandising activities too were provided by the MFIs. In addition to this, ME owners are explained about scheduling their advance settlement period and plan, repayment methods and process. Resulting in a micro-credit applicant can enable MEs to choose their loan settlement plan based on business turnover and income receivable. Further, respondents have agreed with the process of obtaining advisory

services while some of them have conceded that the advice has enhanced their ability to handle employee disputes effectively.

A significant number of ME owners agreed that microfinance services have helped the development of their business. When studying the paradigm further, they are somewhat exultant about the current prominence of the development of the business. Respondents stated that services offered by the MFIs especially on micro-loans helped ME owners to withstand the challenges they face in their businesses. Moreover, the latter indicated that unless there were no such loan facilities provided, the MEs were susceptible to collapse. Also, many respondents mentioned that their business revenue, the number of employees, business expansion, capital investment and ultimately profits increased with the effects of microfinance services.

Respondents indicated that the improvement in their businesses and productivity over time had helped them to employ more people. This is evident, as on average, every business employed two people, something that was favourable for employment creation as advanced by authors [56,57] and [58]. However, some owners disagreed and indicated they had not been able to employ people to assist them despite the services they received from the MFIs. On whether microfinance services have helped respondents to register their businesses, all disagreed and indicated their bank did not assist them in this regard.

The sample interviewed highlighted that working capital constrained business operations. On top of this, it was exceptionally troublesome for them to balance the inventories and meet customer expectations. In the wake of procuring credit, a business can meet its day-to-day expenses. Further, the credit facilities have aided to increase the asset base of the business. For each MEs, generally the mean values of machinery, implementation and inventories have expanded from LKR 250,000 to LKR 600, 000.

6. CONCLUSION AND POLICY IMPLICATIONS

The present research investigated the impact of microfinance practices; micro credits, advisory services, and training programmes on the development of MEs in the Central Province, Sri

Lanka. This study reveals critical implications for MFIs practices and policies related to governing the role of MFIs. The study has applied three MFI practices to measure the development of microbusinesses. Accordingly, the study findings suggest that if these three practices have positively affected the performance of the microbusiness, then sustainable growth of MEs is noticeable.

Two Multinomial Logistic Regression models were used to test the hypothesis. The first model tests the relationship between demographic factors and the development of micro-businesses. It is discovered that growth of microbusinesses relies on gender, age, and nature of the industry. For this study data collected from four industries; tailoring, food manufacturing, and catering, retailing and trading, and beauty care and bridal dressing. The second model was used to determine the relationship between microfinance practices and the development of micro-businesses. Results reveal that microcredit and advisory services have a significant positive impact, while training programmes have no impact on the development of MEs in Central Province, Sri Lanka. The result of the analysis emphasised that the microfinance practices have a positive impact on the development of microbusinesses. Therefore, microfinance practices were found to be a significant predictor of the development of MEs, in their success.

MFIs have engaged in recreation and standardising the lives of poor ME entrepreneurs in the Central Province by providing beyond traditional financial services. Though formal financial institutions have neglected MEs, the microfinance concept has given hope to businesses and lives of MEs. In terms of objectives, the micro-credit facility is the most prominent MF practice which impacts the most for development of MEs in the Central Province. These microloans were utilised on capital investments while the same has assisted MEs to withstand business challenges, without which MEs were formerly subject to collapse. However, some drawbacks in microcredit have disrupted ME owners' conduct and opportunities to develop their business. High-interest rates caused several adverse effects on MEs. Lack of financial literacy among most ME owners was a major reason that grasps the technical aspects on financial management, thus, prevented MEs in

effective utilisation of microloans in Central Province.

Besides, advisory services provided by the MFIs contributed to the development of MEs in the Central Province of Sri Lanka. The advice on management techniques and financial management has directed the advancement of MEs in terms of incrementing the business revenue, profits, and capital investment. Nevertheless, MFI's training programmes have not made considerable impact on the development of MEs. The mismatches between training needs and the existing training sessions as well as lack of fundamental knowledge have triggered to disincline ME owners, to attend and effectively apply those training sessions in businesses. The development of MEs was more attached to personal physiognomies and those non-financial services directly impact the enhancement of ME owners. The commercialisation of MFIs has driven them to work on profit motives while the MEs owners too hunt on monetary values. This leads to an illusion in the development of MEs in actual terms. All parties focus on loans and neglect non-financial aspects which will hinder and restrict the development of MEs where unsuccessful cases have been proven in the study.

Although there are some pitfalls in microfinance, there is reasonable demand for microfinance at the grass-root level. This research concludes that microfinance as a whole educates and helps to develop micro financed micro-scale enterprise businesses and positively impact those families in the Central Province, Sri Lanka.

This research was restricted to three variables namely micro-credit, training and advisory services. Impact of other factors that can influence the growth of MEs did not fall under the scope of this study. It is recommended that in future studies, researchers incorporate significant variables into this study. Data were limited to the selected province in Sri Lanka out of nine. Also considering the response rate and sample size, there are limitations to generalise the findings. As such, future researchers can address these issues to enhance the scope and reliability of the study. Also, this study can be extended to other Provinces of Sri Lanka, to obtain a holistic picture of the impact of the overall role of MFI for the growth of MEs in Sri Lanka.

7. RECOMMENDATIONS

Based on the findings study recommends MFIs increase the loan amount to the poor under more transparent and easily accessible loan schemes. Loan schemes of this nature need to have simple administrative structures and encourage even the less educated to access it easily. Besides, such loan schemes need to provide advisory support about the management of loan, start a business, prepare a business plan, identify customer requirement continuously to enhance the entrepreneurial skills of the people. In addition, to conduct training programmes in a manner more specific towards what businesses the respondents carry out. Accordingly, train them with a customised approach, according to specific needs and wants of that particular industry.

Small businesses have unique needs and wants, typically different from those of SME's but often different from one another. Also, these micro-scale businesses encounter their own bundle of problems. MFIs need to invest in getting to know this new target group well and employ specifically tailored approaches on a case by case basis. A deep understanding of customer needs and market demands is critical to get the segmentation process on the right track. MFI's will need to conduct market studies, mine available data to learn from their current portfolio or conduct primary research, hands-on approach and use direct observations.

CONSENT

As per international standard or university standard, respondents' written consent has been collected and preserved by the author(s).

COMPETING INTERESTS

Author has declared that no competing interests exist.

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