

# **THE EFFECT OF BUSINESS CREDIT AVAILABILITY ON SMALL AND MEDIUM SCALE ENTERPRISES IN SRI LANKA.**

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## **Abstract**

The small and medium scale firms play important roles in the process of industrialization and economic growth in Sri Lanka. They are regarded as one of the main driving forces of economic development of all economies because they generate new employments, introduce new business methods and products, reduce poverty, inflation and income inequality and solve the balance of payment problem. Therefore, SMEs are considered as the backbone of economic development of a country (Ministry of financing and Planning, 2010).

The objective of this research is to examine the relationship that exists between small and medium scale businesses in Sri Lanka. The information is collected by questionnaires distributing to sample SMEs in Sri Lanka. Based on the responses will receive through these questionnaires, observe the answer for the following major equations. Whether any relationship exists between SMEs and financial institutions that grant credit and challenges do SMEs face when securing credit for the business. To achieve the proposed research objective of highlighting the specific challenges inhibiting SMEs in accessing loans /funding in Sri Lanka, the quantitative research method adopt, which often is the most efficient and cost- effective research method (Gerhardt, 2004). Many researchers have looked at the issues of SMEs financing in Sri Lanka “enhancing the capacity of banks to shaping development of SMEs” (Nanayakkara, 2011). His study relates access to finance by SMEs to the nature of the region in which the SMEs operate and therefore adopted a comparative analysis approach. A descriptive statistics will find to be an ideal analysis technique and subsequently use in ascertaining the difficulties that SMEs will face in accessing bank loans.

**Key words:** Business credit, small and medium scale firms