

## **EFFECT OF MICROFINANCE ON PROFITABILITY OF COMMERCIAL BANKS IN SRI LANKA: COMPARISON BETWEEN PRE & DURING COVID - 19 PANDEMIC**

**Jayasundara M.G.C.M.K.<sup>1</sup> and Perera W.T.N.M.<sup>2</sup>**

<sup>1</sup>mgchathura22919@gmail.com; <sup>2</sup>navini@kln.ac.lk

### **Abstract**

Microfinance enables small-scale financial services, such as microloans, savings, insurance, leasing and other financial services to small and medium-size entrepreneurs; Microloans are powerful development instrument that enables the underprivileged and small-scale enterprises who lack access and facilities to traditional banking and capital markets to be provided with the bare minimum of regulatory restrictions. Commercial banks with licenses play a huge and essential part in the country's financial system. With their introduction into the microfinance industry, they increased their contribution towards the financial system's stability and the country's development. State-owned commercial banks provide microloan services for different reasons. Their main focus is to carry out the government's policies such as poverty alleviation objectives. In contrast, private banks mainly focus on seeking a public image or maybe the ultimate objective is to increase profits. Only a few studies addressing the profit motive of commercial banks entering the microloans market could be found in the literature. As a result, the ultimate goal of this study is to determine the influence of microloans on commercial bank profitability and the impact of Covid-19. For measuring, the study acquired secondary data from published annual reports of 24 commercial banks operating in Sri Lanka, including the state banks, across the past 10 years to achieve this research goal. To evaluate and analyze the results, these data were analyzed using regression and exploratory data analysis. Microloans have a favorable link with commercial banks' net interest income and profit before tax, according to data research. In the microloans market, state-owned banks are the most dominant and active participants among commercial banks. They have the largest and most significant microloans portfolio and have made the most money by providing microlending services. The study's key finding was that microloans have a considerable impact on commercial bank profits and also there is an impact of Covid-19 as well. This finding would aid commercial bank decision-makers in their decision-making processes towards their success.

**Keywords:** *Microfinance, Commercial Banks, Microloans, Financial services, Profitability, Microlending, Covid-19 impact*