

**EXPLORING THE CHALLENGES OF SMES IN ACCESSING
CREDIT FROM FINANCIAL INSTITUTIONS IN BATTICALOA
DISTRICT**



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ABSTRACT

The small scale enterprises play an important role for economic development of any nation. They create employment for the majority of the population and also contribute to the gross national product. In order for them to fulfill the above roles, they require financial support. However, SMEs in the every nation have continued to complain of lack of financial support from financial lending institutions.

The main objective of this study is an exploring the challenges of SMEs in accessing credit from financial institutions specially state banks and how such challenges can be overcome. 333 SMEs that are affiliated to bank of Ceylon, people's bank, regional development bank and other financial lending institutions in Batticaloa district were studied under the survey. To collect primary data for the study set of questionnaire has distributed among the small business owners. Data were collected through the questionnaires with random sampling method and collected data were presented by tables, figures, percentages, pie charts, bar charts and frequency tables, mean, median, mode, maximum, minimum, standard deviation and cross tabulation analysis were adopted to analyze variables.

Result obtained show that small scale enterprises faced more challenges with financial lenders due to strict collateral requirements and lack of proper financial records and statements demanded by the lenders, high business risk and cost of credit are faced by SMEs in high level. Therefore it is recommended that financial institutions set more flexible, affordable and attractive requirements in financing micro and small enterprises.

In order to make it easier for SMEs to begin to access funds from financial institutions, government must enact laws and put in place policies that are supportive to the sector. Interest rates charged by financial lending institutions should be differentiated from that larger firms and should endeavor to improve their capacity on the assesSMEnt of risk. On the other hand, business association should take a leading role in educating their members about the importance of keeping proper records of accounts.

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