

**THE IMPACT OF MICROFINANCE ON SMALL BUSINESS
DEVELOPMENT IN THE RURAL ECONOMY:
A Study in Manmunai West DS Division of Batticaloa District**



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ABSTRACT

Small businesses are seen as a potent vehicle for local economic development and the achievement of economic growth of a country. Despite of this emphasis, small businesses in the rural economy encounter various problems. Especially, they have been facing challenges of financing and refinancing since their birth. Thus, this study investigated the impact of Microfinance on Small Business Development as a formal financial tool in the rural economy. The study further examined how Microcredit and Training & Advice as important dimensions of Microfinance and features such as loan size, interest rate, loan term and pre-loan training, impact on Small Business Development in Manmunai West DS Division of Batticaloa district.

The main objective of the study was to ascertain the impact of Microfinance on Small Business Development. In order to accomplish the set-out objectives of this study, the data were collected through questionnaire from a sample of 100 small businesses that obtained microfinance from Micro Financial Institutions, which were randomly selected using stratified random sampling technique. For the analysis, both primary and secondary data were used. The research hypotheses were formulated to identify the relationship and to find out the impact of Microfinance, which were tested via primary data.

Based on the results, the research hypotheses were proved and the findings revealed that Microcredit and Training & Advice were identified with positive impact explaining significant change in Small Business Development. Anyway, the contribution of Microfinance in the rural economy can be increased. The study, therefore, recommends that Microfinance further should be regulated regarding loan sizes, interest rate and other credit plus services. The study ended by suggesting that the role of Microfinance among other sources of finance of small businesses should be studied as a future study.

Keywords: Small Business, Microfinance, SMEs, Microcredit, Rural Economy

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