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The Journal of ARSYM (JARSYM) is a refereed bi-annual journal committed to publish undergraduate research papers of the Faculty of Business Studies and Finance, Wayamba University of Sri Lanka. The JARSYM publishes theoretical and empirical papers spanning all the major research fields in business studies and finance. The aim of the JARSYM is to facilitate and encourage undergraduates by providing a platform to impart and share knowledge in the form of high quality and unique research papers.

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ABSTRACT

Small and Medium Enterprises (SMEs) can be identified as an invaluable turning-point of all the economies. It plays a major role by driving economic growth, regional development, and employment generation. Even though SMEs contribute to the economy in various aspects, they confront a broad array of business problems due to their operating conditions and some distinctive characteristics. Lack of finance is the major problem that they continuously face. In order to overcome this problem, the microfinance concept was established. However, when discussing the concept of SMEs, microfinance cannot be eliminated because these terms are interrelated. Thus, this study aims to examine the impact of microfinance on the financial performance of SMEs in the Kurunegala district. However, the existing literature is not sufficient to identify the impact between microfinance and the financial performance of SMEs. A vast number of studies establish mixed results, and in Sri Lanka, only a few studies are found. Therefore, the study aims to address the current gap in literature findings. In this study, microfinance is measured by microcredit, micro-savings and training programs, while financial performance is measured by net profit and return on assets. The data was collected through a well-structured questionnaire distributed via google forms. The convenience sampling method was used to select the participants from SMEs in the Kurunegala district. Although 150 questionnaires were distributed among the SMEs, only 130 SMEs responded. Descriptive analysis, ANOVA, correlation analysis and regression analysis were used to analyze the data by SPSS. Moreover, microfinance (Microcredit, micro saving and training programs) shows a significant positive impact on the financial performance of SMEs in the Kurunegala district.

Keywords: Financial performance, Microfinance, SMEs

1. INTRODUCTION

Small and Medium Enterprises (SMEs) have been recognized as one of the key drivers of economic growth and the promoter of the equitable development of all countries (Christopher, 2010; Olowe, Moradeyo, & Babalola, 2013; Gamage, 2003). There are various terms used to recognize SME in the literature, such as small & medium industries or enterprises, micro-enterprises, rural enterprises, small & medium activities, cottage and small-scale industries, etc. (Gamage, 2003). SMEs are recognized as the backbone of the country. They play a critical and strategic role in driving strong economic growth, social development, job creation, and regional development (Olowe, Moradeyo, & Babalola, 2013). In addition, many SMEs play a crucial role in linking the supply chain with a large industry or the service sector (Ramawickrama, 2011). Thus, the role of SMEs is overlooked in every economy.

According to the estimation, more than 500,000 SMEs in Sri Lanka employ three to five people on average. Moreover, according to recent research work, SMEs contribute to 45% of employment and 75% of the total enterprises in Sri Lanka (CMA Sri Lanka, 2018). Many people start their SMEs using traditional activities such as agriculture, floriculture, handicrafts, rice milling, production of food items, textiles products, fibre, cane, and clay-based products, etc.

Though SMEs add value to the economy in various ways, it has to face a wide range of business problems due to their operating conditions and some specific characteristics such as lack of finance, lack of managerial skills, lack of IT access, ineffective leadership, time management problems, inadequate infrastructure, economic conditions, government rules and regulations, competition, etc. Among these factors, lack of finance is a major influential problem that most SMEs have to face in every country (Christopher, 2010).

SMEs' financing sources can be mainly categorized into two parts: internal sources and external sources. The common internal financing methods are own money and borrowed money from family, friends, relations or neighbours (Pei-Wen et al., 2016). Nevertheless, there are many external sources of financing this sector, such as business angle, trade credit, leasing, bank finance, venture capitalist and listing, (ACCA , 2019).

According to the literature, several reasons are affected to limit their financial access, such that SMEs have fewer collaterals, limited financial reports, weak financial literacy, and poor internal and external controls. As a result, there is a negative attitude on investors in investing in SMEs because they are worried about how their funds will be used and the amount of returns they could earn. Therefore, the sources of financing of SMEs are rare and difficult to find when compared to the large scale of businesses (Pei-Wen et al., 2016).

To solve this problem, microfinance is a highly advantageous to the SME sector. Microfinance, as an emerging trend in the financial industry, plays a critical role in today's globalized society. Microfinance institutions (MFIs) play an important role in Sri Lanka's urban and rural communities, providing a variety of financial as well as non-financial services (Rajapakshe, 2021). Microfinance is not merely banking; it is a development instrument (Mbugua, 2010). People who have faced different financial difficulties are highly concerned about microfinance facilities because they consist of financial services such as savings, credit fund transfer, insurance, pension remittances, etc. In addition, some MFIs provide non-financial services such as group formation, development of financial literacy and self-confidence, marketing, and improvement of technology for SMEs. On the other hand, microfinance services are a compulsory component of attaining success compared to other financial sources for SMEs.

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2. LITERATURE REVIEW

2.1 Theoretical Review

Most of the research are based on the theoretical concepts due to their high impact. The current study also follows the definitions and key theories in microfinance and SMEs.

2.1.1 Microfinance

Though microfinance is typically found in emerging and developing countries, there is no exact definition to describe the concept of microfinance. Thus, it varies with the thoughts of different persons, countries, and organizations. Microfinance provides a wide variety of financial services, including savings, loans, payments services, micro leasing, and money transfer to the low-income people for their SMEs (Rathnayake, Fernando, & Fernando, 2019).

Khan & Rahaman, (2007) mentioned that most people think that the concept of microfinance is only considered about micro-credit, which is lending a small amount of money to low-income earners. But the author neglected that idea absolutely, and the author said that microfinance not only highlighted the concept of micro-credit but also has a broad perspective that includes micro insurance, transactional services, and especially micro-savings. Microfinance is not only this, but it also has a broader perspective which also includes insurance, transactional services, and importantly, savings. Khan & Rahaman, (2007)

According to the literature, there are different kinds of microfinance products and services described by the researchers. Microcredit, micro saving, micro insurance, and training programs are important among these products and services.

This study is based on some theories which have been presented to provide awareness for the association of the concept of microfinance. The Games Theory of Microfinance supports the group lending among microfinance institutions, and it is based on the Grameen lending model founded on group participants between four to seven who can borrow credit (Omondi & Jagongo, 2018). Women Empowerment Theory stated that one strategy to promote women's empowerment is to provide them with access to microfinance services (Huis et al., 2017).

2.1.2 Small and Medium Enterprises

There is no universally accepted unique definition for SMEs. Therefore, different countries and different organizations use various definitions to define SMEs according to their own perspectives. As a base, commonly use the number of employees, annual turnover and size of capital to define it.

Small and medium-sized companies (SMEs) are defined as enterprises with an employment of 10 to 250 workers in the majority of countries. Micro businesses are defined as businesses with fewer than ten employees (World Trade Organization, 2016).

SMEs are specified by the European Union, if they have a turnover not more than EUR 50 million and less than 250 employees, a balance sheet total of less than EUR 43 million and if not more than 25% of the shares of such an enterprise are owned by other enterprises.

Premaratne, (2002) has mentioned that there are some definitions used by various organizations to describe SMEs in Sri Lanka. The Department of Census Statistics (DCS) has described that to be a SME, there should be less than 25 employees and no criterion involving capital. The Ministry of Youth Affairs noted that the value of fixed assets not exceeding Rs 500,000 and not more than 3 employees should be worked to be a SME.

Different theories provide the theoretical background for a firm's decisions on the justification for their choice of financing sources. In simple terms, the Pecking order Theory describes how organizations seek financing for their business activities (Ibe et al., 2015). The Trade-off Model describes that usually, firms finance their need partly from debt and partly from equity (Madole, 2013).

2.2 Empirical Review

2.2.1 Micro credit

There is no specific definition declared the concept of micro credit and different authors mentioned their ideas related to micro credit in various ways. Micro credit is given a small amount of loan to low-income households at a low interest rate (Kumari, Azam, & Yusof, 2019). Accordingly, Silva (2012) has defined a micro loan as a formal arrangement in which the banks give money to clients (borrowers) who should agree to reoccurrence with interest at some predetermined future date.

Rathnayake, Fernando, & Fernando, (2019) mentioned that the findings of the study showed that microcredit is positively impacted the growth of SMEs. The same results have been proved by (Kumari, Azam, & Yusof, 2019; Rathiranee & Semasinghe, 2016). SMEs are restricted from obtaining loans from conventional credit institutions due to a lack of tangible security and procedural barriers in credit borrowings, are the some of highlighted constraints of SMEs and to overcome this problem micro credit is the highly influential factor (Kumari, Azam, & Yusof, 2019)

2.2.2 Micro savings

There are two types of saving opportunities provided to clients by MFIs, such as mandatory saving and voluntary saving (Kumari, et al., 2019). Mandatory saving is borrowers should be maintained saving for the fulfilling requirements of MFIs and obtaining future loans. Voluntary saving is referred to as maintaining saving products.

Rathiranee & Semasinghe, (2016) mentioned that there was a positive impcat between micro savings on financial performance.The author also stated that micro saving is vital for enhanced financial performance and outreach, especially in rural areas where access to financial services is restricted. In the foreign context also, some authors mentioned that micro savings have a significant positive impact on the financial performance of SMEs (Omondi & Jagongo, 2018; Gyimah & Boachie, 2018; Wambui, 2015). Omondi & Jagongo, (2018) discovered that MFI savings products for SMEs have faced stiff competition in the market due to the entry of new commercial banks and downscaling of old banks. While competition may benefit SMEs by allowing them to earn higher interest rates on their savings, it may harm MFIs by reducing the revenue available to lend. Rajapakshe, (2021) elucidated this positvie impact between both variables and mentioned that MFIs should alter their capacities to assist SME saving services in order to build effective savings programs.

2.2.3 Training programs

MFIs provide some training services such as financial management training, skill development training, business planning, social capital services and enterprise development training. Those training services provide great contributions to effectively use small credit to their clients. MFIs are conducting training opportunities for their borrowers to provide 'credit plus' financial services in rural areas. These services are based on maximizing the utilization of the available resources and skills (Kumari, Azam, & Yusof, 2019).

According to the previous literature, some authors mentioned that training programs did not significantly affect the financial performance of SMEs as well as some were said that training programs were significantly affected the financial performance of SMEs. Rajapakshe, (2021) concluded that training programs are not significantly impacting the SMEs because SMEs do not participate in training programs due to a lack of time, the fact that it is quite expensive, and the difficulty in determining its relevance to the firm's needs. Aladejebi, (2019) also agreed this negative impact between both variables and concluded that SMEs who did not take part in these training programs did so because they believed they already had or could recruit the skills the SMEs required.

But (Gyimah & Boachie, 2018; Rathiranee & Semasinghe, 2016 and Wambui, 2015) found the positive impact between training programs on the financial perforamnce of SMEs.As a summary, Gyimah & Boachie, (2018) mentioned that SME incomes can be improved by well-designed training programs. As a result, MFIs must devise methods for assessing the impact of financial skills training on SMEs furthermore.

Above mentioned results cause a better understanding of the impact of microfinance on the financial performance of SMEs and also an increase in the interest in this subject. There is extensive literature on the impact between microfinance and the financial performance of SMEs concerning many countries but not sufficient studies have been done on the Sri Lankan context. The present study will attempt to fill this vacuum. Given this background, the present study investigates the impact of microfinance on the financial performance of SMEs in the Kurunegala District.

3. METHODOLOGY

3.1 Research Design

The research methodology refers to the procedures by which researchers go about their work of describing, understanding, and predicting phenomena. Research onion illustrates the several decisions that the researcher will take when developing the research methodology. Among the different philosophies in research onion "Positivism philosophy" is the most relevant one for this study. Because this study is highly objective, focus on causality relationship, generalization results, highly structured and large samples measurements are here. The most suitable approach is "Deductive" for this study. Because most quantitative research is highly connected with the deductive approach, it describes as the "Theory Testing" approach since the researcher can test theories using empirical data. The relevant strategy for this study is "Survey". Because this strategy is usually associated with a deductive approach, and it is highly quantitative. , the most appropriate choice for this study is the "Mono method". According to the mono method, a single data collection technique and corresponding analysis procedures can be used. So, the researcher uses a questionnaire to gather data and analyze it using graphs and statistics. Under the concept of time horizon, this study is based on the "Cross-sectional" study. Because here, data collection is done at one point and again and again not to distribute the questionnaire. Regarding this study, the most relevant purpose is "Explanatory" because it relates to hypothetical testing and describes the causal relationship. Typically, quantitative studies are engaged with explanatory purposes.

3.2 Population and Sample

SMEs in the Kurunegala district are the population for this study. In the Kurunegala district, there are a lot of registered and unregistered SMEs that do their operation in different sectors. For the purpose of this study, the population comprises all 86,788 SMEs in the Kurunegala district (Department of Census and Statistics; Ministry of Policy Planning; Economic Affairs, Child Youth and Cultural Affairs, 2015).

To select sample size, this study only uses 4,794 registered SMEs in Kurunegala district (Department of Census and Statistics; Ministry of Policy Planning; Economic Affairs, Child Youth and Cultural Affairs, 2015). Hence, according to the previous literature and based on the annual turnover and number of employees selected 150 SMEs by using the convenience sampling method. Furthermore, the researcher selects these 150 sample SMEs which are facilitated from microfinance services.

According to the number of employees and annual turnover, many organizations have benn categorized SMEs into small industries, medium industries as well as large scal of industries.

Table 1: Identification Criteria of SMEs

Sector	Criteria	Medium	Small
Manufacturing sector	Annual turnover	Rs. Mn. 251 - 750	Rs. Mn. 16 - 250
	No. of employees	51 - 300	11 - 50
Service sector	Annual turnover	Rs. Mn. 251 - 750	Rs. Mn. 16 - 250
	No. of employees	51 - 200	11 - 50

Source: Ministry of Industry and Commerce (2017)

Based on the number of employees, the World Bank also determines the size of small enterprises in Sri Lanka; those with fewer than 49 employees are small industries, 50-59 employees are medium industries, and those with more than

100 employees are in large scale industries (Gamage, 2003). These measurement criteria have been used to analyze the current study. Therefore, the sample consisted of agriculture, plantation, manufacturing, wholesale and retail trading, and other services SMEs under the World Bank identification criteria.

3.3 Data Collection Method

Data has been collected through primary sources and developed a well-structured questionnaire for this research. A well-structured questionnaire is the most common method to collect primary data from a reasonably large sample in research. It is prepared based on the literature information, and some questions are prepared using the details given by the expertise and the researcher's knowledge. But data had to be obtained online via emails and WhatsApp through Google form methods due to the COVID-19 pandemic and the country's subsequent lockdown in certain areas. Therefore, although 150 questionnaires were distributed to the SMEs, only 130 returned questionnaires that were valid for the analysis. So, the response rate of the study was 87%. The research questionnaire consists of four major sections. To measure both variables, the researcher has used a five-point Likert scale.

The conceptual framework implies the relationship between independent variables and dependent variables. The dependent variable is the financial performance of SMEs, and the independent variable is microfinance. According to the factors identified by the previous literature, microfinance is evaluated from microcredit, micro saving, and also training programs. The dependent variable named SMEs' financial performance was evaluated using net profit margin and Return on Assets (ROA). So, the overall research study is based on these dependent and independent variables. Based on the conceptual framework, six hypotheses can be developed as follows.

H1: Microcredit significantly impact the net profit of SMEs in the Kurunegala district

H2: Micro saving significantly impact the net profit of SMEs in the Kurunegala district

H3: Training programs significantly impact the net profit of SMEs in the Kurunegala district

H4: Microcredit significantly impact the ROA of SMEs in the Kurunegala district

H5: Micro saving significantly impact the ROA of SMEs in the Kurunegala district

H6: Training programs significantly impact the ROA of SMEs in the Kurunegala district

3.4 Data analysis methods

Under this, collected data is analyzed by using the software called Statistical Package for Social Science (SPPS 25). Data analysis is done through descriptive statistics and inferential statistics. Here, descriptive statistics are used to obtain frequency distribution, central tendency measurements, and dispersions. To test the hypothesis and identify the relationship between microfinance and the financial performance of SMEs in the Kurunegala district, the researcher used Pearson correlation and, to test the impact between variables, used multiple regression analysis. Cronbach's alpha has been used to measure the reliability.

Regression analysis is the most appropriate method to analyze the data and, in this study, the researcher used two regression analysis models to understand how the financial performance changes according to independent variables.

Regression Analysis Model 01

$$P = \beta 0 + \beta 1\,MC + \beta 2\,MS + \beta 3TP + ę$$

Regression Analysis Model 02

$$ROA = \beta 0 + \beta 1\,MC + \beta 2\,MS + \beta 3TP + ę$$

Where,
P = Net profit
ROA = Return on Assets
MC = Micro credit
MS = Micro saving
TP = Training program
β_0 = Constant
β_1, $\beta 2$, and $\beta 3$ = Coefficient of independent variables
ę = Error term

4. RESULTS AND DISCUSSIONS

4.1 Descriptive Analysis

Table 2: Descriptive analysis

	Minimum	Maximum	Mean	Std. Deviation
Micro credit	1.29	5.00	3.8495	.62696
Micro saving	2.33	5.00	3.7885	.64158
Training programmes	1.00	5.00	3.4064	.65527
Net profit	2.00	5.00	3.7750	.65285
ROA	1.67	5.00	3.7615	.67722

Source: Author's own (2021)

The standard mean value (M) of the five-point scale was 3. According to the above table 2, number of observations of each variable was 130 and it shows high mean value of micro credit was 3.8495. Since M was more than 3, the level of agreement of respondent for micro credit is relatively high. The maximum and minimum value of micro credit is 5.00 and 1.29 respectively. The Standard deviation (SD) also more than the acceptable level of 0.5, it can be said that micro credit variable is in good position.

Based on the table of 2, micro saving also demonstrated a relatively high level of response due to the mean value was 3.7885. Its standard deviation was 0.64158. It has higher minimum value than other variables, it is 2.33 and maximum value is 5.00. In here SD was more than 0.5, micro saving also in good position.

As well as 3.4064 mean value was represented by the training programmes and its SD was 0.65527. This variable was relatively high and was in good position according to the mean value and standard deviation is in acceptable level. It has lower minimum value (1.00) and its maximum value is 5.00.

According to the table 2, as a dependent variable, net profit represented 3.7750 mean value and 0.65285 SD value which was in good position. It has 2.00 minimum value and 5.00 maximum value.

The last variable is ROA and it presents mean and SD as 3.7615, 0.67722 respectively. This variable is also in a good position according to the condition of SD. 1.67 minimum value and 5.00 maximum values ROA has obtained.

Finally, it can be concluded that all the independent variables (micro credit, micro saving and training programs) and dependent variables (Net profit, ROA) are in the high level of agreement of the respondents for each variable according to the mean values. As well as based on the 0.5 standard deviation condition all the variables are in good position.

4.2 Reliability Test

Table 3: Reliability Test

Variable	No of items	Cronbach's alpha
Microcredit	07	0.900
Micro saving	06	0.884
Training programs	06	0.880
Net profit	04	0.896
Return on assets	04	0.885

Source: Author's own (2021)

The reliability of a measure is established to test both consistency and stability of the data set and measured through Cronbach's alpha. According to that, microcredit has 0.900 Cronbach values which indicate higher internal consistency. Cronbach's alpha for micro savings, training programs, net profit and ROA was 0.884, 0.880, 0.896, and 0.885, respectively. All were Table 3: the result of reliability greater than 0.7, meaning that all questions used to test the quality of certain variables had better internal consistency and indicating that all questions for the analysis were highly reliable.

4.3 Correlation Analysis

Table 4: Correlation Analysis

	Correlation	
	Net profit	**ROA**
Micro credit	0.501	0.486
Micro savings	0.561	0.487
Training programs	0.357	0.353

Source: Author's own (2021)

Since there are two dependent variables, correlation analysis has been performed for net profit and ROA separately. All the independent variables are positively correlated with the net profit due to having Pearson Correlations of 0.501, 0.561, and 0.357, respectively. And also, all the significant values are less than 0.05; there are significant relationships between these variables. As well as, every independent variable has significant positive relationships with ROA having Pearson coefficients of 0.486, 0.487, and 0.353, respectively.

4.4 Multiple Regression Analysis-

Table 5: Regression analysis and model summary

Variable		Model (1)	Model (2)
Constant	B	0.950	1.000
	Std. Error	0.340	0.367
	Sig.	0.006	0.007
Micro credit	B	0.232	0.296
	Std. Error	0.096	0.103
	Sig.	0.016	0.005
Micro saving	B	0.369	0.262
	Std. Error	0.095	0.103
	Sig.	0.000	0.12
Training programs	B	0.156	0.185
	Std. Error	0.076	0.082
	Sig.	0.042	0.026
Model summary	R	0.609[a]	0.563[a]
	R^2	0.371	0.317

Source: Author's own (2021)

The model summary constrains the essential information regarding how well the regression model fit or did not fit with the observed data. According to the result of the model summary (Table 5) for model 1, the R-value was 0.609. It means 60.9%, which is at a beneficial level and significantly influential. Model 2, R value was 0.563 and as a percentage it was 56.3% which was at a beneficial level. R^2 is the square of R and is also known as the coefficient of determination and the R^2 value should be ($0 \leq R^2 \leq 1$). According to the Table 1, the R^2 value is 0.371, and it indicates that independent variables (Microcredit, Micro saving and Training programs) can explain 37.1% of the variation of net profit in this study for model 1. To prove this condition ($0 \leq R2 \leq 1$) , ROA was described by the 0.317 (31.7%) of microcredit, micro saving and training programs according to the sample of Kurunegala district in model 2.

Based on the coefficient values in table 5, the regression equation of the net profit can be constructed as follows.

$$P = 0.950 + 0.232MC + 0.369MS + 0.156TP + ę$$

Model 1 shows the coefficient of dependent variables of Net Profit (NP) and other independent variables (micro credit, micro saving, and training programs). According to the above table, all Beta values show the positive impact of Microcredit (β_1 = 0.232), Micro saving (β_1=0.369) and Training programs (β_{1} -=0.156) with net profit.

The validity of the effect is decided based on the significance value. In order to test the hypotheses, considering the probability of the t-test of microcredit was less than 5%. Hypothesis (H_1) stated that there is an impact between microcredit and the net profit of SMEs in the Kurunegala district. Since the p-value was 0.016 < .05, which illustrated that there was a significant positive impact of

Microcredit on the performance of SMEs in Kurunegala district; as a result, H_1 was supported (Model 1).

Hypothesis (H_2) stated that there is a positive impact between micro saving and net profit of SMEs in Kurunegala district. Since the t-test of p-value was 0.000 <0.05, which illustrated that there was a significant impact on micro saving on the net profit of SMEs, as a result, H_2 also was supported.

Hypothesis (H_3) stated that there is an impact between training programmes and the net profit of SMEs in the Kurunegala district. Since the t-test of p-value was 0.042 < 0.05, which illustrated that there was a significant impact of above mentioned two variables of SMEs in Kurunegala district, as a result, H_3 was supported.

According to the coefficient values in table 5; model 2, the regression equation of the ROA can be constructed as follows.

$$\text{ROA} = 1.000 + 0.296\text{MC} + 0.262\text{MS} + 0.185\text{TP} + ę$$

Table 5; shows the coefficient of the dependent variable of Return on Assets (ROA) and other independent variables (micro credit, micro saving, and training programs). According to the above table, all Beta values show the positive impact of microcredit (β_1 = 0.296), micro saving (β_1= 0.262) and training programs (β_1= 0.185) with ROA.

In order to test the hypotheses, considering the probability of the t-test of microcredit was less than 5%. Hypothesis (H_4) stated that there is an impact between microcredit and ROA of SMEs in the Kurunegala district. Since the t-test of p-value was 0.005 < 0.05, which illustrated that there was a significant positive impact of Microcredit on the performance of SMEs in Kurunegala district, as a result, H_4 was supported.

Hypothesis (H_5) stated that there is a positive impact between micro saving and ROA of SMEs in the Kurunegala district. Since the t-test of p-value was 0.012 <0.05, which illustrated that there was a significant impact on micro saving on ROA of SMEs. As a result, H5 also was supported.

Hypothesis (H_6) stated that there is an impact between training programmes and ROA of SMEs in the Kurunegala district. Since the t-test of p-value was 0.026 < 0.05, which illustrated that there was a significant impact of above mentioned two variables of SMEs in Kurunegala district. As a result, H_6 was supported.

According to the regression analysis results, microcredit has a significant impact on the Net Profit (NP) and return on assets (ROA) of SMEs. Both Net Profit (NP) and Return on Assets (ROA) represent significant impacts. Accordingly, that both sub-objectives to identify the impact of Microcredit on the net profit (NP) of SMEs and to identify the impact of Microcredit on Return on assets (ROA) were achieved. Therefore, microcredit has a significant impact on SME financial performance. This finding is compatible with the findings of Alhassan & Hoedoafia (2016), who examined the effects of micro credit on net profit (NP) of women-owned SMEs in Northern Ghana. The researcher revealed that there was a significant relationship between microcredit on the (NP) of SMEs in Northern Ghana. Likewise, the authors found that there was a significant positive impact between microcredit and the net profit of SMEs (Rajapakshe , 2021;Rathnayake, Fernando, & Fernando, 2019; Aladejebi, 2019; Pei-Wen et al., 2016). Therefore, according to the findings of this study, the significant positive impact between microcredit and the financial performance of SMEs is similar to previous researchers. So, according to the findings of this study, the significant positive impact between microcredit and the financial performance of SMEs was also proved by the previous researchers.

Micro saving also has a significant impact on the financial performance of SMEs in the Kurunegala district, according to the regression analysis results. Therefore, that both sub-objectives to determine the influence of micro saving on NP of SMEs and to determine the influence of micro saving on ROA of SMEs were successfully achieved. These findings were confirmed by the previous researchers also. Omondi & Jagongo (2018); who revealed that micro saving had a significant impact on the financial performance of youth SMEs in Kisumu County Kenya. And also, Gichuki, Mutuku, & Kinuthia (2014) investigated the selected factors (Microcredit and micro saving) perceived to influence the performance of women-owned SMEs in Kenya. Finally, the authors concluded that saving is one of the effective strategies for the performance of SMEs. Furthermore, based on the Sri Lankan literature, many researchers like Rajapakshe (2021); and Rathnayake, Fernando, & Fernando (2019) confirmed that there was a significant positive impact on micro saving on the financial performance of SMEs.

In this analysis, the final independent variable is training programs. It is a highly concerned variable according to the topic of the impact of microfinance on the financial performance of SMEs in the Kurunegala district. According to the analysis, training programs also have a significant impact on the financial performance of SMEs.But the problem is according to the previous literature; some authors mentioned that training programs did not significantly affect the financial performance of SMEs as well as some were said that training programs significantly affected the financial performance of SMEs. So here it should be specially discussed. Aladejebi (2019) mentioned that training programs did not significantly impact the performance of SMEs in Lagos Metropolis. The author concluded that microfinance banks should be adopted to provide training facilities to their customers. Kisaka & Mwewa (2014) pointed out that training was not statistically significant to the growth of SMEs in Machakos County in Kenya due to this training was not based on the real needs of SMEs.

Based on the Sri Lankan literature, some researchers also stated this insignificant impact between training programs and the financial performance of SMEs. Rajapakshe (2021) said that training programs are not significantly impacting the performance of SMEs in Central province. Furthermore, the author stated that when conducting training programs that are more specific to the businesses that the respondents operate. As a result, train them using a customized method that is customized to the needs and desires of that industry. Rathiranee & Semasinghe (2016) confirmed that insignificant impact between training programmes and financial performance by doing research based on Northern Sri Lanka.

5. CONCLUSION

In every developing country, discussing the concepts of SMEs and microfinance is very important because both concepts provide a huge contribution to the world's economies as per the word.

The study's main objective is to find the impact of microfinance on the financial performance of SMEs in the Kurunegala district. For the purpose of the study, data was collected through the well-developed questionnaire, which was distributed via online google form due to the COVID-19 pandemic. According to the analysis, it can be concluded that there is a significant positive impact of microfinance on the financial performance of SMEs. Furthermore, microcredit, micro saving, and training programs have a significant impact on SMEs' net profit and ROA in the Kurunegala district. In addition to that, all six hypotheses are accepted in this study. Based on the findings, the researcher has stated that most of the respondents used their own funds rather than microfinance facilities as an initial level of the business. But there was a trend to get microloans more and more when expanding their business.

Conclusively, the appropriate modifications of the unfavourable credit terms for SMEs by MFIs are strongly recommended. In addition to financial support, the government should seek ways of improving the infrastructure facilities of SMEs. Furthermore, the owners of SMEs should focus on maintaining adequate cash on hand to ensure that their working capital requirements are sufficient for the sustainability of the business. Further, the regulators and policymakers can consider the findings of the study in formulating policy decisions to enhance the financial performance of SMEs since the performance of SMEs directly relates to the growth of the country's economy. However, some training programs of microfinance providers do not address the requirements of SMEs, and therefore, considerable attention should be paid to training programs.

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