

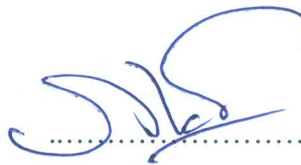
The Open University of
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ABSTRACT

This research is an attempt to examine the connectivity between access to finance, microenterprise development and employment generation. The rationale for research was the paucity of empirical evidences on the performance of the microenterprises in terms of their contribution to economic advancement and employment generation. The main objective of this study was to examine the influences of demographic, personal, economic and financial factors on microenterprise formation and growth. The study also examined how access to finance plays a critical role in determining the growth and advancement of microenterprises in the context of Sri Lanka. It further examined the role of microenterprises in employment generation from an inclusive economic development perspective. This study adopted multiple research methods that include a cross sectional survey among the registered micro-entrepreneurs in Sri Lanka. The study also employed in-depth interviewing of entrepreneurs to understand the impact of microenterprises on employment generation, particularly on youth. The analytical strategies included path analysis using AMOS to analyze quantitative data and a thematic approach to analyze qualitative data. The study found that Sri Lankan microenterprises exhibited relatively high access to finance, explained through a strong correlation with cost of capital, collateral, training, business experience, personal attributes and business ownership. The study confirmed that access to finance has a statistically significant correlation to microenterprise's growth and expansion. However, the study also found that access to finance has a weak impact on employment generation. This confirms the assumption that employment generation within micro enterprise sector is persistently low even in a context of growth prospects. What is observed is a marginal increase in unpaid employment opportunities, confined to immediate family members and friends. On the question of employment to youth groups, the study found micro entrepreneurs' undesirable experiences with young people and lack of reliability functioning as deterrent factors. The study recommends more robust policy attention on this sector to assess potential of microenterprises in creating business opportunities because of its potential for income generation for youth and women groups. The sector needs more formalization in terms of governance and business operations. More capacity building is essential within microenterprises to improve competencies in risk assessments, financial management, marketing, leadership and technological know-how. There is a need for creating a specialized financial institution for the development of the microenterprise sector.



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