

**FACTORS AFFECTING THE EFFECTIVENESS OF BANK CREDIT IN
ENHANCING THE PERFORMANCE OF SMALL AND MEDIUM
ENTERPRISES IN THE MATARA DISTRICT**



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ABSTRACT

Small and Medium Enterprises (SMEs) are the catalyst for economic growth in most economies thus, this study sought to examine factors that hinder the effectiveness of bank credit in enhancing the performance of SMEs in Matara District. Specifically, it investigated whether credit terms, loan utilization and managerial competence affect the effectiveness of bank credit in enhancing the performance of SMEs in Matara District. Specific objectives of the study were; to establish the influence of credit terms on the effectiveness of bank credit in enhancing SME performance. To find out how bank loan utilization influenced the effectiveness of bank credit in enhancing SME performance in Matara District and to examine the influence of managerial competence on the effectiveness of bank credit in enhancing SME performance in Matara District. Data were collected from primary sources which were collected from Matara district five type of bank 290 customers, while frequency distribution and multiple regression analysis were used for analysis of data. Simple random sampling technique was employed in selecting the 290 SMEs that constituted the sample size of the research. It is recommended that Banks should review their interest rate downwards and also share best practices with their SME customers especially on the efficient use of loans; this will boost their productivity and support SMEs in Sri Lanka. The study concluded that there is a positive impact between credit terms, loan utilization and managerial competence on SMEs performance. It means, if the bank increases the rate of granting SMEs loan facility, it helps to make the success of the SMEs. Then, it is recommended for the banks to increase the loan amount to SMEs for developing the SMEs to accelerate the economic growth.

Keywords: Small and Medium Enterprises (SMEs), credit terms, managerial competency, loan utilization, Performance, Effectiveness.

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