

**ROLE OF MICROFINANCE IN EMPOWERING SMALL-SCALE
ORGANIZATIONS IN ANURADHAPURA DISTRICT**



By

HANDUNKIRI KUMARASINGHE MUDIYANSELAGE LAKSHIKA

DIVYANJALI KUMARASINGHE

REG NO: EU/IS/2017/MS/024

INDEX NO: MS 1984



**A project report submitted to the Faculty of Commerce and Management,
Eastern University, Sri Lanka, as a partial fulfillment of the requirement for
the Degree of Bachelor of Business Administration Honours**

**DEPARTMENT OF MANAGEMENT
FACULTY OF COMMERCE AND MANAGEMENT
EASTERN UNIVERSITY, SRI LANKA**

2023

Abstract

Nowadays, microfinance plays a strategic role than in the past. Microfinance consider as a tool that could be used to influence directly or indirectly develop the small-scale businesses and entrepreneurs. By adopting individual lending to the underprivileged and focusing on micro firms, it encourages financial inclusion. Financial inclusion serves as a mediating factor and significantly contributes to small-scale entrepreneurs' empowerment. In this research study, there are four independent variables such as financial role, capitalist role, repayment role, enterprise development role. There is a mediating variable as financial inclusion and the dependent variable is economic empowerment of small-scale organizations. The purpose of this study is to conduct research on the use of microfinance and entrepreneurship together to reduce poverty, empower the underprivileged, and promote sustainable development. The objectives of this study is to identify level, impact, relationship and mediating effect among various perceived roles of microfinance, financial inclusion and economic empowerment of small-scale organizations.

In this research study, primary data had been practiced. A structured questionnaire was used as the method of data collection. Sample of the study is 298 small-scale business owners using microfinance services and stratified random sampling method used to make the sampling framework of the study. The quantitative research approach used for this study. The data were analyzed using descriptive statistics, univariate, correlation, and regression analysis.

The findings indicate that there are good reliability and mean value of study variables are high level and also the results showed that there is a strong positive relationship between every variables. According to the derived results, various perceived roles of microfinance and financial inclusion significantly impact on economic empowerment of small-scale businesses. Furthermore, financial inclusion plays a partial mediating role in the connection in between independent variables and dependent variable.

Keywords; *Financial role, Repayment role, Capitalist role, Enterprise development role, Financial inclusion, Economic empowerment.*

Table of Contents

Acknowledgement	i
Abstract	ii
Table of Contents	iii
List of Tables	x
List of Figures	xii
List of Abbreviations	xiii
Chapter - 1	1
Introduction	1
1.1 Background of the Study	1
1.2 Research Problem/ Gap	5
1.3 Research Questions	5
1.4 Research Objectives	6
1.5 Significance of the Study	6
1.6 Scope of the Study	7
1.7 Organization of Chapter	8
1.8 Chapter Summary	9
Chapter – 2	10
Literature Review	10
2.1 Introduction	10
2.2 Economic Empowerment	10
2.3 Financial Inclusion	11
2.4 Microfinance	13
2.4.1 Financial Role	15
2.4.2 Capitalist Role	16
2.4.3 Repayment Role	16
2.4.4 Enterprise Development Role	17
2.5 Model and Theories	17
2.5.1 The Moral Hazard Theory	17
2.5.2 Information Asymmetry Theory	18
2.5.3 Grameen Model of Microfinance	20
2.5.4 Progressive Leasing Banco Sol Model	20
2.6 Hypothesis Development	21

2.6.1 Financial Role and Economic Empowerment	21
2.6.2 Capitalist Role and Economic Empowerment.....	22
2.6.3 Repayment Role and Economic Empowerment.....	22
2.6.4 Enterprise Development Role and Economic Empowerment	23
2.6.5 Financial Inclusion Mediates Relationship between Financial Role, Capitalist Role, Repayment Role and Enterprise Development Role of Microfinance and Economic Empowerment	23
2.6.6 Financial Inclusion and Economic Empowerment.....	24
2.6.7 Financial Role, Capitalist Role, Repayment Role, Enterprise Development Role of Microfinance and Financial Inclusion.	25
2.7 Chapter Summary.....	25
Chapter - 3	26
Conceptualization and Operationalization	26
3.1 Introduction	26
3.2 Conceptualization.....	26
3.3 Definition of Variables.....	27
3.3.1 Various Roles of Microfinance	27
3.3.1.1 Financial Role	27
3.3.1.2 Capitalist Role.....	28
3.3.1.3 Repayment Role.....	29
3.3.1.4 Enterprise Development Role	29
3.3.2 Financial Inclusion	30
3.3.3 Economic Empowerment	31
3.4 Development of Hypothesis	31
3.5 Operationalization	32
3.6 Chapter Summary.....	37
Chapter - 4	38
Research Methodology	38
4.1 Introduction	38
4.2 Selection of Study Design	39
4.3 Research Approach	39
4.4 Research Strategy	40
4.5 Methodological Choice	40
4.6 Time Horizon	41

4.7 Research Site / Area Selection	41
4.8 Population of the Study	41
4.9 Sample Size	42
4.10 Sampling Technique.....	42
4.11 Method of Data Collection.....	42
4.12 Research Instrument.....	42
4.12.1 Part 1 - Personal Information	43
4.12.2 Part 2 – Research Information	43
4.12.3 Summary of the Questionnaire.....	43
4.13 Source of Measurement.....	44
4.13.1 Source of Measuring the Personal Information.....	44
4.13.2 Source of Measuring Research Information.....	45
4.14 The Pilot Study.....	45
4.15 Validity and Reliability of Instruments.....	45
4.16 Unit of Data Analysis.....	46
4.17 Method of Data Analysis.....	46
4.17.1 Methods of Data Analysis for First Objective.....	47
4.17.2 Methods of Data Analysis for Second and Third Objective.....	47
4.17.3 Method of Data Analysis for Fourth Objective.....	47
4.18 Method of Data Evaluation	48
4.18.1 Univariate Analysis	48
4.18.2 Regression Analysis	48
4.18.3 Mediating Analysis.....	49
4.18.3.1 Decision Criteria for Accepting Mediating Variable.....	49
4.18.4 Testing Hypothesis	51
4.19 Data Presentation.....	52
4.19.1 Data Presentation for Personal Information	52
4.19.2 Data Presentation for Research Variables	53
4.20 Ethical Consideration.....	53
4.21 Chapter Summary.....	53
Chapter - 5	54
Data Presentation and Analysis.....	54
5.1 Introduction	54
5.2 Analysis of Reliability.....	54

5.3 Data Presentation of Personal Information	55
5.3.1 Age	55
5.3.2 Gender	56
5.3.3 Education Qualification.....	57
5.3.4 Business Experience	58
5.3.5 Profit Level.....	59
5.4 Data Presentation of Research Information	60
5.5 Univariate Analysis.....	60
5.5.1 Level of Variables of the Study.....	60
5.6 Bivariate Analysis	63
5.6.1 Pearson’s Correlation Analysis	63
5.6.2 Simple Regression Analysis	65
5.6.2.1 Impact of Various Roles of Microfinance (Financial Role, Capitalist Role, Repayment Role, and Enterprise Development Role) and Financial Inclusion on Economic Empowerment	66
5.6.2.2 Impact of Various Roles of Microfinance (Financial Role, Capitalist Role, Repayment Role, and Enterprise Development Role) on Financial Inclusion.....	68
5.6.2.3 Mediating Effect of Financial Inclusion on Financial Role and Economic Empowerment (Mediation 1).....	69
5.6.2.4 Mediating Effect of Financial Inclusion on Capitalist Role and Economic Empowerment (Mediation 2).....	72
5.6.2.5 Mediating Effect of Financial Inclusion on Repayment Role and Economic Empowerment.....	75
5.6.2.6 Mediating Effect of Financial Inclusion on Enterprise Development Role and Economic Empowerment	78
5.7 Hypothesis Testing.....	81
5.7.1 Testing for Hypothesis 1	81
5.7.2 Testing for Hypothesis 2	81
5.7.3 Testing for Hypothesis 3	81
5.7.4 Testing for Hypothesis 4	84
5.7.5 Testing for Hypothesis 5	84
5.7.6 Testing for Hypothesis 6	84
5.7.7 Testing for Hypothesis 7	86

5.7.8 Testing for Hypothesis 8	86
5.7.9 Testing for Hypothesis 9	87
5.7.10 Testing for Hypothesis 10	89
5.7.11 Testing for Hypothesis 11	89
5.7.12 Testing for Hypothesis 12	90
5.7.13 Testing for Hypothesis 13	91
5.8 Chapter Summary.....	92
Chapter – 6	93
Findings and Discussion	93
6.1 Introduction	93
6.2 Discussion of Personal Information	93
6.2.1 Age	93
6.2.2 Gender	93
6.2.3 Education Qualification.....	93
6.2.4 Business Experience.....	94
6.2.5 Profit Level.....	94
6.3 Discussion of Research Information	94
6.3.1 Discussion for Objective One.....	94
6.3.1.1 Level of Variables of the Study	94
6.3.2 Discussion for Objective Two	95
6.3.2.1 Relationship of the Variables.....	95
6.3.3 Discussion for Objective Three	96
6.3.3.1 Impact of Various Roles of Microfinance (Financial Role, Capitalist Role, Repayment Role, and Enterprise Development Role) and Financial Inclusion on Economic Empowerment.....	96
6.3.3.2 Impact of Various Roles of Microfinance (Financial Role, Capitalist Role, Repayment Role, and Enterprise Development Role) on Financial Inclusion.....	96
6.3.4 Fourth Objective.....	97
6.3.4.1 Mediating Effect of Financial Inclusion on Financial Role and Economic Empowerment (Mediation 1).....	97
6.3.4.2 Mediating Effect of Financial Inclusion on Capitalist Role and Economic Empowerment (Mediation 2).....	98

6.3.4.3 Mediating Effect of Financial Inclusion on Repayment Role and Economic Empowerment.....	98
6.3.4.4 Mediating Effect of Financial Inclusion on Enterprise Development Role and Economic Empowerment	99
6.3.5 Finding from Hypothesis Testing.....	100
6.3.5.1 Testing for Hypothesis 1	100
6.3.5.2 Testing for Hypothesis 2.....	100
6.3.5.3 Testing for Hypothesis 3.....	100
6.3.5.4 Testing for Hypothesis 4.....	101
6.3.5.5 Testing for Hypothesis 5.....	101
6.3.5.6 Testing for Hypothesis 6.....	101
6.3.5.7 Testing for Hypothesis 7.....	101
6.3.5.8 Testing for Hypothesis 8.....	102
6.3.5.9 Testing for Hypothesis 9.....	102
6.3.5.10 Testing for Hypothesis 10.....	102
6.3.5.11 Testing for Hypothesis 11.....	103
6.3.5.12 Testing for Hypothesis 12.....	103
6.3.5.13 Testing for Hypothesis 13.....	103
6.4 Chapter Summary.....	103
Chapter - 7	105
Conclusions and Recommendations	105
7.1 Introduction.....	105
7.2 Conclusion.....	105
7.2.1 First Objective of the Study.....	105
7.2.2 Second Objective of the Study	106
7.2.3 Third Objective of the Study	106
7.2.4 Fourth Objective of the Study	106
7.3 Contributions of the Study	106
7.4 Recommendations	107
7.5 Limitations of the Study.....	107
7.6 Direction for Future Study	108
List of References	109
Appendix-1: English Questionnaire	118
Appendix-2: Sinhala Questionnaire	123

