



Entrepreneurial Success through Microfinance Services among Women Entrepreneurs in Sri Lanka: A Pilot Study and Overview of the Findings

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ABSTRACT

Determining microfinance services which facilitate entrepreneurial success (ES) among women entrepreneurs who use such services remains a major issue in the microfinance sector. To address this gap, this study was designed to tap into microfinance services constructs as well as ES of women entrepreneurs within the conceptual model. The relevant questionnaire was piloted among 40 women through microfinance services in Sri Lanka. Based on theories, the measures which comprise microcredit, micro-saving, micro-insurance, business-support, skills development and dependent variable of the ES among women through micro finance were derived from the literature and expert opinion. These constructs were subject to reliability and validity tests to decide on the measures and items to be retained to represent microfinance services and ES in microfinance sector in Sri Lanka. The findings of the study will provide a good starting point to identify the suitable measurements. Further the study will pave way for a comprehensive study which can develop a diamond specification model for the financial sector in Sri Lanka.

Keywords: Entrepreneurial Success, Microfinance Services, Women in Sri Lanka

JEL Classifications: G21, L26

1. INTRODUCTION

The women represent more than 53% of the population in Sri Lanka, however their active involvement in the economy is comparatively low. Female labor force participation in the economy is important for any country. In Sri Lanka out of the total economically inactive population of the country, 69% are females, and out of the total economically active population (i.e. labor force) females account for 34% according to the Department of Census and Statistics (DCS) (2013). This implies that there is a large unutilized reservoir of females in Sri Lanka. However, capacity of women is hindered by the challenges that they have to face in developing and running a business, and many researchers argue that significant barriers still exist for women who are establishing new business and growing their existing business (Wennekers and Tharik, 2007; Berry et al., 2009; Witboi and Ukpere, 2011).

Facilitating women for entrepreneurial activities would lead to improve their living standards and that of their families (Bernard, 2015). This would in turn pave way for economic development of the country. Generally, microfinance has been regarded as a tool for poverty alleviation according to research studies conducted in a wide cross section of countries with a focus on developing entrepreneurship among poor women (Bernard, 2015). Drawing on the literature published, it can be argued that the microfinance services play a major role in achieving entrepreneurial success (ES) of women, but also highlight drawbacks of microfinance as a strategy for developing entrepreneurship of poor¹ women. Hence, the findings are inconclusive on microfinance as a strategy for poverty alleviation and as a tool for ES.

¹ Who lives on less than US\$ 2 a day (UNDP, 2012).

Microfinance provides services of both financial and nonfinancial nature, including small business loans to lower income clients, generally communities, with the aim of supporting economic development through the growth of entrepreneurial activity (Bruton et al., 2011; Khavul et al., 2013). However, microfinance is recognized as one of the new development strategies for alleviating poverty through social and economic development of the poor with special emphasis on empowering women (Singh, 2009). Microfinance has gained recognition as a means of facilitating sustainable economic development in poor countries, and has become a buzzword in international donor circles (Senanayake and Premaratne, 2005). The authors further state that microfinance has been successfully used as an anti-poverty and developmental strategy in many countries. Microfinance is a well-researched subject area having a vast collection of literature. However, a universally accepted definition of microfinance is yet to emerge. As Sriram and Upadhyayula (2002) have put it “It is apparent that what microfinance means is well understood, but not clearly articulated” (Sriram and Upadhyayula, 2002. p. 1). Though, the word literally means small loans, the concept covers a broader spectrum of activities than mere provision of small loans to poor. According to Burton et al. (2008) microfinance attempts to facilitate a wide fraction of people to make use of market opportunities by offering small scale financial services to low income clients who are denied access to formal banking services. On the same topic (Littlefield and Rosenberg, 2004) state that the microfinance institutions (MFIs) have emerged to address the market needs of the economically active low income people who are generally excluded from the formal financial sector. By addressing this gap in the market in a financially sustainable manner, MFIs presently have become part of the formal financial system of their respective countries. According to this definition, microfinance encompasses provision of other financial services such as savings, insurance, money transfers, payments, and remittances among many others. However, the practitioners and researchers hold diverse views on microfinance, its range of services, and its target recipients.

Therefore, it is important to find out the current specific services provided by the MFIs and to develop relevant constructs with appropriate items in order to conduct research studies on microfinance services and ES of poor women receiving these services.

2. REVIEW OF THE CONCEPTS

2.1. Joint Liability Lending (JLL) Based View

The salient feature of micro financing is the fact that lending is to the poor who do not have access to financial resources to start with and enforcing the recovery collectively on clusters and groups of such borrowers (Kiiru, 2007). This model is known as the “JLL” in microfinance, targeted to the poor in society who cannot borrow individually, but borrow within a group of other borrowers (Kiiru, 2007). These participants of JLL organize themselves into groups, and act as security for each other. Hence the group, not the individual, is responsible for loan repayment to the MFIs. Peer pressure and peer monitoring are key characteristics of these groups, which facilitate repayment of loans obtained by individual members. This study focuses on the JLL model.

These micro financial services are now widely available in Sri Lanka through public, private and non-governmental institutions in rural areas and in urban neighborhoods mainly of low income. The purpose of microfinance services to help the poor to improve their financial position, allowing them to take advantage of business opportunities and facilitate the growth of their enterprises.

According to the available literature microfinance is conceptually unique everywhere in the world. However, it is also clear that practices and implementation programs which have been successful in a certain country should not necessarily be equally successful in another country (De Silva et al., 2006). In this respect, the application of the “Grameen” concept introduced by Prof. Muhammad Yunus in Bangladesh (1976) may not necessarily be effective in Sri Lanka or in any other country for that matter. This may be due to differences among these countries in their socio economic conditions and ground situation. According to the Asian Development Bank (2012), only in the Asian and Pacific region, over 900 million people in about 180 million households live in poverty; those who are living on < US\$ 1.25 per day according to the World Bank. “More than 670 million of these poor people live in the rural areas and most of them rely on secondary occupations, as agriculture alone is not enough to provide for their growing needs” (Sharma, 2001. p. 1). This includes a whole range of paid employment, from micro enterprises over services such as carpenters and weavers to self-employed businesses such as food stalls; tailoring and shoe repair (Robinson, 2002). Again the operators of many of these micro-enterprises are women, who suffer disproportionately from poverty. The poverty rate for women worldwide was 14.5% in 2013 (www.nwlc.org). According to the DCS of Sri Lanka, population below poverty line in Sri Lanka as at 2012/13 was 6.7%. According to this survey the percentage of households below the poverty line was 5.3.

The concept of special MFIs established specifically for the poor of the society is not a very old one. After the Second World War and into the 1970s, development finance institutions were not particularly concerned about poor target groups of customers. However, this view shifted after the realization of the fact that massive amounts of foreign trade invested in large projects did not necessarily lead to the “trickledown effect” which had been expected (Robinson, 2002). In Bangladesh, (the country with the greatest number of non-governmental organizations per square mile) the Bangladesh Rural Action Committee one of the biggest MFIs in the world, was one of the first organizations that poor households were typically excluded from the formal banking system for lack of collateral (Feroze, 2002). However, the micro-finance movement exploited new contractual structures and organizational forms that reduced the riskiness and costs of making small, un-collateralized and cheap loans. The critiques argue that financing schemes proved extremely costly for donors and, at least in some cases, for the borrowers as well (due to high transaction costs); that they inevitably failed to reach many members of their target groups. Littlefield et al. (2003) have argued that microfinance, and the impact it has, go beyond just business loans. The poor use of financial services, not only for business investment in their micro enterprises but also in health and education, to manage household emergencies and to meet a wide

variety of other cash needs that they might encounter. Furthermore, many microfinance programmes have targeted women (who are the poorest of the poor) as clients and bridged gender disparity. This has not only helped empower women who appear more responsible and show a better repayment performance, but also shown that women are more likely to invest increased income in the household and family well-being (Littlefield et al., 2003). Microfinance therefore acts not only as an economic stimulator for small enterprises but also has far reaching social impacts.

The literature suggests that the nature of microfinance is complex and in practice often little understood, especially when it comes to problems arising from a conflict of interests between the parties involved in the process. The mainstream lack of knowledge on how and at whom these programmes are aimed, has resulted in many factors not taken into consideration while launching such programmes in their preparatory assistance phases. Furthermore, the question which is usually left out of the whole set up is through whom to mobilize the credit for the poor who have no access to it. It is therefore extremely important to devise and construct programmes by taking into consideration three dimensions, namely, environments (economic, social and political), role players and stakeholders.

2.2. Microfinance

The term “micro-finance” refers to small scale financial services, primarily credit and savings to the economically active low income clients to produce goods and provide services. In addition to credit and savings, some MFIs provide other financial services such as micro money transfer and micro insurance and also provide social intermediation such as development of social capital (through groups formation, training in financial and enterprise management and development of management capabilities) and external support services (Aheeyar, 2007). The common features of microfinance are, small size of the loan not based on collateral, group guarantee, compulsory and voluntary savings, informal appraisal of borrowers and investments and access to repeat and bigger loans based on repayment performances.

2.3. Microfinance Service

Microfinance offers financial and non-financial services to economically active low income clients. The financial services include such as credit, savings and insurance to poor people living in both urban and rural settings and are unable to obtain such services from the formal financial sector (Schreiner and Colombet, 2001). According to Robinson (2001) along with the growth of microfinance sector, attention changed from just provision of financial services to the poor to other non-financial services. According to Steinwand and Bartocha (2008), microfinance is a multifaceted benefactor that affords women to rebuild their lives, plan for their future and that of their children, empower them with self-esteem, integrate into social fabric by enjoying access to social networks and making contributions towards welfare of their families and that of the community.

2.4. Micro-enterprise

There is no standard definition for micro-enterprise, however, there is some agreement on the attributes of the micro-enterprises

especially in the developing countries such as very small scale, low level of technology, low access to credit, lack of managerial capacity, low level of productivity and income, tendency to operate in the informal sector, few linkages with modern economy and non-compliance with government registration procedures are some such features (International Labour Organization, 2008). The Government of Sri Lanka has defined the micro-enterprise as an enterprise which employs up to five people (Lucock et al., 1995). However it should be noted that even among the government institutions there is no consensus on this definition. Some institutions use two criteria namely; capital employed and size of the work force to decide the category of an organization.

2.5. MFIs

Littlefield and Rosenberg (2004) state that the poor are generally excluded from the formal financial services sector, as a result to fulfill the gap in the market MFI have emerged. These MFIs have become part of the formal financial system of the country and they can access capital markets to fund their lending portfolios (Robinson, 2002).

2.6. ES of Women

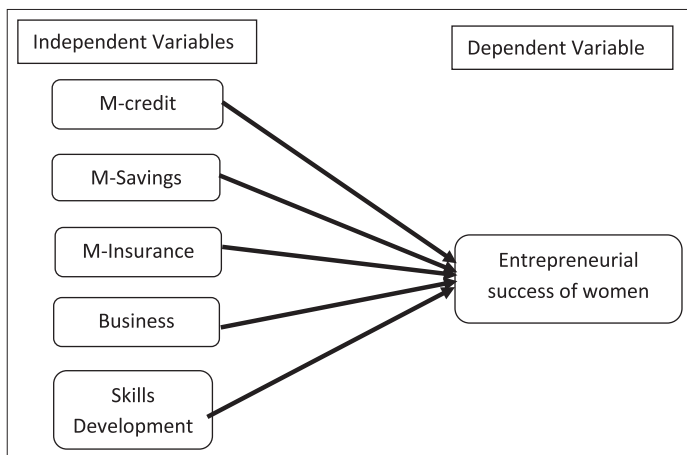
According to Mosedale (2003), to empower people, they should currently be disempowered, disadvantaged by the way power relations shape their choices, opportunities and well-being. She went on to say that empowerment cannot be bestowed by an external party, but must be claimed by those seeking empowerment through an ongoing process of reflection, analysis and action (Mosedale, 2003). She further goes on to say “women need empowerment as they are constrained by the norms, beliefs, customs and values through which societies differentiate between women and men” (Mosedale, 2003. p. 3).

Many MFIs target primarily, or exclusively, women. This practice is based on the common belief that women invest the loans in productive activities or in improving family welfare more often than men, who are known to consume rather than invest loan funds. Women achieve ES through setting up new enterprises, expansion and improved performance of existing enterprises and improvement of well-being of their families.

3. RESEARCH DESIGN

This study focuses on specific microfinance services generally offered by MFIs across the world with specific reference to services provided by the registered MFIs with the Central Bank of Sri Lanka. As supported by the literature these services are utilized by “poor” women. Expert interviews were conducted with five industry practitioners and two academics and available literature on microfinance sector in Sri Lanka were studied to understand various types and nature of microfinance services. Accordingly, microcredit (MC), micro-savings (MS), micro-insurance (MI), business support, and skills development (SD) programmes were identified. These services were considered more applicable and important than others by the experts in studying the ES of poor women in a Sri Lankan context. However, it is necessary to further explore all the services offered by MFIs in Sri Lanka, nevertheless a broad framework for this study is presented in Figure 1.

Figure 1: Broad framework for entrepreneurial success through microfinance services among women entrepreneurs in Sri Lanka



The questionnaire comprising profile questions, constructs and items for each construct were developed by the author using available literature and reviewed by industry experts to ensure clarity and accuracy. The questionnaire was translated into Sinhala² and Tamil³ languages by professional translators before administering the survey. This was necessary as these women can understand their mother tongue only. The translated questionnaire was re-tested using three Sinhalese, Tamil, and Muslim women who are current users of microfinance services. Through this process any errors relating to translation was eliminated. In designing the questionnaire for constructs, a 5-point Likert scale (strongly disagree to strongly agree) for each item with medium length questions was used as suggested by Andrews (1984). A total of 34 items relevant to five microfinance services and ES of poor women were included in these six constructs (Annexure 1).

Since the objective of this study is to develop measures and items to study the ES of women using microfinance services, sample unit of the study was women who are receiving these services. Hence the pilot survey was conducted among 40 women currently receiving microfinance services interviewing (face to face) them by the author. 30 good quality completed interview questionnaires were coded and analyzed using Statistical Package for Social Sciences (21) software package for windows. Because of the nature of items reverse coding was not applicable.

According to Bontis (1998), the reliability for each of the constructs is acceptable when the Cronbach’s alpha values for each construct is >0.70. For discriminant validity, the highest correlation value for a selected element with corresponding rows and columns should fall within the range from 0.30 to 0.90 and also the corrected item total correlation value should be >0.30.

4. RESULTS

Profile of the sample selected for the pilot survey is presented in Table 1. The majority were having experience between 1

2 Language spoken by the majority population in Si Lanka.
 3 Language spoken by Sri Lankans next to Sinhala.

Table 1: Demographic profile of the respondents (women)

Item	Frequency (%)
Age (years)	
25-30	4 (13.3)
30-35	3 (10.0)
35-40	3 (10.0)
40-45	7 (23.3)
45-50	7 (23.3)
50+	6 (20.0)
Education	
Up to GCE (ordinary level)	18 (60.0)
Up to GCE (advanced level)	10 (33.3)
Up to GCE (graduate)	2 (6.6)
Experience	
<2 months	3 (10.0)
1-2 years	15 (50.0)
More than 2 years	12 (40.0)
Type of enterprise	
Trading	8 (26.7)
Garments	6 (20.0)
Food	12 (40.0)
Manufacturing	1 (3.3)
Others	3 (10.0)

Source: Piolet survey. GCE: General Certificate of Education

and 2 years in using microfinance services and belonged to age categories of 40-45 and 45-50 years. Further majority of them were engaged in microenterprises producing food products.

There are 9 items in this construct for ES. The mean value ranges from 1.63 to 4.37. The inter correlation values for the test of reliability other than item ES7 (household expenses), for all other items each item with at least one other item has a highest correlation between 0.3 and 0.9. The Cronbach’s alpha is 0.845 which is more than 0.7. The item ES7 inter-correlation with each other item is not within the range of 0.3-0.9. The minimum corrected item total correlation is 0.016 which is relevant to ES7. Hence, item ES7 was dropped from the construct and the reliability test was repeated, according to the results the highest correlation for each item with at least one other item in the construct is between 0.3 and 0.9. Hence, all the items correlate adequately in this construct. The Cronbach’s alpha value is 0.875, which is more than 0.7. The minimum corrected item total has now increased to 0.131. Hence, ES1, ES2, ES3, ES4, ES5, ES6, ES8 and ES9 can be considered suitable items for the construct of ES.

There are 5 items in the MC construct, according to the descriptive statistics inter correlation values for the test of reliability, the highest correlation for each item with at least one other item in the construct is between 0.3 and 0.9. The mean values ranges from 4.03 to 4.37. Hence, all the items correlate adequately in this construct. The Cronbach’s alpha value is 0.926, which is more than 0.7. The minimum corrected item total correlation is 0.735. Hence, all five items MC1 to MC5 are suitable for the construct of MC.

There are 5 items in the MSs construct. The mean value ranges from 1.73 to 4.13. The item MS5 inter-correlation with each other item is not within the range of 0.3-0.9. The minimum corrected item total correlation is 0.071 which is relevant to MS5 (the saving is compulsory). Hence, item MS5 was dropped from the construct

Table 2: Summary of the results from pilot test

Construct	Number of items		Cronbach's alpha	Minimum corrected item total correction
	Initial	(final)		
Entrepreneurial success (ES1-ES9)	9	(8)	0.875	0.131
Microcredit (MC1-MC5)	5	(5)	0.926	0.735
Micro-savings (MS1-MS5)	5	(4)	0.829	0.467
Micro-insurance (MI1-MI5)	5	(5)	0.759	0.408
Business support (BS1-BS5)	5	(5)	0.883	0.561
Skills development (SD1-SD5)	5	(5)	0.86	0.645

Source: Piolet Survey

and the reliability was re-tested. According to the results, the highest correlation for each item with at least one other item in the construct is between 0.3 and 0.9. Hence, all the items correlate adequately in this construct. The Cronbach's alpha value is 0.829, which is more than 0.7. The minimum corrected item total is 0.467.

There are 5 items in the MI construct. The mean value for each item ranges from 3.63 to 3.83. The highest correlation for each item with at least one other item in the construct is between 0.3 and 0.9. Hence, all the items correlate adequately in this construct. The Cronbach's alpha value is 0.759, which is more than 0.7. The minimum corrected item total is 0.408.

There are 5 items in the business-support construct. The mean value for each item ranges from 3.87 to 4.13. The highest correlation for each item with at least one other item in the construct is between 0.3 and 0.9. Hence, all the items correlate adequately in this construct. The Cronbach's alpha value is 0.883, which is more than 0.7. The minimum corrected item total is 0.561.

There are 5 items in the SD construct. The mean value for each item ranges from 3.93 to 4.30. The highest correlation for each item with at least one other item in the construct is between 0.3 and 0.9. Hence, all the items correlate adequately in this construct. The Cronbach's alpha value is 0.869, which is more than 0.7. The minimum corrected item total is 0.645. Table 2 summarizes results of the pilot test.

5. CONCLUSION AND FUTURE RESEARCH

Six constructs were identified through literature, expert opinion, and authors own experience in the field for this study as given in Appendix 1. To test the reliability of these constructs, Cronbach's alpha was used as suggested by Bontis (1998) and Nunnally (1978). According to Churchill (1979), this should be the first measure one calculates to assess the quality of the instrument. All six constructs have reliability values of 0.7 and greater, some values are as high as 0.945. Hence, reliabilities of all six constructs are fine accordingly.

Inter-correlations of items in each construct were studied to test the discriminant validity. Accordingly, in construct measuring ES the seventh item, i.e., household/family expenditure tend to increase, has a highest correlation <0.30. Hence this item was dropped from the particular construct and re-tested for reliability and validity. This means that the household/family expenditure has not increased together with ES. Though, it is expected for family

expenses to go up due to increase in disposable income resulting from ES, this has not been resulted. One reason could be the poverty level of these households/families though; their income levels increase due to ES, these increases may not be sufficiently large to make an impact on their household/family expenditure.

With the dropping of ES7 the inter-correlation values for remaining 8 items fell within the range of 0.30 and 0.90, Cronbach's alpha increased to 0.875 and the minimum corrected item total correlation value has improved to 0.131. Though minimum item total correlation value is <0.30, this item is retained as it has high correlations with other items in the construct in addition to having a mean value of 3.

In construct measuring MSs comprising 5 items, 5th item MS5, i.e., the saving is compulsory, has a highest correlation <0.30. Hence this item was dropped from the particular construct and tested for reliability and validity. This indicates that compulsory savings have not contributed towards improving MSs. The reason for this could be that most of the MFIs in Sri Lanka are not promoting "compulsory savings" through their microfinance programmes, having studied the mentality of the women using microfinance services. These women may be considering "compulsory savings imposed by MFIs" as an interference with their own initiatives in micro-enterprises.

With the dropping of MS5 the inter-correlation values for remaining 4 items fell within the range of 0.30 and 0.90, Cronbach's alpha increased to 0.829 and the minimum corrected item total correlation value has exceeded 0.40. Therefore, now we have developed a construct with 4 items to measure the variable "MSs."

All four other constructs comprise of valid items to measure respective variables relevant to those constructs with reliability. The removed two items are marked with a (R) in Appendix 1. To summarize, all six constructs fulfill the requirements for reliability and out of 34 items in these constructs, only, two were dropped. This high reliability and validity show that findings in literature and expert opinion are in line with the findings of this pilot survey.

This pilot study attempts to identify the microfinance services and developing measures and items in relation to ES using a simple framework. Hence future research would be required to comprehensively identify all the current microfinance services and to incorporate additional constructs with relevant items using a larger sample. This will pave way to develop a diamond

shape conceptual frame work incorporating relevant mediating and moderating variables. According to literature variables such as “previous business experience,” age, and education appear to have a moderating effect on the performance of a new enterprise. Therefore, all such variables and any other mediating variables such as entrepreneurship be studied and consider their reliability and validity in developing a conceptual framework for a future study.

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APPENDIX

Appendix 1: Summary of survey items

Variables	Items
Entrepreneurial success	
ES1	Profits of my enterprise tend to increase
ES2	Turnover of my enterprise tend to increase
ES3	Number of employees of my enterprise started to increase
ES4	Number of products of my enterprise tend to increase
ES5	Number of buyers of my enterprise tend to increase
ES6	HH/family income tend to increase
ES7	HH/family expenditure tend to increase
ES8	HH/family assets tend to increase
ES9	HH/family savings tend to increase
Microcredit	
MC1	The loan interest is reasonable
MC2	The loan obtaining procedure is simple
MC3	The loan amount is sufficient
MC4	The loan repayment period is sufficient
MC5	The loan repayment procedure is easy
Micro-savings	
MS1	The savings interest is reasonable
MS2	The savings product option are attractive
MS3	The procedures are simple
MS4	The savings withdrawal is easy
MS5	The saving is compulsory
Micro-insurance	
MI1	Insurance benefits are effective
MI2	Availability of different policies are satisfactory
MI3	Obtaining an insurance policy is compulsory
MI4	Ins. policy premiums are reasonable
MI5	Insurance claims are promptly paid
Business support	
BS1	Assistance for marketing was useful
BS2	Assistance for product improvement is enough
BS3	Assistance for operating my enterprise was useful
BS4	Knowledge given to improve product is sufficient
BS5	Knowledge given on marketing is sufficient
Skills development	
SD1	Skills development programmes are useful in running my business
SD2	Frequency of skills development programmes are enough
SD3	These programmes are useful in improving my social status
SD4	These programmes are useful in improving my family life
SD5	These programmes are useful in personal attributes/qualities