

**IMPACT OF ECONOMIC CRISIS ON THE PERFORMANCE OF
MICROENTERPRISES IN SRI LANKA.
(WITH SPECIAL REFERENCE TO PUTTALAM DISTRICT)**

P.F.S.M. Fernando¹ and J.K. Mallika^{2,*}

*^{1,2}Department of Business Management, Faculty of Management Studies, Rajarata
University of Sri Lanka*

*Corresponding author (Email: krishanthimallika@mgt.rjt.ac.lk)

ABSTRACT

Sri Lanka is currently experiencing an economic crisis that began in 2019, marking the nation's largest economic crisis since gaining independence in 1948. The relationship between an economic crisis and microenterprises' performance is typically complex and multifaceted. The micro-enterprise sector, which is crucial for economic growth, has experienced high failure rates, low growth rates, and low survival rates compared to other countries. The ongoing economic crisis in Sri Lanka created additional risks for the sector, significantly affecting the growth and performance of many microenterprises. This effect can persist over time, significantly hampering a country's economic growth, with the crisis expected to last for an extended period. This study examines the impact of the economic crisis on the performance of microenterprises in Sri Lanka, focusing on the Puttalam district. This study investigated the effects of the inflation rate, financial difficulty, exchange rate, and employee turnover on the performance of microenterprises, supported by a comprehensive literature review. The study population was 5,238, with a sample size of 358. Quantitative methodological approaches were used to achieve the objectives. Primary data were gathered through a questionnaire distributed among 358 respondents in the Puttalam district, using a simple random sampling method, where descriptive and inferential statistics were used to draw the findings. The study finds that inflation has a significant negative effect on SME performance in Sri Lanka. Financial difficulty also has a significantly negative effect on SME performance in Sri Lanka. Additionally, the study discovered that the exchange rate significantly negatively affects the performance of microenterprises in Sri Lanka, while employee turnover has a significantly negative impact as well. This study recommends a crucial role for the government in supporting microenterprises during economic crises, suggesting financial assistance programs and training to promote financial inclusion and credit availability. It also emphasizes the importance of flexibility and diversification in reducing reliance on specific products or markets. Collaboration and networking among micro-enterprises are also essential. Furthermore, the study highlights the importance of dynamic capabilities and entrepreneurial orientation, such as environmental awareness, innovative skills, and learning, for the survival of microenterprises during economic crises.

Keywords: Economic crisis, performance of micro enterprises, inflation rate, financial difficulty, exchange rate, and change in employees