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Original Article

Revitalising Export Orientated SMEs of Sri Lanka with Trade Credit Insurance

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Abstract

Financial losses due to unsettled receivables from commercial debtors, which expose them to enhanced credit risk, pose a serious challenge to the profitability and expansion of export-orientated small and medium enterprises (SMEs) the world over. Trade credit insurance is a specialised insurance product that aims to mitigate credit risk by protecting the account receivables of businesses involved in international trade. However, the adoption of trade credit insurance amongst export-orientated SMES remains strikingly low. The purpose of this paper was to examine the effectiveness of the use of trade credit insurance in raising the profitability levels of export-orientated SMEs, the reasons for its low adoption rate, and strategies to encourage enhanced utilisation of it among SMEs. The quantitative methodology was employed by way of a survey in conducting this study, which included a sample of 345 managers or owners of export-orientated SMEs in Sri Lanka. Descriptive analysis revealed that 20.9% of the respondents were unaware of the existence and benefits of trade credit insurance, and only 63.2% were utilising trade credit insurance. Ordinal logistic regression analysis revealed that SMEs that employed trade credit insurance in mitigating trade credit risk showed significantly higher growth in profitability in comparison to those who did not. Therefore, to revitalise the export-orientated SMEs and enhance their contribution towards the economic prosperity of the country, it is recommended to increase awareness of trade credit insurance among them and strengthen their risk management culture while improving the service quality of service providers.

Keywords: *Credit Risk; International Trade; Small and Medium Enterprises; Trade Credit Insurance*

Introduction

Small and medium enterprises (SMEs) are key economic drivers of the world. They are the main contributors to economic growth and employment generation in countries across the globe. They are the breeding grounds for larger conglomerates. SMEs are generally easier to establish as they are labour-intensive, and the start-up capital requirement is much less compared to large companies (Gamage and Takayuki 2013).

SMEs serve as the main elements of the economy of Sri Lanka, contributing to employment and income generation (Kulasinghe *et al.,* 2018). However, a persistent challenge facing these SMEs is financial loss due to non-payment of trade receivables, which can significantly impact their profitability and sustainability (Perera & Samarakoon., 2021).

Credit receivables account for a significant portion of a business's total assets, making the non-payment of trade receivables by buyers a serious problem that lengthens the working capital cycle and escalates

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credit risk (Ur Rahman, Iqbal, & Nadeem, 2019). This issue becomes even more pronounced for SMEs, as they often operate under budget constraints and depend on a small pool of buyers (Kulasinghe *et al.* 2018), and the hardest hit are SMEs engaged in international trade exports, given the additional challenges of cross-border transactions they are faced with. (Bonga, 2017).

Trade credit insurance, also known as export credit insurance, emerges as a potent tool to mitigate trade credit risk and protect account receivables. Sellers adopt trade credit insurance as a risk management tool to protect themselves from non-payment for goods and services that foreign buyers purchase on credit. Trade credit insurance can be arranged for either short-term periods up to 180 days or for long-term periods up to 360 days, covering both commercial and political risks associated with exports. (Head, 2013). Trade credit insurance contracts can also be either cancellable where they can be cancelled by the insurer during the period insured for or non-cancellable where the contracts cannot be cancelled within the period insured for. (Yang, Bakshi, & Chen, 2021). Trade credit insurance can serve as a powerful means for managing credit risk and improving profitability, thus making it a potentially effective business tool (Van der Veer, 2014).

Despite the proven benefits of this insurance tool, its adoption rate among Sri Lankan SMEs engaged in international trade exports remains surprisingly low. (Fonseka & Ariyawardana, 2007). The low adoption rate of trade credit insurance among the exporting SMEs in Sri Lanka stems from a lack of awareness of its existence and benefits, dissatisfaction with the service quality of the sole service provider, Sri Lanka Export Credit Insurance Corporation, and the reliance on alternative risk mitigation methods such as factoring and forfaiting (Fonseka & Ariyawardana, 2007). There is a pressing need for increased awareness of trade credit insurance and improved service quality, along with competition among service providers, to break the undesirable effects of the monopolistic market situation (Rathnasiri 2015).

The next analysis in this research will delve into these challenges and attempt to uncover strategies for fostering a more frequent and effective use of trade credit insurance among the export-orientated SMEs in Sri Lanka and the rest of the world. By implementing these strategies, export-oriented SMEs in Sri Lanka can potentially mitigate the financial risks associated with non-payment of trade receivables, leading to more sustainable business operations.

Research Gap

It is evident that there are distinct gaps in understanding trade credit insurance's role, especially within the setting of Sri Lanka's small and medium enterprises (SMEs).

Empirical Gap: Numerous studies have examined the impact of export credit insurance on business profitability and risk management on a global scale (Li, Zhen, & Cai, 2016; Yang, Bakshi, & Chen, 2021). However, there is a notable lack of empirical data focused specifically on Sri Lanka's SME sector as well as the South Asian region. There is a pressing need for an in-depth examination of how trade credit insurance affects SMEs' profitability and credit risk management. This research aims to address the empirical gap by gathering and analysing first-hand data from Sri Lankan SMEs, thus providing new insights that add value to the global discourse.

Theoretical Gap: The current theoretical discourse lacks frameworks that can adequately explain the low rate of trade credit insurance adoption among export-orientated SMEs. Many discussions around trade credit insurance do not cater to the particular circumstances, cultural factors, and economic barriers faced by Sri Lankan SMEs. This research proposes to fill this theoretical gap by developing context-specific frameworks that can illuminate the specific challenges and motivations influencing trade credit insurance adoption in Sri Lanka.

Knowledge Gap: The current body of literature rarely draws comparisons between trade credit insurance and alternative risk mitigation methods, particularly in the Sri Lankan context. Additionally, there's scant documentation or dialogue concerning practical measures for promoting the adoption of trade credit insurance among Sri Lanka's SMEs. By focussing on these areas, this research aims to bridge the significant knowledge gap, providing practical, context-relevant strategies to bolster credit risk management and profitability for Sri Lanka's SMEs.

Given the potential of trade credit insurance to improve SMEs' financial health and the lack of understanding surrounding its low adoption rate, it becomes clear that further research is required. To bridge these gaps.

By addressing these empirical, theoretical, and knowledge gaps, this research seeks to make substantial contributions to the international academic discourse on trade credit insurance while also offering vital insights to SMEs, financial institutions, and policymakers in Sri Lanka.

Research Problem Justification

The non-payment of receivables from trade creditors is the most common issue SMEs face, intensifying their financial loss and extending their working capital cycle (Rathnasiri, 2015). SME exporters face a significantly higher credit risk due to the uncertainty of payment by international buyers. However, despite the availability of trade credit insurance, a specialised tool designed to mitigate trade credit risk and enhance overall profitability, the adoption rate among Sri Lankan SME exporters remains surprisingly low (Fonseka & Ariyawardana, 2007). The reasons for this lack of uptake and how these barriers can be overcome are not yet fully understood, and the number of research studies conducted on this domain is extremely few in Sri Lanka.

Research Objectives

This research paper endeavours to address crucial aspects of trade credit insurance and its interaction with small and medium enterprises (SMEs) engaged in merchandise exports in Sri Lanka, guided by three key questions.

1. Evaluate the impact of trade credit insurance on the profitability of the export-orientated SMEs in Sri Lanka.
2. Investigate the reasons why Sri Lankan export-orientated SMEs are not widely adopting trade credit insurance.
3. Identify strategies and measures to encourage export-orientated SMEs in Sri Lanka to utilise trade credit insurance.

Together, the below-mentioned research objectives aim to provide a comprehensive understanding of the role of trade credit insurance within Sri Lanka's SME sector.

Literature Review

Theoretical Overview

Trade Credit Theory (Petersen & Rajan, 1997): This theory posits that trade credit allows businesses to smooth out their operations during periods of low cash flow, making it a form of informal insurance. It proposes that the availability of trade credit insurance may influence a company's decision to extend credit, which explains the reason why some Sri Lankan export-orientated SMEs are reluctant to adopt trade credit insurance.

Credit Risk Theory (Altman & Sabato, 2007): This theory discusses how businesses assess and manage their credit risks. This theory can be used to evaluate the perceived effectiveness of trade credit insurance among the export-orientated SMEs in Sri Lanka in mitigating trade credit risk.

Risk Management Theory (Dionne & Triki, 2013): This theory outlines the importance of the identification, assessment, and control of threats pertaining to a business's earnings and capital. It is instrumental in understanding the various ways Sri Lankan SMEs engaged in merchandise exports handle credit risk, including the use of trade credit insurance or alternative methods such as factoring.

Asymmetric Information Theory (Stiglitz, Yun, & Kosenko, 2018): This theory is instrumental in understanding the causes of low adoption rates of trade credit insurance due to imperfect information flow to export-orientated SMEs.

These theories provide a broad theoretical backdrop to understand the dynamics of trade credit insurance within the SME context. They have helped guide the formulation of research questions and the interpretation of data in this research paper, which would in turn contribute to the development of new frameworks contextualised to the unique circumstances of Sri Lankan export-orientated SMEs.

The Global Context

According to Berne Union, the world's leading association of export credit insurance providers, USD 2.5 trillion worth of claims are paid annually across the globe by trade credit insurers, insuring approximately 13% of the total global trade in the year 2023. (Berne Union—Berne Union home page, 2024). These statistics are confirmed by the International Credit Insurance and Surety Association, who mention that the gap in protection faced by businesses is the largest by smaller businesses outside Europe. (Ezaru, 2023).

Li, Y., Zhen, & Cai (2016) also describe trade credit insurance as a tool for mitigating credit risk and enhancing business profitability. Trade credit is a significant demand-side risk factor that could impact small businesses' growth and profitability. Trade credit insurance is a potent tool in managing trade credit risk arising out of non-payment by trade creditors. In addition, the scholars found out that trade credit insurance could also help export-orientated SMEs access bank finances easier since the utilisation of trade credit insurance reduced the risk of default associated with the repayment of loans.

Yang, Bakshi, & Chen (2021) conducted a global study on the benefits of trade credit insurance for businesses, emphasising the role of the trade credit insurance provider in monitoring the credit transaction.

Delendik (2021) investigated alternative risk mitigation methods, such as factoring and forfeiting, to provide a comparison point for trade credit insurance.

According to Sokolovska (2017), 75% of today's export transactions rely on credit, and exporters use trade credit insurance as a crucial tool to mitigate trade credit risk. He also explored the economic barriers, including the problem of asymmetric information in the adoption of trade credit insurance and the need for actionable steps to promote the adoption of trade credit insurance.

D'agostino, Mendicino, & Puglisi, (2022) demonstrated that trade credit insurance significantly reduced the credit constraints faced by SMEs, enabling them to expand their export activities.

Yu *et al.* (2022) investigated the effect of trade credit insurance on Chinese firm exports. They found that trade credit insurance not only increased export volumes but also enabled firms to enter more distant and risky markets.

Sahoo and Dash (2017) examined the role of trade credit in promoting exports from India. Their study found that trade credit significantly enhanced export performance, particularly for SMEs.

The above studies offer valuable insights for contextualising the issue within Sri Lanka regarding the low adoption rate of trade credit insurance in Sri Lanka.

The Sri Lankan Context

A number of researchers had conducted research studies on the issue of credit risk arising out of non-payment of trade receivable by creditors in the past in terms of the SME sector in general. However, studies focussing extensively on Sri Lankan SME exporters, who faced increased credit risk due to the nature of their international business activities, were not available.

Trade credit insurance, a specialised insurance product aimed at protecting businesses from credit risk, has been available in Sri Lanka for many years. Despite its potential benefits, its uptake among SMEs has been relatively low (Fonseka & Ariyawardana, 2007). In many instances, Sri Lankan SMEs have resorted to alternate credit risk mitigation methods such as factoring and forfaiting (Rathnasiri, 2015). According to a recent study by Thathsarani & Wijayasinghe (2022), a mere 0.3% of SMEs have secured credit insurance for their businesses.

SMEs in Sri Lanka struggle with managing credit risk, and banks use outdated credit risk appraisal systems to assess SME credit risk when they apply for credit facilities. There is a need for revamping the credit appraisal systems in the Sri Lankan banks. (Chandrasiri, 2022). The attitudes and skills of the owners and managers of SMEs greatly influenced the credit risk management practices they adopted. The results of a study by Jayathilake's (2012) revealed that SMEs of all types had an underdeveloped risk management function, heavily reliant on the characteristics and business planning abilities of their owners and managers. Owner managers and their business planning systems bear a significant burden of risk, and small and medium enterprises lack well-developed risk management practices.

Given the profound impact that exposure to credit risk can have on SMEs' profitability and sustainability, it is essential for businesses, government policymakers, and financial institutions to understand and develop strategies to address the barriers to the adoption of trade credit insurance. Government policymakers in particular have a key responsibility in this regard. This will not only help in mitigating the credit risk of the export-orientated SMEs but also play a vital role in the growth and sustainability of the SME sector as a whole in Sri Lanka (Fonseka & Ariyawardana, 2007).

The above literature review gives a brief snapshot of the SME sector, the challenges it faces in mitigating trade credit risk, and the potential role of trade credit insurance in global and Sri Lankan contexts. It helps set the context for further exploration of this study's research questions.

Conceptual Framework and Hypotheses

Upon conducting the literature review of the study, the following conceptual framework could be designed.

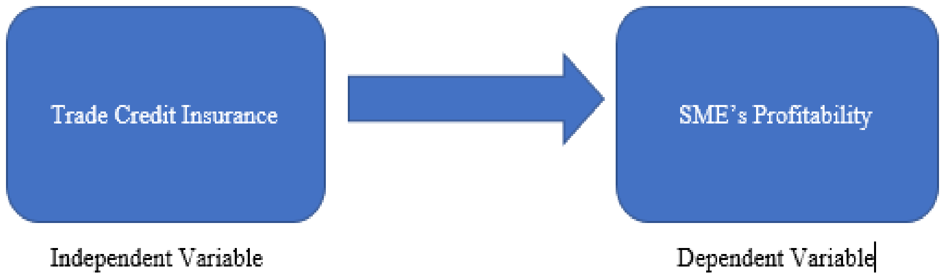

Figure 1. Conceptual framework
Source: Authors' Design (2024)

Further, hypotheses were also developed as under:

H0: Trade credit insurance does not impact the profitability of export-oriented SMEs in Sri Lanka.

H1: Trade credit insurance has an impact on the profitability of export- oriented SMEs in Sri Lanka.

Methodology

This study employed a quantitative research approach to explore the use and effectiveness of trade credit insurance among the export-orientated small and medium enterprises (SMEs) in Sri Lanka. The selection of the quantitative methodology and survey method facilitated a more structured and standardised data collection process, enabling statistical analysis to draw objective conclusions and generalise findings (Creswell, 2013).

In terms of sampling, this research adopted the judgemental sampling method. This non-probability sampling method involved the deliberate selection of participants based on their characteristics or qualities (Bell, Bryman, & Harley, 2022). A sample of 345 representatives of SMEs engaged in international trade exports in Sri Lanka, specifically those involved in decision-making processes related to finance and risk management, were selected out of a population of 3605 exporters who were registered with the Exports Development Board of Sri Lanka by the year 2019 as respondents. By targeting this specific group, it could be ensured that the information obtained in the survey was relevant and valuable for achieving its objectives.

For data collection, a structured questionnaire consisting of 3 sections was used. This questionnaire included Likert scale questions, a popular format for measuring respondents' attitudes, perceptions, and opinions on a topic (Jamieson, 2004), in the third section aimed at obtaining responses on the usage of trade credit insurance products. Once the data were collected, IBM SPSS statistical analysis software version 26 was used for the descriptive and inferential analysis. The insights obtained from this analysis were used to address the research questions and achieve the objectives of the study.

The ordinal logistic regression technique was used to analyse the effectiveness of adopting trade credit insurance in mitigating trade credit risk among export-orientated SMEs, using IBM SPSS software version 26. Ordinal logistic regression is a method for assessing the relationship between one variable (the independent variable) and another variable (the dependent variable), especially in instances where the dependent variable was ordinal in nature. Ordinal logistic regression is a useful method of regression analysis where the dependent variable consists of a number of ordered categories. (Huq & Puthuvayi, 2024). Thus, it was used in this study to understand how changes in the independent variable affected the odds of being in each category of the dependent variable, relative to a reference category. This approach was aimed at reliable and generalizable findings that would contribute to the understanding of trade credit insurance's role in this context.

Results and Discussion

The quantitative data collected from the SMEs offered valuable insights into the Sri Lankan export orientated SMEs' understanding and usage of trade credit insurance.

The descriptive analysis of the data revealed that 16.2% of the respondents were from small enterprises, while the majority of 83.8% were from medium-sized enterprises, taking into account the number of employees as per the national Policy Framework for SME Development categorisation guidelines (Lanka, 2021). There were no large-scale businesses in the ample area under study.

Only 63.2% of the 345 SMEs in the survey sample are currently using trade credit insurance products. This low usage rate indicates a lack of awareness of trade credit insurance among over one-third of the respondents, suggesting an urgent need for education and communication about these financial products. It is also an indication of barriers to adoption that go beyond mere awareness. These barriers could include perceived complexity, cost concerns, or uncertainty about the benefits of such insurance.

When delving into the specifics, it was revealed that out of the 36.8% of SMEs who did not use trade credit insurance, over 20% were unaware of the actual availability of trade credit insurance products and services within the country. This low level of awareness suggests that even amongst those SMEs that recognised the importance of such a service, there existed a significant knowledge gap about where and how they could access these tools. This gap could be addressed by creating more transparent and accessible information about these services and actively disseminating this information to SMEs.

The reasons behind the finding that an alarming percentage of 75.7% of the enterprises surveyed preferred to steer clear from trade credit insurance in the future were mainly tied to personal biases or dissatisfaction stemming from past experiences of inadequate service quality. It suggests that improvements in service quality, as well as changes in the SME's perceptions of these services, could lead to a higher rate of adoption.

The alternative methods of mitigating trade credit risk preferred by 18.1% of the surveyed SMEs were letters of credit, bank guarantees, factoring, and forfaiting. Alarmingly, it was also revealed that 18.7% of the export-orientated SMEs in the sample were not in the practice of using any kind of risk management tool to mitigate their credit risk. These findings highlight the potential exposure of a significant percentage of SMEs to significant credit risk, underscoring the need for comprehensive awareness programs, risk management education, and strategy implementation among Sri Lankan SMEs. These two groups may also require targeted communication, explaining the unique benefits of trade credit insurance over these alternatives. In addition to information on where and how these services could be availed.

Analysing the responses to question number 09 of the questionnaire revealed multifaceted reasons for the limited usage of trade credit insurance, including cost-related concerns, perceived product complexities, and possibly doubts about its effectiveness. Addressing these concerns and promoting the benefits of trade credit insurance may encourage wider use.

Under inferential analysis, it was looked at how well using trade credit insurance as a way to lower credit risk affected the small businesses that were surveyed' ability to make money. Question number 8 (Over the last three years, how much would you say your firm's profitability grew on average per year?) was used. to measure the dependent variable, "The Growth in Profitability Level of the Exporting SMEs in Sri Lanka," representing 4 ordinal growth levels as "Got smaller, no growth, very little growth, high growth." To measure the independent variable "Use of Trade Credit Insurance," question number 07 was selected. By combining all the responses to question number 07, a binary variable was created as "used trade credit insurance" equalling to 1 and as "others" equalling to zero.

First, the model fitting and output interpretation were performed, and the case processing summary was prepared as in Table 1 below.

Table 1: Case Processing Summary

		N	Marginal Percentage
Growth in profitability level	Got Smaller	69	20.0%
	No Growth	82	23.8%
	Very Littlte Growth	173	50.1%
	Higher Growth	21	6.1%
Use_of_trade credit_insurance in mitigating_trade credit_risk	No_use	127	36.8%
	Use	218	63.2%
Valid		345	100.0%
Missing		0	
Total		345	

Sources: Authors

The case processing summary provides insights into the two key variables: growth in profitability level and use of trade credit insurance in mitigating trade credit risk. The dependent variable, growth in profitability levels, indicates that the majority of cases reported very little growth, followed by none. The independent variable, Use of Trade Credit Insurance in Mitigating Trade Credit Risk, suggests that a significant proportion of cases (63.2%) utilised trade credit insurance to mitigate trade credit risk, while the remaining 36.8% did not employ such insurance.

The goodness of fit statistic helps to determine whether the model adequately describes the data under analysis. The model fitting information and goodness of fit as per Table 2 below show that there is a significantly improved fit in comparison to the null model; hence, the model is well fitted.

With the model fitting information, a comparison between an "intercept only" model and a "final" model, both employing a Logit link function, could be made. The “Intercept Only” model served as a baseline, considering only the intercept without any predictor variables. The “Final” model incorporates the predictor variables and demonstrates a significant improvement over the “Intercept Only” model. The Chi-Square test indicates a substantial difference between the two models, with a p-value of 0.000, suggesting that the “final” model fits the data significantly better.

Both Pearson and Deviance goodness of fit tests yielded similar results. The p-values for both tests are relatively high (0.664 and 0.666, respectively > 0.05), indicating that the final model fits the data adequately, as shown in Table 2. Typically, a higher p-value suggests that the observed data are consistent with the expected values under the final model. The goodness of fit and model fitting information proved that the model used in this study showed an acceptable level of goodness of fit, and the Chi-Square test results suggested that the final model incorporating predictor variables fits the data significantly better. Thus, the inclusion of predictor variables in the final model significantly enhanced its ability to explain the observed variation in the data.

Table 2: Model Fitting Information and Goodness of Fit

Model Fitting Information				
Model	-2 Log Likelihood	Chi-Square	*df*	Sig.
Intercept Only	46.509	17.387	1	0.000
Final	29.122			
Link function: Logit.				

Goodness-of-Fit			
	Chi-Square	*df*	Sig.
Pearson	0.819	2	0.664
Deviance	0.813	2	0.666

Link function: Logit.

Source: Authors

Estimates in the model summary in Table 3 indicate the probability of a case falling above a given category on the dependent variable. Here, the negative value for "No use of Trade Credit Insurance" indicates the SMEs that get Trade Credit insurance to mitigate trade credit risk have higher growth in their businesses in comparison to those who do not get Trade Credit insurance to mitigate trade credit risk. The *p* value of 0.05 indicates that the result is significant.

Table 3: Model Summary

Variables		Estimate	Std. Error	Sig.	
					Lower Bound
Threshold	[Growth_levels = 1]	-1.770	0.168	0.000	-2.099
	[Growth_levels = 2]	-0.588	0.138	0.000	-0.859
	[Growth_levels = 3]	2.486	0.232	0.000	2.031
Location	No use of Trade Credit Insurance	-0.876	0.212	0.000	-1.292
	Use of Trade Credit Insurance	0[a]			

Note: a. this parameter is set to zero because it is redundant.

In ordinal logistic regression, the odds ratio is used to measure the change in the odds of being in a higher category of the outcome variable for a unit of change in the predictor variable, holding all other variables constant. An odds ratio greater than 1 indicates that an increase in the predictor variable is associated with higher chances of being in a higher category of the outcome variable. On the other hand, an odds ratio less than 1 indicates that an increase in the predictor variable is associated with lower odds of being in a higher category of the outcome variable, as shown in Table 4.

Table 4: Odds Ratio Analysis

		Estimate	Odds
Location	No use of Trade Credit Insurance	-0.876	-0.41645
	Use of Trade Credit Insurance		0[a]

Sources: Authors

Table 5: Test of Parallel Lines

Test of Parallel Lines[a]				
Model	-2 Log Likelihood	Chi-Square	*df*	Sig.
Null Hypothesis	29.122	0.813	2	0.666
General	28.309			
The null hypothesis states that the location parameters (slope coefficients) are the same across response categories.				

Note: a. Link function: Logit.
Sources: Authors

The odds ratio of “No use of trade credit insurance” (-0.4165) < 1 implies that there is a chance (odds) of the growth in business decreasing when the SME did not use trade credit insurance to mitigate trade credit risk. However, the growth level could increase if the SME resorts to using trade credit insurance.

Therefore, it is clear that using trade credit insurance to mitigate trade credit risk in raising the levels of profitability of the export-orientated SMEs in Sri Lanka has a positive effect.

The parallel lines test was performed to see if the ordinal logistic regression model's assumptions were being violated. The odds of falling into a higher (vs. lower) category on the dependent variable were found to be the same across categories. In Table 5 below, as the *P*-value is 0.666, which is > 0.05, the assumption that the effects of the predictors were the same across all the levels of the dependent variable held true with no violation of the assumption. With the observed p value = 0 <0.05, in the model summary information, it is clear that the SMEs that used trade credit insurance to mitigate trade credit risk experienced higher growth in their businesses in comparison to those who do not use trade credit insurance. Hence, H1 (alternative) hypotheses can be accepted.

The statistical findings above present an urgent call to action for financial institutions, policymakers, and the SME sector itself since it is evident that trade credit insurance is not only a potent tool in mitigating trade credit risk but also a potent catalyst for raising the levels of profitability for the export-orientated SMEs in Sri Lanka.

Based on the above research findings, several recommendations can be put forth to improve the adoption and effectiveness of trade credit insurance among the export-orientated SMEs in Sri Lanka.

Given the low awareness levels, it is essential to develop comprehensive awareness programs targeting SMEs engaged in exports. These programs should educate business owners and managers about the benefits and importance of trade credit insurance in managing credit risk and enhancing profitability. Collaboration between insurance providers, industry associations, and government bodies can play a crucial role in organising seminars, workshops, and information campaigns to disseminate knowledge about trade credit insurance. Addressing the concerns related to service quality is crucial to instilling confidence among exporting SMEs. Insurance providers should focus on enhancing the quality of service delivery, ensuring prompt claim settlement, and providing personalised support to meet the unique needs of the export-orientated SMEs. This can help build trust and encourage more SMEs to adopt trade credit insurance.

Collaboration between insurance providers, financial institutions, and industry associations can facilitate the development of tailored insurance products and financial solutions to meet the specific needs of the export-orientated SMEs. This collaboration can also lead to the creation of specialised risk assessment tools and support mechanisms that simplify the insurance application process and improve accessibility for these SMEs.

As revealed in the literature review, the government of Sri Lanka can play a significant role in promoting the use of trade credit insurance among the export-orientated SMEs. These supportive actions should include offering incentives such as tax benefits or subsidies for SMEs that adopt trade credit insurance, creating a favourable regulatory environment, and establishing a dedicated platform to connect SMEs with insurance providers. (Fonseka & Ariyawardana, 2007).

SMEs should be encouraged to develop a strong risk management culture within their organizations. This includes implementing formal risk management frameworks, conducting regular risk assessments, and integrating trade credit insurance as an integral part of their risk mitigation strategy. Training programs and resources should be made available to educate SMEs about effective risk management practices. (Fonseka & Ariyawardana, 2007; Jayathilake, 2012; Chandrasiri, 2022).

Ongoing evaluation and research are crucial to assess the effectiveness of trade credit insurance in mitigating credit risk and raising profitability levels among SMEs. Further studies can explore the long-term impact of trade credit insurance adoption on SME performance and identify any barriers or challenges faced by SMEs in utilizing this risk management tool.

Limitations of the Study

The scope of this study was country-specific and limited to explorative research using a judgemental sample of exporters belonging to small and medium enterprises in six provinces of Sri Lanka, excluding the Uva, North, and East provinces. The Uva, Northern, and Eastern provinces were excluded due to the minimal number of exporting SMEs present.

Conclusion

In conclusion, this study has shed light on the importance of trade credit insurance for small and medium enterprises (SMEs) engaged in exports in Sri Lanka. The findings revealed a significant gap in the awareness and utilisation of trade credit insurance among the export-orientated SMEs, with only a small percentage of businesses currently availing themselves of this risk mitigation tool. Moreover, dissatisfaction with past experiences and inadequate service quality were major factors contributing to the low adoption rate. These findings highlight the need for urgent intervention to address these challenges and promote the use of trade credit insurance by the export-orientated SMEs. Moving forward from the present study, future research should focus on evaluating the effectiveness of interventions aimed at enhancing the utilisation levels of trade credit insurance and the impact of trade credit insurance in bridging the trade finance gap.

Recommendations

Based on the research findings, several recommendations could be put forth to improve the adoption and effectiveness of trade credit insurance among the export-orientated SMEs in Sri Lanka. By implementing these recommendations, stakeholders, including insurance providers, government bodies, and industry associations, can collectively contribute to the growth and sustainability of SMEs in Sri Lanka as well as in other counties, especially in the South Asian region, by encouraging the adoption of trade credit insurance and enhancing risk management practices. Addressing the identified gaps through awareness campaigns, service quality improvement, strategic outreach, and future global research may lead to a healthier, more resilient SME landscape.

Conflicts of Interest

The authors declare that they have no conflict of interests.

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