

**IMPACT OF FINANCIAL INCLUSION ON DIGITAL FINANCIAL LITERACY IN
SMALL AND MEDIUM-SIZED ENTERPRISES (SMES): SPECIAL REFERENCE
TO NORTH CENTRAL PROVINCE IN SRI LANKA**

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ABSTRACT

Global social and economic systems have undergone substantial changes as a result of the fourth industrial revolution. This has resulted in new electronic marketing channels and financial services, along with new human and machine competencies that fully depend on the technological infrastructure supporting the digital transformation of the financial sector. Therefore, small and medium-sized enterprises (SMEs) in Sri Lanka are also transforming according to changes in consumer behavior in the digital era. Changes in the financial sector during this era have had a major impact on SMEs. However, there is still a lack of research on the benefits of digitalization in advancing financial inclusion for SMEs. This study aims to address this issue by investigating the impact of financial inclusion on digital financial literacy in SMEs, with special reference to the North Central Province in Sri Lanka. The research model was constructed using the independent variables of financial inclusion and digital financial literacy as the dependent variables. The study employed a quantitative approach, drawing a sample of 372 SMEs from a population of approximately 11,477 SMEs in the North Central Province. A structured questionnaire was used to gather data, and four hypotheses were developed. Data were analyzed using descriptive statistics, correlation analysis, and regression analysis. The regression results reveal that access to financial services, usage of financial services, financial innovation, and service quality of SMEs significantly impact digital financial literacy. The findings reveal significant relationships between financial inclusion and digital financial literacy, highlighting the importance of enhancing financial literacy to improve access to and the use of digital financial services among SMEs. The results offer valuable insights for policymakers, financial institutions, and stakeholders in developing targeted interventions, policies, and programs to promote financial inclusion and empower SMEs. By improving digital financial literacy, SMEs can manage their finances, make informed decisions, and contribute to economic growth and poverty reduction in the region.

Keywords: Financial inclusion, digital financial literacy, small and medium-sized enterprises (SMEs)