

Impact of Financial Literacy on SME Performance in Sri Lanka's North Western Province

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Abstract

This study investigates the impact of financial literacy on the performance of Small and Medium Enterprises (SMEs) in Sri Lanka's North Western Province. SMEs play a vital role in economic growth, job creation and poverty reduction, yet many face a high failure rate largely due to weak financial management and limited financial literacy. Financial literacy which includes bookkeeping, budgeting, saving and debt management is a critical determinant of SME success. Adopting a quantitative research approach and a deductive reasoning framework, the study surveyed 200 SME owners and managers using a structured questionnaire. The instrument measured the four dimensions of financial literacy namely bookkeeping literacy, budgeting literacy, saving skills and debt management as independent variables, with SME performance as the dependent variable. Data were analyzed using descriptive statistics, Pearson correlation, and multiple regression analysis via SPSS. Results indicate that all four financial literacy components significantly and positively influence SME performance, with budgeting literacy and debt management showing the strongest effects. For instance, regression analysis revealed that budgeting literacy accounted for the largest variance in performance scores, underscoring its practical importance. The findings highlight the novelty of this study by providing empirical evidence from a regional Sri Lankan context, where limited research exists on SME financial literacy. The study contributes to academic knowledge and policy by emphasizing the need for targeted financial literacy training programs integrated into SME development initiatives. Strengthening financial skills among SME owners can enhance competitiveness, sustainability, and resilience in a challenging economic environment.

Keywords: bookkeeping literacy, budgeting literacy, debt management, saving skill