DOI: https://doi.org/10.4038/sajf.v5i2.122

South Asian Journal of Finance

ISSN (Online): 2719-2547 | Journal Home Page: https://sajf.sljol.info/

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To cite this article: Sazna M.I.F. (2025). Financial Literacy and SME Performance: The Role of Financial Access in Colombo, Sri Lanka, *South Asian Journal of Finance*, *5*(2), 160–178.

SOUTH ASIAN JOURNAL OF FINANCE
ISSN (Online): 2719-2547
2025, VOL. 5, No. 2, 160 – 178
Journal Homepage: https://sajf.sljol.info/

Financial Literacy and SME Performance: The Role of Financial Access in Colombo, Sri Lanka

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ABSTRACT

Purpose: Small and Medium Enterprises (SMEs) are pivotal to Sri Lanka's economic growth, yet their performance is often hindered by limited financial literacy and restricted access to finance. Despite the recognized importance of these factors, limited empirical evidence exists on how financial literacy influences SME performance through the mediating role of financial access. This study aims to fill this gap by examining the impact of financial literacy on SME performance in the Colombo Division, with financial access as a mediating factor.

Design/Methodology/Approach: A descriptive, quantitative research design was adopted. Data were collected through structured questionnaires from 276 SME owners and managers in the Colombo Division. Statistical analyses, including correlation and mediation testing, were conducted to assess relationships among financial literacy, financial access, and SME performance.

Findings: The results reveal that financial literacy significantly enhances both financial access and SME performance. Furthermore, financial access partially mediates the relationship between financial literacy and performance, implying that financially literate SMEs are more likely to secure finance and achieve improved business outcomes.

Originality: This study contributes to the literature by empirically demonstrating the mediating role of financial access in the financial literacy–performance nexus, a relationship underexplored in the Sri Lankan context. It provides evidence-based insights for policymakers and development agencies to design financial literacy initiatives and improve SME financing mechanisms.

Research Limitations/Future Research Directions: The study is limited to SMEs in Colombo Division and relies on self-reported data. Future research could include longitudinal designs, other regions, or additional mediators such as innovation capability.

KEYWORDS

Financial Literacy, Financial Access, SMEs, Firm Performance

JEL CLASSIFICATION

G21, D91, L26, M21

I. Introduction

SMEs often struggle with financial literacy for reasons that are both structural and contextual, and these challenges are especially pronounced across Asia. Many SMEs operate in the informal sector with limited bookkeeping, weak managerial capacity, and low formal education levels, factors that reduce exposure to basic financial concepts and hinder creditworthiness (Asian Development Bank [ADB], 2023; World Bank, 2024). As a result, a large share of firms remains credit-constrained: recent World Bank estimates show about 40% of formal MSMEs are credit-constrained (19% fully, 21% partially). In South Asia alone, nearly 37 million micro-enterprises and about 1 million small and medium enterprises have limited or no access to finance, implying a major regional financing gap (World Bank, 2024).

Small and Medium Enterprises (SMEs) are recognized as vital engines of economic development, innovation, and employment

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Received: 13 February 2025, Accepted revised version: 04 December 2025
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across emerging economies. In Sri Lanka, SMEs contribute approximately 52% to GDP, generate 45% of total employment, and account for 30% of exports (CBSL, 2021). Despite this significance, the SME sector continues to face persistent challenges that threaten its growth and sustainability. The failure rate of Sri Lankan SMEs is estimated to be between 45–50%, a situation worsened by the COVID-19 pandemic (DailyFT, 2022). These failures are largely attributed to weak financial management, poor record-keeping, over-diversification, and particularly, low financial literacy among entrepreneurs, which constrains access to formal financing and limits business performance (World Bank, 2020).

Financial literacy is the combination of financial knowledge, attitudes, and behaviours that enable individuals to make informed financial decisions, and is crucial for effective entrepreneurship (Basu, 2005; Worthington, 2005). According to the Central Bank of Sri Lanka's Financial Literacy Survey (2021), the national financial literacy rate is 57.9%, with significant disparities across education levels and geographic regions. Low levels of financial literacy often push SME owners to depend on informal lenders charging exorbitant interest rates, resulting in unsustainable debt and reduced productivity. Similar trends are observed across South Asia, where limited financial inclusion and inadequate financial capability restrict SMEs from realizing their full potential (Rahman et al., 2019; Kumar & Bhattacharya, 2020; Hassan & Ali, 2021).

Access to finance is a key determinant of SME competitiveness and growth. As noted by Beck et al. (2006) and Rojas-Suarez et al. (2010), adequate financing allows firms to innovate, expand operations, and respond to market opportunities. However, 59% of Sri Lankan SMEs cite lack of financing as their main constraint (CBSL, 2019). Barriers such as information asymmetry, limited collateral, and poor financial records further deter banks from lending to smaller firms (Fowowe, 2017). Financial literacy can mitigate these barriers by equipping entrepreneurs with the skills to maintain accurate financial records, evaluate credit products, and manage cash flow effectively, thereby enhancing both financial access and performance (Adomako et al., 2016; Bongomin et al., 2017).

Despite growing interest in SME financial development, limited empirical research in Sri Lanka and South Asia has examined how financial literacy affects SME performance through the mediating role of financial access. Existing studies have primarily analyzed these variables in isolation or in developed economies, leaving a contextual and theoretical gap within emerging markets. This gap forms the basis for the current study, which focuses on SMEs in the Colombo Division—a key economic hub of Sri Lanka with diverse business activity and access to both formal and informal financial systems.

Accordingly, this study seeks to answer the following research questions:

- How does financial literacy impact the performance of SMEs in the Colombo Division?
- How does financial literacy have a significant impact on financial access?
- To What Extent Does financial access have a significant impact on the business performance of SMEs?
- Does financial access mediate the relationship between financial literacy and SME performance?

Addressing these questions is vital not only for Sri Lanka but also for the broader South Asian region, where SME development remains central to achieving sustainable economic growth. By exploring these dimensions, the study contributes to both academic literature and policy dialogue on SME competitiveness, financial inclusion, and entrepreneurial capability.

The remainder of this paper is structured as follows. The next section reviews existing literature on financial literacy, SME performance, and access to finance. The third section presents the research design, sampling methods, and analytical approach. Section four discusses the empirical results, while the final section concludes with theoretical, policy, and practical implications, alongside recommendations for future research.

II. Literature Review and Hypotheses

This literature review examines financial literacy's theoretical and empirical foundation and its impact on Small and Medium Enterprises (SMEs) performance, focusing on how access to finance acts as a mediating variable. The chapter first introduces three theories to explain these relationships: The Knowledge-Based View (KBV), Dual-Process Theory, and Pecking Order Theory (POT). The KBV suggests that knowledge, viewed as a critical organizational resource, drives competitive advantage and boosts SME performance through enhanced innovation, efficiency, and cost reduction (Barney, 1991; Wernerfelt, 1984). Financial literacy is a crucial knowledge resource that enables SMEs to overcome financial barriers, strengthening overall business performance (Husain et al., 2018). Dual-Process Theory posits that financial decision-making among SME managers involves both cognitive and intuitive processes, which are enhanced by financial literacy (Mitchell & Lusardi, 2011). High financial literacy enables managers to optimize financing sources and make sound financial decisions that mitigate information asymmetries. Meanwhile, pecking Order Theory (POT) explains SMEs' preference for internal over external financing, driven by financial literacy's role in guiding managers to make cost-effective decisions and reduce dependency on debt (Lawless & McCann, 2011).

Cross-country and country-specific analyses report that higher financial literacy is associated with reduced credit constraints, greater fin-tech/digital finance adoption, and better financial performance (Charfeddine et al., 2024; Frimpong et al., 2022). In developing-country contexts, studies show that financial literacy directly improves SMEs' financial decision-making, liquidity management and resilience, and indirectly raises sustainability and growth by facilitating formal credit access and the better use of digital banking tools (Ye, 2019; Abdallah, 2024). Recent systematic reviews and bibliometric work also highlight a rapid growth of empirical research but stress geographic gaps — notably a shortage of mediation tests in South Asian settings — which motivates context-specific mediation studies (Graña-Álvarez, 2024; systematic reviews).

Studies also highlight the link between financial literacy and access to financial services, establishing that financially literate SME owners are more likely to secure funding and manage their finances effectively (World Bank, 2018; Mwangi et al., 2012). Financial literacy enhances access by reducing financial exclusion and improving the ability of SMEs to secure credit (Twumasi et al., 2022). In Ghana, financially literate SMEs report higher usage of financial products, which boosts performance (Kimani & Ntoiti, 2015).

Finally, studies on the relationship between financial access and SME performance indicate that access to finance is essential for SME growth (Gamage, 2015; Kalaipriya, 2018). Evidence from Sri Lanka and Ghana reveals that increased financial access enables SMEs to exploit growth opportunities and maintain competitive advantage (Chowdhury et al., 2022; Amadasun & Mutezo, 2022). However, some studies find that inadequate financial literacy and limited access to credit can impede SME performance (Mwangi et al., 2012; Kumalasari & Asandimitra, 2019).

Hypotheses

Financial Literacy and SME Performance

The empirical analysis section reviews studies on financial literacy and SME performance. Anuradha (2021) and Menike (2018) find that financial literacy significantly enhances SME performance by fostering knowledge in financial management, directly affecting business outcomes in Sri Lanka and other contexts. These studies underscore that financial literacy comprises financial attitudes, behaviors, and knowledge, all of which contribute positively to SME performance (Bandara & Koperunthevy, 2016). Research by Kumari et al. (2021) also indicates that SME owners' financial management skills are instrumental in improving their business performance. In Ghana and Sri Lanka, financial literacy correlates with business longevity and income growth, reinforcing that financial literacy is pivotal to SME success (Haleem, 2022; Patrick, 2015).

H_1: Financial literacy has a significant impact on the Business performance of SMEs.

Financial Literacy and Financial Access

Financial literacy is vital in improving access to financial services and achieving universal financial inclusion. According to the World Bank (2018), financial literacy enhances access to financial services, as evidenced by studies showing a positive relationship between literacy and financial access (Mwangi et al., 2012; Twumasi et al., 2022). Research from various regions, including Kenya (Shibia, 2012) and Nepal (Chaulagain, 2015), confirms that financial literacy strongly predicts formal financial access, especially in urban and rural contexts. Financial literacy encourages saving, budgeting, and wise credit use, fostering environments that support improved financial behaviors and access (Kefela, 2010). Overall, increased financial literacy helps remove barriers to financial inclusion by promoting informed financial decision-making and responsible financial behavior.

H_2: Financial literacy has a significant impact on financial access.

Financial Access and SME Performance Summary

Research highlights that financial access is a significant driver of SME performance, with lack of affordable financing being a significant barrier, especially in regions like Sri Lanka (Niranjala & Jianguo, 2017; Gamage, 2015). Access to finance positively affects SME growth, productivity, and competitive advantage, as shown in studies from Sri Lanka, Ghana, Myanmar, and other countries (Kalaipriya, 2018; Chowdhury et al., 2022; Amadasun & Mutezo, 2022). However, financial access remains limited for many SMEs due to factors like high financing costs and insufficient banking infrastructure (Kyophilavong, 2011). Notably, while most studies find a positive correlation between financial access and SME performance, some research in places like Congo suggests no significant influence. Other studies show mixed outcomes, depending on the type of financing accessed (Ndombi Avouba, 2022; Murigi, 2014). Sustainable finance access is essential for SME sector growth and economic development.

H_3: Financial access has a significant impact on the business performance of SMEs.

Financial Literacy, Financial Access, and SME Performance

Studies indicate that financial literacy among SME owners and managers enhances access to finance, which in turn boots SME performance by enabling them to leverage growth opportunities. Financial literacy aids in strategic decision-making and facilitates the use of financial products that improve business outcomes (Aribawa, 2016; De Mel, 2008). Several studies (Gathungu et al., 2018; Dewi et al., 2018) reveal that financial access mediates the relationship between financial literacy and SME performance, suggesting that improving financial literacy leads to greater financial access, positively impacting performance. Enhanced financial literacy has also been associated with increased access to services and better business outcomes in various developing economies (Hussain et al., 2018). However, some research points to mixed or even negative relationships between financial literacy, access, and SME performance (Mwangi et al., 2012; Kumalasari & Asandimitra, 2019), highlighting the complexity of these interactions. Financial literacy is primarily seen as a beneficial factor that enhances access to finance and supports SME growth and sustainability.

H_4: Financial access mediates the relationship between financial literacy and the business performance of SMEs.

Conceptual Framework

The figure depicts the conceptual framework for constructing associations between dependent and independent variables via mediating factors.

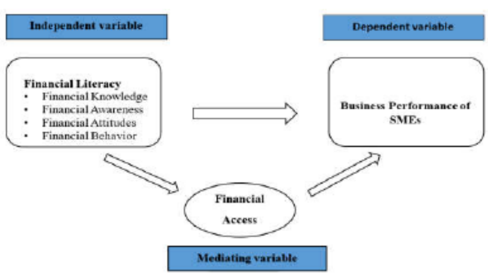

Figure 1. Conceptual Framework

III. Methodology

A quantitative technique is employed in this investigation. This method uses numerical values derived from the data to describe and explain the processes that the observations can shed light on (Taherdoost, 2022). The research population includes all small and medium-sized enterprises in the Colombo Division, which is 2364 registered SME establishments based on the information obtained from the Colombo Divisional Secretariat. In this study, the sample size was determined to be 300 respondents, and the questionnaires were distributed. Out of that, 276 filled-out questionnaires were received. Hence, the sample size is made to be 276 respondents. The sample was selected using probability sampling with a proportionate stratified sampling technique in Colombo's twenty-nine selected GS divisions. In a stratified sampling technique, the researcher divides the total target population into various subgroups or strata before randomly choosing the final respondents proportionately from the various strata. The proportion and number of samples used in this study are presented in the Appendix. While this method provides generalizable quantitative insights, potential biases may exist due to the regional concentration in Colombo, as SMEs in rural areas may exhibit different levels of financial literacy and access. Furthermore, self-reported data may lead to response bias. A structured questionnaire using a 5-point Likert scale was administered to SME owners and managers, adapted from Sabana (2014) and Changwesha (2019). It covered financial literacy, financial access, and SME performance, measured through indicators of knowledge, attitude, behavior, awareness, access to financial services, and business growth metrics.

Table 1. Operationalization of Variables

Concept	Variable	Variable Type	Indicators / Measurement Items	Source
Financial Literacy	Financial Knowledge	Independent	Understanding of budgeting, saving, interest rates, and investment decisions (Q9–13)	Sabana (2014); Changwesha (2019)
	Financial Attitudes	Independent	Attitudes toward spending, saving, and long-term financial planning (Q14–18)	Sabana (2014); Koitaba (2013)
	Financial Awareness	Independent	Awareness of financial products, services, and market information (Q19–23)	CBSL (2021); Abdallah (2024)
	Financial Behavior	Independent	Actual financial practices such as record keeping, debt repayment, and budgeting (Q24–28)	Sabana (2014); Ye (2019)
Financial Access	Account Ownership	Mediating	Number and type of bank accounts held (Q30–34)	CBSL (2021); Rojas-Suarez et al. (2010)
	Utilization of Financial Services	Mediating	Frequency of using credit, insurance, and payment services (Q35–38)	Beck et al. (2006); CBSL (2019)
	Type of Financial Service Providers	Mediating	Access to commercial banks, MFIs, or informal lenders (Q39–42)	Abdallah (2024); Bongomin et al. (2017)
Business Performance of SMEs	Growth in Sales	Dependent	Annual change in sales revenue (Q43)	Adomako et al. (2016); Eniola & Entebang (2018)
	Growth in Profits	Dependent	Annual change in net profits (Q44)	Dewi et al. (2018); Kimani & Ntoiti (2015)
	Increase in Number of Employees	Dependent	Change in total employment (Q45)	Olawale & Garwe (2010)
	Increase in Market Share	Dependent	Change in business market coverage (Q46)	Kumalasari & Asandimitra (2019)

IV. Findings and Discussion

To analyze and evaluate the collected data, the researcher employed reliability, descriptive, correlation, and simple and multiple regression analysis using IBM SPSS version 25.0, a comprehensive data analysis and interpretation tool, to draw meaningful conclusions and recommendations. Correlation and regression analyses, following Baron and Kenny's (1986) four-step framework, explored the relationships between variables. Moreover, the researcher uses the Sobel Test Calculator, in addition to regression analysis, to further confirm and quantify the significance and magnitude of the mediation effect and improve the precision of the findings and their implications. All variables were within the acceptable range of ± 2 for skewness and ± 3 for kurtosis (Kline, 2016), indicating that the data were approximately normally distributed.

Reliability of Data

Cronbach's Alpha Coefficient value for overall variables is above 0.70, indicating that all items are considered reliable. This suggests that each instrument's internal reliability was satisfactory.

Table 2. Reliability

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.871	.870	8

Descriptive Statistics

Based on the table, financial literacy is the independent variable, measured using four indicators. These indicators include financial knowledge, financial attitudes, financial awareness and financial behavior, and they have the mean values of 18.84, 17.92, 17.70, and 17.70, respectively. These indicators show a high level of contribution to financial literacy. The overall mean value of financial literacy is 72.18, which deviates from 16.4. It shows that financial literacy is higher in the selected SMEs. Likewise, financial access is the mediating variable measured with three indicators. These indicators have the mean values of 17.18, 12.63 and 13.12. These indicators show a high level of contribution to financial access. The overall mean value of financial access is 42.94, deviating from 8.19. It shows that financial access is higher in the selected SMEs. Moreover, SME performance, the dependent variable, has a mean value of 14.44, deviating from 2.59. It shows that the selected respondents' green purchase intention is at a higher level.

Table 3. Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
FK	276	5.00	25.00	18.8406	4.76616
FATT	276	5.00	25.00	17.9275	4.24202
FAW	276	5.00	25.00	17.7029	4.15851
FBE	276	5.00	25.00	17.7065	4.36316
OACC	276	5.00	25.00	17.1848	4.38326
UFS	276	4.00	20.00	12.6341	2.92204
FSP	276	6.00	20.00	13.1196	3.00367
PERF	276	10.00	20.00	14.4420	2.58532
FL	276	20.00	100.00	72.1775	16.40624
FA	276	24.00	65.00	42.9384	8.19400

Pearson's Correlation Analysis

Pearson's correlation results between financial literacy, financial access, and SME performance. The findings reveal a strong positive and significant relationship between financial knowledge and SME performance (r=0.746, p=0.000) and between financial behavior and SME performance (r=0.703, p=0.000). There are moderate positive significant relationships between financial attitude and SME performance (r=0.658, p=0.000) and financial awareness and SME performance (r=0.633, p=0.000). Financial literacy and SME performance exhibit a strong positive relationship (r=0.765, p=0.000). Regarding financial access, the ownership of accounts has a low positive relationship with SME performance (r=0.369, p=0.000). In contrast, the utilization of financial services (r=0.527, p=0.000) and the relationship with financial service providers (r=0.611, p=0.000) show moderate positive relationships. Financial access and SME performance have a moderate positive relationship (r=0.565, p=0.000).

Table 4. Correlation Matrix

Correlations

		FK	FATT	FAW	FBE	OACC	UFS	FSP	FL	FA	PERF
FK	Pearson Correlation	1									
	Sig. (2-tailed)										
	N	276									
FATT	Pearson Correlation	.834**	1								
	Sig. (2-tailed)	.000									
FAW	Pearson Correlation	.876**	.814**	1							
	Sig. (2-tailed)	.000	.000								
FBE	Pearson Correlation	.854**	.788**	.834**	1						
	Sig. (2-tailed)	.000	.000	.000							
OACC	Pearson Correlation	.244**	.338*	.477**	.355**	1					
	Sig. (2-tailed)	.000	.022	.000	.000						
UFS	Pearson Correlation	.453**	.279**	.492**	.314**	.408**	1				
	Sig. (2-tailed)	.000	.000	.000	.000	.000					
FSP	Pearson Correlation	.502**	.418**	.357**	.337**	.349**	.611**	1			
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000				
FL	Pearson Correlation	.955**	.917**	.940**	.929**	.271**	.503**	.576**	1		
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000			
FA	Pearson Correlation	.531**	.426**	.483**	.426**	.808**	.799**	.771**	.491**	1	
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	.000		
PERF	Pearson Correlation	.746**	.658**	.633**	.703**	.369**	.527**	.611**	.765**	.565**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	.000	.000	

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Regression Analysis

Step 1 – Simple regression analysis with Financial Literacy and SME Performance

Table 5. Regression Analysis FL and PERF

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	897.212	1	897.212	175.536	.000[b]
	Residual	3440.860	274	5.259		
	Total	4838.072	275			

a. Dependent Variable: PERF

b. Predictors: (Constant), FL

Table 6. Regression Analysis FL and PERF

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.955	.124		4.675	.000
	FL	.673	.038	.665	16.691	.000

a. Dependent Variable: PERF

As per the Table 6, the regression equation can be written as follows,

$$Y = b_0 + b_1X + e \quad (1)$$

$$PERF = 0.955 + 0.673\,(FL) \quad (2)$$

The regression analysis demonstrates a significant positive relationship between financial literacy and SME performance. The B coefficient of 0.673 indicates that a one-unit increase in financial literacy results in a 0.673-unit improvement in SME performance, starting at 0.955 when financial literacy is zero. The p-value of 0.000 (less than 0.05) confirms the model's statistical significance, allowing for rejecting the null hypothesis. The F-statistic of 175.536 further validates the model's adequacy, showing a strong connection between financial literacy and SME performance. The model explains 897.212 units of variation in SME performance, with a total variation of 4838.072 units, highlighting financial literacy as an influential factor in SME success.

Step 2 - Conduct a simple regression analysis with FL predicting FA

Table 7. Regression Analysis FA and FL

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3821.279	1	2821.279	249.418	.000[b]
	Residual	5642.674	274	57.090		
	Total	8463.953	275			

a. Dependent Variable: FA

b. Predictors: (Constant), FL

Table 8. Regression Analysis FA and FL

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.847	2.055		4.034	.000
	FL	.795	.043	.691	17.030	.000

a. Dependent Variable: FA

Based on the Table 8, regression equation can be written as follows,

$$M = b_0 + b_1 X + e \quad (3)$$

$$FA = 8.847 + 0.795\,(FL) \quad (4)$$

The regression analysis reveals a significant relationship between financial literacy and financial access. The B coefficient of 0.795 implies that a one-unit increase in financial literacy leads to a 0.795-unit rise in financial access, with financial access starting at 8.847 when financial literacy is zero. The model is statistically significant (p-value 0.000 < 0.05), allowing us to reject the null hypothesis and accept the alternative hypothesis. With an F-statistic of 249.418 and a p-value of 0.000, the model's significance is strong, explaining a substantial 2821.279 units of the variation in financial access. This analysis confirms that financial literacy is a critical predictor of financial access, with significant, practical impacts.

Step 3 - Conduct a simple regression analysis with FA predicting PERF

Table 9. Regression Analysis FA and PERF

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1397.024	1	1397.024	175.490	.000[b]
	Residual	2441.048	274	5.259		
	Total	4838.072	275			

a. Dependent Variable: PERF

b. Predictors: (Constant), FA

Table 10. Regression Analysis FA and PERF

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.146	.738		2.042	.000
	FA	.547	.047	.465	18.688	.000

a. Dependent Variable: PERF

Based on the Table 10, the regression equation can be written as follows,

$$Y = \beta_0 + \beta_1 X + e \quad (5)$$

$$PERF = 8.146 + 0.547\,(FA) \quad (6)$$

The regression analysis shows a significant positive relationship between financial access and SME performance, with a B coefficient of 0.547, meaning that a one-unit increase in financial access leads to a 0.547-unit rise in SME performance, which stands at 8.146 when financial access is zero. The p-value of 0.000 confirms statistical significance at the 5% level, supporting the acceptance of the hypothesis. With an F-statistic of 175.490 ($p < 0.05$), the model is validated as significant and can effectively predict SME performance based on financial access, demonstrating that financial access significantly impacts SME performance.

Step 4 – Multiple regression of SME performance on both financial literacy and financial access

Table 11. Regression Analysis FA, FL and PERF

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1571.025	2	985.513	161.517	.000[b]
	Residual	2267.047	273	4.641		
	Total	4838.072	275			

a. Dependent Variable: PERF

b. Predictors: (Constant), FA, FL

Table 12. Regression Analysis FA, FL and PERF

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.114	.768		7.957	.000
	FL	.553	.078	.334	6.123	.000
	FA	.405	.084	.334	6.120	.000

a. Dependent Variable: PERF

Based on Table 12, the regression equation can be written as follows,

$$Y = \beta_0 + \beta_1 X + \beta_2 M + e \quad (7)$$

$$PERF = 6.114 + 0.553\,(FL) + 0.405(FA) \quad (8)$$

The regression analysis indicates that even when financial literacy and access are zero, SME performance is expected to be 6.114. A one-unit increase in financial literacy is associated with a 0.553-unit increase in SME performance, while a similar increase in financial access leads to a 0.405-unit increase. Both variables show statistically significant positive relationships with SME performance ($p < 0.05$). Additionally, introducing financial access as a predictor slightly decreases the coefficient for financial literacy, suggesting a partial mediating effect. This confirms that financial access partially mediates the relationship between financial literacy and SME performance. Therefore, hypothesis four, proposing the mediating effect of financial access, is supported. Overall, the results highlight the positive influence of financial literacy and financial access on SME performance, emphasizing the importance of addressing both factors for enhancing SME outcomes.

Table 13. Overall Model Summary

Model	Adjusted R Square
FL <> PERF	.613
FL <> FA	.650
FA <> PERF	.613
FL <> FA <> PERF	.606

Model 1-The Adjusted R Square value of 0.613 suggests that approximately 61.3% of the variance in SME performance (Path C) can be explained by financial literacy (FL) alone in the model.

Model 2-The Adjusted R Square value of 0.650 indicates that the independent variable (financial literacy) in the model can account for approximately 65.0% of the variance in the dependent variable (SME performance).

Model 3-The Adjusted R Square value of 0.613 suggests that the independent variable (presumably financial access) in the model can explain approximately 61.3% of the variance in the dependent variable (presumably SME performance).

Model 4-The Adjusted R Square value of 0.606 indicates that approximately 60.6% of the variance in the dependent variable (presumably SME performance) can be explained by the model's independent variables (presumably financial access and financial literacy).

Mediation analysis – Multiple regression analysis and Sobel Test

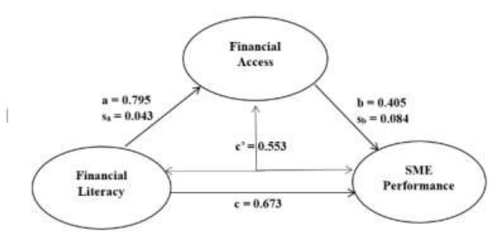

Figure 2. Unstandardized Regression Coefficients and Standard Errors of the Simple Mediation Model

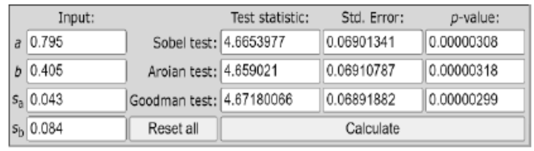

Figure 3. Sobel Test Results Using Online Calculator

The Sobel test confirmed that financial access significantly mediated the relationship between financial literacy and SME performance ($Z = 4.66$, $p < .05$). Initially, financial literacy was a significant predictor of SME performance. After introducing financial access as a mediator, financial literacy and financial access remained significant predictors of SME performance. This supports the hypothesis that financial access mediates the relationship between financial literacy and SME performance. The Sobel test enhances the study's methodological robustness by confirming the mediation effect of financial access on the relationship between financial literacy and SME performance. While initial regression analyses provided preliminary evidence, the Sobel test quantifies this mediation effect rigorously. It quantifies the significance and magnitude of the indirect effect, thereby enhancing the precision and validity of the findings. This ensures a clear and transparent presentation of the study's results and implications.

Table 14. Summary of Research Objectives, Hypotheses, Findings and Conclusions

Objectives	Hypothesis	Findings	Conclusion
To investigate the impact of financial literacy on the business performance of SMEs	**H1** – Financial literacy has a significant impact on the Business performance of SMEs.	The findings established that financial literacy has a significant and positive influence on the performance of microenterprises.	**H1 is supported**
To investigate the effect of financial literacy on financial access.	**H2** - Financial literacy has a significant impact on financial access.	The findings established that financial literacy has a significant influence on financial access	**H2 is supported**
To find out the effect of financial access on SMEs' performance.	**H3** - Financial access has a significant impact on the business performance of SMEs.	The results established that financial access has a significant effect on the business performance of SMEs.	**H3 is supported**
To investigate how financial access mediates the relationship between financial literacy and the business performance of SMEs.	**H4** - Financial access mediates the relationship between financial literacy and the business performance of SMEs.	The results established that financial access has a significant mediating effect on the relationship between financial literacy and the business performance of SMEs.	**H4 is supported**

The study found a positive and statistically significant relationship between financial literacy and the performance of small and medium-sized enterprises, and a positive and statistically significant relationship between financial access and financial literacy. The study achieved its objective and concluded that financial access has a partially mediating effect on the relationship between financial literacy and the performance of small and medium-scale enterprises. It shows that financial access is one of the determinants of the performance of small and medium enterprises. Financially literate entrepreneurs make informed decisions that lead to higher profitability and sustainability (Abdallah, 2024; Ye, 2019; Bongomin et al., 2020). Financial literacy improves financial access, as knowledgeable entrepreneurs can better interact with financial institutions and understand credit terms (Graña-Alvarez, 2024; Adomako et al., 2022). Financial access positively affects SME performance by providing the necessary resources for business expansion and innovation (Musah & Ibrahim, 2023). Financial access mediates the link between financial literacy and performance, suggesting that literacy enhances resource utilization and financial decision-making (Ye, 2019; Korankye et al., 2021).

V. Conclusion

This paper examines the relationship between financial literacy and the performance of small and medium-scale enterprises in Colombo Division, Colombo District, Sri Lanka. This study explores the impact of financial literacy on SMEs' performance, focusing on key components like financial knowledge, attitudes, awareness, and behavior. Participants provided feedback on their financial literacy levels, and SME performance was evaluated through growth indicators such as profit, sales, employee count, and market share. The study hypothesized a positive relationship between financial literacy and SME performance, confirmed through correlation analysis, demonstrating a statistically significant link. Further regression analysis indicated that financial literacy accounted for 61.6% of the variance in SME performance (R^2 = .616). These findings align with prior studies suggesting that financial literacy enhances business outcomes, enabling financially literate entrepreneurs to make informed decisions that support growth (Dolezalek, 2006; GEM, 2010; Bosma et al., 2006). The study also concurs with Menike (2018), who highlighted the importance of financial knowledge in improving business performance, and Siekei et al. (2013), who linked financial literacy to better financial management and sustainable growth. Thus, the study confirmed the hypothesized positive relationship between financial literacy and SME performance in the Colombo District, Sri Lanka.

The relationship between financial literacy and financial access hypothesizes that financial literacy significantly influences access to financial services. Financial access was evaluated by account ownership, use of financial services, and access to formal and informal financial providers. Correlation and regression analyses revealed that financial literacy explained 65.3% of the variance in financial access (R^2 = .653), confirming a statistically significant relationship. This finding aligns with existing literature emphasizing that financial access is essential for SME growth and that financial literacy enhances this access (Niranjala & Jianguo, 2017). Studies such as Mwangi et al. (2012) indicate that higher financial literacy reduces financial exclusion, while Wachira et al. (2012) found that limited financial literacy in Kenya restricts SMEs’ access to services. Similarly, Chaulagain (2015) and Kefela (2010) highlight that financial literacy fosters sustainable financial behaviors like saving and budgeting, facilitating broader financial access. The study thus validated its second objective, establishing the significant role of financial literacy in improving financial access. Impact of financial access on SMEs' performance, hypothesizing that financial access significantly enhances business outcomes for SMEs. Through correlation and regression analyses, it was found that financial access accounts for 47.3% of the variation in SME performance (R^2 = .473), indicating a positive, significant influence. This aligns with prior research showing that financial access plays a crucial role in SME growth and long-term success, as access to financing directly supports business performance (Gamage, 2015; Claessens, 2006; Hussain et al., 2018; Chen et al., 2019). Studies such as Myint (2020) affirm that better financial access improves SME efficiency and effectiveness, while Amadasun & Mutezo (2022) note that access to finance substantially impacts SMEs' competitive growth. Thus, the study confirmed its third objective, reinforcing that financial access significantly supports SME performance.

Whether financial access mediates the relationship between financial literacy and SME performance. Regression analysis showed that financial literacy alone significantly influences SME performance, explaining 61.6% of its variation (R^2 = .616). Additionally, financial literacy was found to significantly impact financial access, explaining 65.3% of its variation (R^2 = .653). When financial access was added as a mediator, the influence of financial literacy on SME performance decreased, indicating that financial access partially mediates this relationship. This finding aligns with studies suggesting that financial literacy improves financial access, subsequently enhancing business performance (Del Mel, 2008; Gathungu et al., 2018; Kalaipriya, 2018; Nunoo et al., 2012). Similarly, Dewi et al. (2018) confirmed that financial access partially mediates financial literacy and SME performance. However, Mwangi et al. (2012) noted that while financial literacy influences financial access, it can have complex effects on SME performance. This study thus confirmed the hypothesis, achieving its objective by demonstrating that financial access mediates the link between financial literacy and SME performance.

The study explored the impact of financial literacy and financial access on SME performance, filling notable gaps in existing research. It contributes theoretically by supporting Resource-Based Theory (RBT) and dual process theory in analyzing how financial literacy and access affect SMEs, particularly in Sri Lanka's Colombo division, where such research is scarce. Policymakers see the growth of SMEs as a means to improve the incomes of low-income individuals. This study provides insights for regulators and the government on addressing financial illiteracy among entrepreneurs and offers valuable knowledge for researchers. It contributes to the existing literature on financial literacy and SME performance. Additionally, it highlights the benefits for investors, such as improved financial management techniques that support profitability if companies enhance their financial literacy. The study's empirical model provides a framework for SME research, showing financial literacy's importance in enhancing SME performance through improved financial knowledge, attitudes, behaviors, and awareness. Practical implications suggest SME owners and managers should invest in financial literacy to improve financial access and performance. For policy, the government should prioritize boosting SME financial literacy and increasing financial service availability to support SME growth and success.

While financial access as a mediating factor has been widely explored in global SME literature, this study distinguishes itself by focusing on the Colombo Division of Sri Lanka, an emerging commercial hub where access to finance and literacy gaps coexist within a highly urbanised economy. Unlike prior studies conducted in broader regional contexts such as Ghana (Frimpong et al., 2022), Bangladesh (Chowdhury et al., 2022), and Lesotho (Amadasun & Mutezo, 2021), this research integrates the Sobel mediation test to statistically validate the indirect effect of financial access—a methodological approach rarely applied in South Asian SME studies. The findings reveal that financial literacy significantly enhances SME performance through improved access to finance, providing fresh empirical evidence from Colombo's dynamic SME sector. These insights contribute to the global discourse by showing how urban microfinance ecosystems in developing economies can strengthen SME resilience and growth, a nuance less examined in previous international research.

To strengthen these outcomes, policymakers should implement national SME-focused financial literacy programs with measurable learning outcomes; financial institutions should simplify credit access and integrate borrower training; and SME owners should actively build financial skills and adopt digital tools for better financial management. This study's regional focus provides new evidence on how financial literacy and access jointly influence SME success in emerging economies.

While this study advances the understanding of financial literacy and access impacts on SMEs in Colombo's Colombo division, it has limitations. Data were collected only once, restricting the ability to observe changes over time, and the sample size was small and limited to SME owners in a single area, which reduces generalizability across sectors and regions. Respondents' subjective responses may introduce bias, and mediation analysis showed only partial mediation, suggesting other variables could be explored. Future research could broaden the sample size, focus on specific sectors (e.g., food and apparel), and include other geographic areas in Sri Lanka. Additional dimensions, more accurate tools, and potential moderating effects, like transaction costs, could further enrich the analysis.

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Appendix

No.	GS Divisions	Total SMEs	Proportion	Sample
1	Sammantranapura	18	1%	2
2	Mattakkuliya	359	15%	42
3	Modara	112	5%	13
4	Mahawatta	57	2%	6
5	Lunupokuna	117	5%	14
6	Bloemandhal	116	5%	14
7	Kotahena West	30	1%	4
8	Kochchikade North	38	2%	4
9	Jinthupitiya	548	23%	64
10	Masangasweediya	36	2%	4
11	New Bazar	13	1%	2
12	Grandpass South	210	9%	25
13	Grandpass North	36	2%	4
14	Nawagampura	11	1%	1
15	Maligawatta East	42	2%	5
16	Keththarama	47	2%	5
17	Aluthkade East	28	1%	3
18	Aluthkade West	116	5%	14
19	Kochchikade South	45	2%	4
20	Pettah	35	1%	4
21	Slave Island	63	3%	7
22	Hunupitiya	62	3%	7
23	Suduwella	48	2%	6
24	Keselwatta	15	1%	2
25	Panchikawatta	82	3%	10
26	Maligawatta West	29	1%	3
27	Maligakanda	14	1%	2
28	Maradana	14	1%	2
29	Wekanda	23	1%	3
		2364		276