

In Search

1st Issue - 2026 (Volume 21) ISSN 2279-2260

Financial Literacy: *A Catalyst for SME Growth*



Association of Accounting Technicians of Sri Lanka

aat
SRI LANKA

VISION

To be the Most Recognized Mid-Level Accounting and Business Qualification.

MISSION

To equip our students and members with the knowledge, skills, attitude and mindset to become best-in-class mid-level accounting and business professionals who add value to the corporate world while succeeding in their career and personal lives, via a robust curriculum, empowered and passionate staff who work in a digitally enabled working environment and a network of well equipped accredited education centers, while adhering to environmentally friendly and socially responsible practices.

VALUES:

- **Integrity**
To be Straight forward and honest
- **Professionalism**
Maintain high professional standards at all times
- **Adaptability**
Ready to change to suit the context
- **Customer-centric**
We make every decision based on how well it serves our Students and Members
- **Passion**
Devoted and enthusiastic for excellence
- **Teamwork**
One team who trust each other



TABLE OF CONTENTS

10
Page



An Interview with
Tishan Subhasinghe,
President, CA Sri Lanka.



6
Page

13
Page



An interview with
Ms. Samudika Jayaratne,
The Auditor General of Sri Lanka

16
Page



In Conversation with
Lakshman Abeysekera,
Chairman - National Enterprise
Development Authority (NEDA).

19
Page

AAT Sri Lanka's
Certificate to Practice:

22 / 43
Page / Page

Financial Literacy:
A Catalyst for SME Growth

GOVERNING COUNCIL 2026-2027

Dr. Chamara Bandara
President

Mr. Dayal Abhayasinghe
Vice President

Mr. Theja De Silva
Secretary

Mr. Indraka Liyanage
Immediate Past President

Mr. Emil Ranasinghe
Council Member

Mr. Nomal Ekanayake
Council Member

Dr. Roshan Jayantha
Council Member

Mr. R. A. K. Jeewantha
Council Member

Mr. W.G. Isuru Kalhara
Council Member

Mr. P.D. Wasantha Kumara
Council Member

Mr. Roshantha Munasinghe
Council Member

Mr. Jayantha Peiris
Council Member

Mr. K. L. Jagath Nandana Perera
Council Member

Mr. Sunil Wanigabadu
Council Member

Ms. Hasara Fernando
Council Member

Ms. A. S. D. Aluthge
Council Member

MANAGEMENT TEAM

Mr. Tishanga Kumarasinghe
Chief Executive Officer

Ms. Nimali Ekanayake
Chief Academic Officer

Mr. Heshan Fernando
Head of Finance

Ms. S.A. Nadee N. Perera
Head of Student Registration & Membership

Ms. B.R. Lilani Thanuja
Head of Examinations

Mr. Sachith Karunaratna
Head of Business School

Ms. Saluja Herath
Head of Human Resources & Administration

Ms. Ajani D. Fernando
Manager - Education & Training

Mr. Lasantha Perera
Manager – IT

Ms. Nipuni Karunaratna
Manager – Marketing

MEMBERSHIP ENGAGEMENT & PROFESSIONAL DEVELOPMENT COMMITTEE

Theja De Silva – *Chairman*

Sunil Wanigabadu – *Alt. Chairman*

Nadee Perera - *Secretary*

MEMBERS OF THE COMMITTEE

Tilanjana Kuruwita Arachchi
(Chairman – InSearch Sub Committee)

S. R. S. Udeni D.Samarakkody
(Member – InSearch Sub Committee)

B.Maleesha M. Fernando
(Member – InSearch Sub Committee)

O. R. Rajasinghe

Chandima N. Balasooriya

Nuwani C. Malluwawadu

N. W. Iresha U. Senaratne

T. D.G. L. M.Sujani De Silva

P.G. Pushpa Kumara

R. Sudharshani Somanathan

A. S. Habeeb Malik

Chalani M. Waidyarathna

L. L. Kaveesha Nirmani



MESSAGE FROM THE PRESIDENT OF AAT

Dear Members of AAT Sri Lanka,

It is a pleasure to connect with you through this edition of InSearch, centred on a theme of growing national importance—Financial and Digital Literacy as Catalysts for Sustainable Growth and Economic Empowerment.

In today's rapidly evolving environment, financial literacy alone is no longer sufficient. The increasing digitalisation of businesses, financial systems, and everyday transactions has made digital literacy equally essential. Across Sri Lanka and globally, individuals and organisations are increasingly exposed to digital risks, misinformation, cyber threats, and financial scams due to the lack of adequate awareness and competency.

At the same time, businesses of all scales—from SMEs to large corporates and startups—continue to face challenges in making informed financial and strategic decisions. Strong financial and digital capabilities are now fundamental for resilience, competitiveness, governance, and long-term sustainability.

As finance professionals, AAT members have a vital role to play—not only in ensuring accuracy, compliance, and accountability, but also in guiding

businesses and communities with clarity, ethical stewardship, and informed decision-making in an increasingly digital world.

At AAT Sri Lanka, we remain committed to developing professionals who are technically competent, digitally aware, ethically grounded, and future-ready. Through our qualifications, professional development initiatives, and knowledge platforms, we strive to empower our members and students to confidently navigate the changing business and technological landscape.

I encourage each of you to extend your expertise beyond traditional roles and contribute meaningfully towards building a financially and digitally literate society.

Let us move forward together—empowering people through knowledge, strengthening businesses through professional excellence, and advancing our nation through financial and digital literacy.

Wishing you continued success.

Dr. Chamara Bandara
President
AAT Sri Lanka

PRESIDENT INDUCTION

THINK
BEYOND
LEADING WITH PURPOSE

A New Chapter Begins

Dr. Chamara Bandara was formally inducted as the 14th President of AAT Sri Lanka at a ceremonial event held at Shangri-La Colombo, attended by a distinguished gathering of professionals and industry leaders. The Immediate Past President, Mr. Indraka Liyanage, presented the presidential medallion – a symbolic gesture representing continuity, shared, and the enduring values upheld by the profession.



The occasion was graced by Chief Guest Dr. Nayana Dehigama, Chairman and Managing Director of Epic Technology Group, while Mr. Tishan Subasinghe, President of CA Sri Lanka, attended as the Guest of Honour.

Held under the theme “Think Beyond,” the new President, together with the Council, is set to champion the true essence of the accounting profession — fostering trust, promoting knowledge with integrity, and leading with accountability.





MESSAGE FROM THE CHAIRMAN OF THE MEMBERSHIP ENGAGEMENT & PROFESSIONAL DEVELOPMENT COMMITTEE

It is a privilege to connect with you through this edition of InSearch as we continue to strengthen and advance the AAT community.

At the core of our mission is a clear commitment to ensure every member feels connected, supported, and empowered throughout their professional journey. Today, membership extends beyond affiliation and reflects active participation in a dynamic ecosystem that promotes continuous learning, professional growth, and meaningful contribution.

This edition reflects that vision by bringing together insights and perspectives that not only inform but also inspire new thinking and opportunity. We regard InSearch as a collaborative platform that is enriched by your voice, your ideas, and your engagement.

Looking ahead, we remain focused on expanding accessible learning pathways, strengthening collaboration, and creating greater opportunities for

active member participation. Your involvement through thought leadership, professional engagement, and community initiatives continues to drive the strength and relevance of AAT.

I extend my sincere appreciation to all who contribute with dedication to these efforts. Your commitment continues to enhance the value we deliver and the impact we create.

As we move forward, I encourage you to stay engaged, embrace the opportunities available, and play an active role in shaping our collective future. Together, we will continue to elevate the AAT community and uphold the highest standards of professionalism and excellence.

Let us move forward with purpose together.

Theja de Silva

Chairman - Membership Engagement & Professional Development Committee



MESSAGE FROM THE CHIEF EXECUTIVE OFFICER OF AAT

I am delighted to extend my warmest congratulations on the publication of the first issue of InSearch magazine for 2026, which thoughtfully explores the timely and significant theme, “Financial Literacy – A Catalyst for SME Growth.”

This theme is both relevant and essential in today’s dynamic economic landscape, where empowering small and medium enterprises with financial knowledge is key to sustainable development and economic resilience. By shedding light on this important subject, InSearch continues to play a vital role in fostering awareness, encouraging informed decision-making, and supporting the growth of the SME sector.

I wish to commend the editorial team and all contributors for their professionalism, commitment, and dedication in producing a publication of high quality and relevance. The magazine serves as an important platform for the dissemination of insights, fostering thought leadership, and encouraging constructive dialogue within the financial and business community.

Wishing InSearch magazine continued success in its mission to inspire minds, captivate readers, and shape the future of finance.

Tishanga Kumarasinghe
Chief Executive Officer



An Interview with
**Tishan
Subhasinghe,**
President,
CA Sri Lanka.

As the newly appointed President of CA Sri Lanka, how do you feel taking on this important role, and what does it mean to you personally and professionally?

Stepping into the role of President of CA Sri Lanka earlier this year has been a profound honour and a deeply humbling milestone in my life. I remain sincerely grateful to our members for the confidence responsibility.

Becoming the 28th President of CA Sri Lanka represents far more than the holding of a title; it is an opportunity to serve an institution that has shaped not only my professional journey but also the values I uphold. This appointment stands as one of the greatest privileges of my career, and I approach it with a clear sense of purpose, to safeguard the standards of our profession and to contribute meaningfully to its future.

“For AAT members, the message is clear: embrace change and remain adaptable. Avoid complacency and commit to continuous learning. While a professional qualification is an important foundation, it is no longer sufficient on its own. Developing skills in communication, leadership, and technology is equally vital.”

Throughout your professional journey, what key lessons have shaped your career, and what advice would you give to AAT members who aspire to grow, stay relevant, and one day reach leadership positions in the profession?

Accountancy has long been regarded as a noble profession, but today it stands at a defining crossroads. The role of the accountant is no longer confined to traditional financial functions. Increasingly, professionals are stepping into positions as strategic business leaders, technology-driven specialists, and trusted ethical communicators. Financial reporting, while still important, is fast becoming just one part of a broader, sustainability-focused landscape. This is not a profession in decline, but one undergoing rapid and exciting transformation.

My own professional journey reflects this evolution. Alongside being a Chartered Accountant and Fellow Member of CA Sri Lanka, I am also an Attorney-at-Law, a life member of the Bar Association, and a Certified Information Systems Auditor (CISA). Such diversity is no longer unusual. In a world where change is constant, professionals are expected to adapt, broaden their expertise, and contribute across multiple disciplines within an organisation.

For AAT members, the message is clear: embrace change and remain adaptable. Avoid complacency and commit to continuous learning. While a professional qualification is an important foundation, it is no longer sufficient on its own. Developing skills in communication, leadership, and technology is equally vital.

In a world shaped by rapid innovation, staying relevant is essential. Success today requires more than technical expertise, it calls for communication, curiosity, resilience, and a willingness to grow. Above all, we must strive not only to be capable professionals, but also responsible and engaged global citizens.

What motivated you to take on the role of President at CA Sri Lanka, and how do you see this position allowing you to give back to the wider accounting community?

My journey into the Council of CA Sri Lanka began with the encouragement of others, especially Mr. Sujeewa Rajapakse, who was my supervising member. Although I initially contested for the Council 13 years ago with some hesitation, I soon discovered a genuine passion for serving the profession and the Institute.

At its core, my motivation is simple, I find fulfilment in giving back. Service remains at the heart of everything I do. This role is not about personal recognition; it is about what we can collectively achieve together for our profession, our Institute, our society, and our nation. It is about contributing meaningfully today, while also laying a strong foundation for future generations to grow, build their careers, and play their part in shaping a more prosperous country.

From your perspective, how can CA Sri Lanka meaningfully support AAT members in their professional development and career progression?

AAT Sri Lanka and CA Sri Lanka share a long-standing and closely connected relationship, built on a common purpose.

Established in 1987 as an initiative of CA Sri Lanka, AAT was created to meet the national need for skilled mid-level accounting professionals, laying the foundation for a partnership that continues to thrive today.

At its core is a shared vision: to elevate the accounting profession both locally and globally. Together, the two institutions support the profession across its full spectrum, from school-leavers to seasoned practitioners, championing accounting as a discipline defined by excellence, ethics, and enduring relevance.

For AAT passed finalists, the pathway to becoming a Chartered Accountant is both structured and fast-tracked. Exemptions are granted to AAT finalists which enables them to seamless progression into the CA Sri Lanka qualification, creating a natural next step for those seeking to advance further in the professional domain.

Our support for AAT students also extends well beyond exemptions and examinations, in fact, AAT students are welcome to participate in seminars, workshops, and knowledge-sharing forums organised by CA Sri Lanka, reflecting deeply a shared belief that connection and continuous learning is essential in today's fast-evolving professional landscape.





Shifting focus to SMEs — a key theme of our magazine — what role do you see AAT members playing in strengthening this sector, and how can they make a real difference?

SMEs form the backbone of Sri Lanka's economy. They drive employment, fuel innovation, and sustain communities across the country. When SMEs succeed, the impact extends far beyond individual businesses, it strengthens livelihoods, regions, and the nation as a whole.

Yet many SMEs continue to operate below their full potential. Limited access to finance, gaps in financial literacy, and the slow adoption of digital tools often constrain growth. Addressing these challenges requires more than policy support, it calls for practical, ground-level expertise that empowers entrepreneurs to make informed, forward-looking decisions.

This is where AAT members can play a pivotal role. With their strong technical foundation and hands-on training, they are uniquely positioned to support SMEs in meaningful ways. At the ground level, AAT members can help businesses maintain accurate financial records, strengthen internal controls, and improve

cash flow management, areas that are often critical for survival and growth.

Beyond this, they can step into advisory roles, supporting entrepreneurs in planning, budgeting, and adopting digital tools that enhance efficiency and competitiveness. In many ways, AAT members serve as a vital bridge between technical expertise and real-world business needs, which can help SMEs navigate challenges, seize opportunities, and build resilience which will allow them to sustain the business on the long-term.

Supporting SMEs is not merely an economic priority, but is a national imperative. By empowering AAT members to guide and uplift businesses at the grassroots level, we are investing in a more resilient, inclusive, and future-ready economy for Sri Lanka.

Finally, what is your personal message to the next generation of AAT members who are just starting their journey?

To the next generation of AAT members, the message is simple: stay curious and be bold in your learning. Technical knowledge will always be your foundation, but it is your ability to communicate, lead, and think critically that will set you apart.

In a world shaped by rapid change, technology is not an option, it is an advantage. When combined with your numerical strengths, digital skills can elevate your impact in ways never imagined. At the same time, broaden your horizons. Embrace new languages, cultures, and perspectives, they will open doors both locally and globally.

Most importantly, look beyond traditional career paths. The profession is evolving into exciting new areas such as sustainability, Technology and AI, forensics, and integrated reporting. These are not just trends; they are the future of accountancy.

Be adaptable. Be responsible. And above all, strive to be a force for positive change in an ever-changing world.

Last but not least, I invite all AAT members to exploit the lucrative exemptions granted to pursue CA exams and then to become Chartered Accountants. Together we can build our Nation.

In further expanding our offerings, CA Sri Lanka's academic arm, SAB Campus also offers accessible degree programmes, including the BSc Applied Accounting degree, designed to balance affordability with industry relevance. These programmes equip students with the practical and professional skills valued by employers, ensuring they graduate not only with qualifications, but with real career potential.



An interview with
**Ms. Samudika
Jayaratne,**
The Auditor General of Sri Lanka

As the first woman to hold the office of Auditor General in Sri Lanka's history, what does this milestone mean to you personally, and what message does it send to young women across the country?

This milestone is both a personal honor and a profound responsibility. It reflects not only my individual journey but also the gradual progress our country is making toward gender inclusivity in leadership. I see this achievement as a testament to perseverance, commitment, and professional integrity.

To young women across Sri Lanka, my message is clear: there are no boundaries to what you can achieve with dedication, discipline, and self-belief. Leadership positions are not defined by gender, but by competence, courage, and character. I encourage young women to pursue their ambitions with confidence and to contribute meaningfully to national development.

“

The accounting profession plays a critical role in ensuring transparency, accountability, and good governance. To AAT members, I would emphasize the importance of maintaining the highest standards of integrity, continuous learning, and professional excellence.

As a woman in a top leadership position, what unique perspectives or strengths do you believe women bring to governance and public financial management?

Women often bring a balanced approach to leadership, combining analytical thinking with empathy, collaboration, and attention to detail. In governance and public financial management, these qualities contribute to more inclusive, transparent, and accountable decision-making.

Additionally, women leaders tend to emphasize ethical conduct, stakeholder engagement, and long-term sustainability, which are critical elements in strengthening public sector

institutions. Diversity in leadership ultimately leads to more well-rounded and effective governance systems.

One of your key functions is to report audit findings to Parliament (COPA and COPE). How would you describe your relationship with these parliamentary committees, and how can their effectiveness be strengthened?

The relationship between the National Audit Office and parliamentary oversight committees such as COPA and COPE is both constructive and essential. These committees play a vital role in ensuring accountability by scrutinizing audit findings and holding public institutions responsible.

To further strengthen their effectiveness, it is important to enhance follow-up mechanisms on audit recommendations, ensure timely discussions of audit reports, and promote a more structured approach to monitoring implementation.



The Auditor General has the power to impose surcharges on responsible parties for deficiencies, losses, or irregular accounts (for Local Authorities and Universities). How effective has this mechanism been in practice, and do you believe this power should be extended to other public institutions?

The surcharge mechanism has served as an important tool in enforcing accountability, particularly at the level of Local Authorities and Universities. However, its effectiveness has varied due to challenges in enforcement, delays in legal processes, and limitations in institutional capacity.

There is merit in considering the extension of this power to other public institutions, provided that appropriate legal frameworks, safeguards, and enforcement mechanisms are established. Strengthening this function could significantly enhance financial discipline and prevent irregularities across the public sector.

CA Sri Lanka hailed your appointment as “a pivotal achievement for both the profession and the country.” As a leader from the accounting profession, what message do you have for AAT members who are working hard to build their careers?

The accounting profession plays a critical role in ensuring transparency, accountability, and good governance. To AAT members, I would emphasize the importance of maintaining the highest standards of integrity, continuous learning, and professional excellence.

In an evolving global environment, it is essential to stay updated with emerging trends, including digital technologies and data analytics. At the same time, strong ethical values must remain at the core of your professional journey. With dedication and commitment, you can make a meaningful contribution to both



the profession and the country.

Looking ahead, what are your top three priorities for reforming and strengthening the National Audit Office during your tenure?

My key priorities are:

1. **Enhancing Audit Quality and Impact** – Strengthening methodologies to ensure audits are more risk-based, timely, and impactful.
2. **Digital Transformation of Audit Processes** – Leveraging technology and data analytics to improve efficiency and effectiveness.
3. **Capacity Building and Professional Development** – Investing in the continuous development of audit staff to meet emerging challenges and international standards.

These priorities aim to position the National Audit Office as a modern, responsive, and globally aligned institution.

Your journey with the National Audit Office began in 2003... what advice would you give to young AAT members?

A successful career is built over time through consistent effort, learning, and resilience. I would advise young professionals to focus on developing a strong technical foundation while

also cultivating soft skills such as communication, critical thinking, and adaptability.

Set clear long-term goals, but remain flexible to opportunities that broaden your experience. Seek mentorship, embrace challenges, and maintain a commitment to integrity in all your work. Most importantly, remain patient and persistent—leadership is the result of sustained dedication over many years.

What legacy would you want to leave as the 42nd – and first female – Auditor General of Sri Lanka?

I would like my legacy to be one of strengthening public sector accountability and enhancing the credibility and impact of the National Audit Office. I aspire to leave behind an institution that is more transparent, technologically advanced, and aligned with international best practices.

Organizations such as AAT Sri Lanka can support this vision by promoting financial literacy, strengthening professional education, and encouraging ethical practices among future accountants. Collaboration between professional bodies and public institutions is essential to building a more accountable and financially responsible nation.



In Conversation with
**Lakshman
Abeysekera,**

Chairman - National Enterprise
Development Authority (NEDA).

You've spent decades working with small businesses, across National Enterprise Development Authority (NEDA), banking, and social entrepreneurship. How did this journey begin?

My journey began as an accountant, but over time evolved into a broader role in national development as a social entrepreneur. I have served in various organizations in general management and director-level positions. However, my core passion has always been entrepreneurship development.

SMEs contribute around 52% to Sri Lanka's GDP, yet only about 10% of exports come from this sector, with nearly 90% dominated by a few large corporates. This imbalance clearly highlights the need for structured SME development. In this context, institutions like National Enterprise Development Authority (NEDA) play a pivotal role in strengthening the sector and unlocking its true potential.

What is the single biggest challenge facing Sri Lankan SME owners today?

One of the most pressing challenges is the reluctance of SMEs to formalize their businesses. Many entrepreneurs hesitate to register, maintain proper financial records, or adopt governance practices. This limits their ability to access finance, scale operations, and integrate into formal supply chains.

NEDA actively addresses this issue by promoting formalization through awareness programs, advisory services, and linking entrepreneurs to incentives tied to registration and compliance. However, cultural perceptions, trust deficits, and external shocks—such as COVID-19, economic crises, and natural disasters like Dikwaha Cyclone, global conflicts, etc continue to impact SME stability.

Is the reluctance to formalize driven largely by tax concerns?

Tax concerns do play a role, but the issue is broader. About 90% of the 1.1–1.2 million of SMEs operate at a micro or livelihood level, often informally and with limited organizational structure. There is also a perception gap—many entrepreneurs do not see immediate benefits from formalization.

NEDA, together with other government agencies, is working to change this narrative by linking formalization with tangible benefits such as access to finance, markets, training, and government support schemes. Digital platforms like the National Industry Database are key tools in this transformation.

Beyond formalization, what would you say is the greatest weakness of Sri Lankan SMEs — and their greatest strength?

The biggest weakness is the lack of governance structure and long-term planning. Many SMEs operate without proper systems, financial discipline, or professional input. They also lack structured supply chains like those seen in countries with large anchor corporations such as Toyota. Market size, low income levels, and limited export access further hinder growth in addition to access to finance, particularly Equity Capital.

The main weakness lies in the lack of governance, financial discipline, and long-term strategic planning. They also lack structured supply chains like those

seen in countries with large anchor corporations such as Toyota. Market size, low-income levels, and limited export access further hinder growth in addition to access to finance, particularly Equity Capital.

Their greatest strength, however, is resilience. Despite continuous economic and environmental challenges, Sri Lankan entrepreneurs demonstrate remarkable adaptability. NEDA's role is to harness this resilience and convert it into sustainable, scalable growth through structured support.

At what stage do most MSMEs fail?

Most MSMEs struggle at the transition from micro to small and from small

as a wedding destination, precision agriculture and, care economy.

What are the most common financial mistakes you see SME owners make?

A key issue is poor financial discipline. Many entrepreneurs lack understanding of cash flow management, costing, and financial planning. Some even divert business loans for personal use.

NEDA addresses this through financial literacy programs, promoting bookkeeping practices, and encouraging the use of digital accounting tools. Strengthening financial management is critical to making SMEs investment-ready and sustainable.



Most MSMEs struggle at the transition from micro to small and from small to medium scale. While sustaining a livelihood business is achievable, scaling requires access to finance, markets, technology, and skills.

to medium scale. While sustaining a livelihood business is achievable, scaling requires access to finance, markets, technology, and skills.

NEDA supports this transition through targeted interventions such as incubation programs, market linkage initiatives, and capacity-building efforts in emerging sectors like tourism, tech startups such as Yaarl IT Hub in Jaffna, and the creative economy, natural cosmetics, event management, positioning Sri Lanka

From a banker's perspective, what makes an SME "bankable," and what financing alternatives exist beyond traditional loans?

An SME becomes bankable when it has proper governance, financial records, business plans, and clear future projections. Medium and larger SMEs can usually access bank facilities because they meet these requirements. Micro and small enterprises, however,

often lack budgets, cash flow statements, and long-term planning, making assessment very difficult.

Collateral backed lending is another barrier to access to finance by MSMEs. Lack of Development banking system is also major weakness in SME development in our country.

To address the collateral-backed lending issue, the government has established a credit guarantee Institution allowing SMEs to access loans up to LKR 25 million with a guarantee up to 67% of the loan amount. For women entrepreneurs, the guarantee is extended up to 80% of the loan amount This will help bridge the financing gap of MSME sector to some extent.

To address this, NEDA is facilitating access to alternative financing models, including equity financing, and Venture Capital. These initiatives reduce reliance on collateral-based lending and expand financial inclusion for SMEs.

How is NEDA helping businesses embrace digitalization without feeling overwhelmed?

We are actively promoting online payment gateways, digital marketing, AI tools, and mobile-based accounting applications. These tools and practices will improve efficiency and provide better data for decision-making. Ministry of Industries and Entrepreneurship has also launched a National Industry Database where all the businesses can register online.

Beyond digitalization, the Ministry of Science and Technology is developing the broader SME ecosystem by setting up of Incubators in universities to facilitate testing products, certification, R&D commercialization. Incubators have been set up in Vauvuniya, Rajarata, Eastern Universities, and it will be expanded to other universities as well. Institutions like ITI and SLSI also work closely with University Incubators and other regional Incubators to provide services to MSME sector. Services are being decentralized so entrepreneurs can access them regionally without traveling to Colombo.



Initiatives like “Made in Sri Lanka Logo”, “B 500” Brand Development program and regional trade fairs, are also helping SMEs reach new markets locally and internationally.

Is there currently a comprehensive SME directory in Sri Lanka?

The National Industry Database has the potential to serve as a centralized SME directory. We strongly encourages all businesses to register, as future government support and services will increasingly be linked to this platform.

If you could change one government policy tomorrow to support SMEs, what would it be?

Introducing a government procurement quota for SMEs would be transformative. As the largest buyer in the economy, the government can create a guaranteed market for SMEs, significantly accelerating their growth and sustainability.

Finally, what is your 10-year vision for Sri Lanka’s SME sector, and what role should organizations like AAT play?

Export Development Board has set a target of 30% exports SMEs by 2030. We aim to triple the economy to USD 300 billion, increase the entrepreneurship rate from 3.2% of the working population to 10%, and double exports to USD 36

billion by 2030 — the “3x economy, 3x entrepreneurship, 2x exports” framework.

Institutionally, NEDA, the Small Enterprise Development Division, and IDB will be merged into a new body called the Industry Transformation and Innovation Authority (ITIA), with around 1,000 officers supporting SMEs directly — at least one officer assigned to every five entrepreneurs to level up their businesses towards achieving export target.

Culturally, we are building an entrepreneurial mindset from the ground up, through educating Parents, Teachers, Religious Leaders and Society. The “Brain into Business - UNICORN program” in the university system in Sri Lanka will make a change in entrepreneurial mindset of Undergraduates, Academia and other stakeholders. We are targeting to interact with 20% of the University undergraduates and create 4000 startups initially .that is 2% of the population and increase that to 10% within 5 years.

Educational reforms also will create entrepreneurship mindset and the “School Industry and Entrepreneurship Circles” program initiated by IDB, also will be expanded under the new Organization. Organizations like AAT Sri Lanka also have a vital role to play in promoting financial literacy, professional standards, and mentorship. Achieving our national goals requires strong collaboration between institutions, professionals, and entrepreneurs.

AAT Sri Lanka's Certificate to Practice:

Shaping Trusted Accounting Professionals for a Dynamic Business Environment

Trust has become one of the most valuable assets in today's business world. In an environment increasingly shaped by financial transparency, regulatory oversight, and stakeholder accountability, the role of professionally qualified accounting practitioners has never been more significant. Businesses today require more than traditional accounting support; they seek dependable advisors who combine technical expertise with ethical judgment, strategic insight, and professional integrity.

Recognizing this evolving expectation, the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka) continues to strengthen the accounting profession through its Certificate to Practice for Members in Practice (MIP) a distinguished professional recognition that reinforces competence, credibility, and public confidence in professional accounting services.

More than a certification, the AAT Practicing Certificate represents a commitment to excellence. It reflects the Association's ongoing mission to develop highly capable accounting professionals who can support businesses, entrepreneurs, and the wider economy with confidence and integrity.

Elevating Standards Across the Profession

As one of Sri Lanka's leading professional accounting bodies, AAT Sri Lanka has consistently played a pivotal role in nurturing skilled accounting professionals equipped to meet the demands of a modern and competitive economy. Through the Member in Practice framework, the Association ensures that practitioners engaged in public practice operate within a structured, ethical, and professionally governed environment.

In accordance with the AAT Sri Lanka Code of Ethics, members who provide accounting and related advisory services to the public





are required to register as Members in Practice and obtain a valid Practicing Certificate annually.

A member is considered to be “in practice” when he or she offers professional accounting services on either a full-time or part-time basis in return for remuneration. This framework not only strengthens accountability within the profession, but also assures clients and stakeholders that they are engaging qualified practitioners who adhere to recognized ethical and technical standards.

At a time when confidence and credibility are fundamental to business success, the Practicing Certificate serves as a mark of trust assuring the public that certified practitioners possess the competence, discipline, and professionalism required to deliver reliable financial and advisory services.

Professional Certification Tailored for Modern Practice

Understanding the diverse nature of professional accounting services, AAT Sri Lanka offers two categories of Practicing Certificates designed to accommodate varying levels of expertise and professional engagement.

Category I – Practicing Certificate for Approved Accountants

This category is awarded to active Fellow Members (FMAAT) of AAT Sri Lanka, excluding practicing Chartered Accountants. Holders of this certification are authorized to provide:

- Accountancy services excluding statutory audits
- Taxation services
- Consultancy and advisory services

In addition, Approved Accountants are entitled to attest to the accuracy and completeness of accounts prepared for individuals and partnerships with annual turnovers not exceeding Rs. 100 million, in accordance with the Inland Revenue Act No. 24 of 2017. This recognition positions qualified members as trusted financial professionals capable of supporting businesses through financial reporting, taxation, compliance, and strategic advisory services.

Category II – Practicing Certificate for Other Professional Accountancy Services

The second category is available to active members of AAT Sri Lanka engaged in professional accounting-related services. This certification authorizes members to provide:

- Accountancy services excluding statutory audits
- Taxation services
- Consultancy and advisory services

Members may also act as Authorized Representatives under the Inland Revenue Act, subject to the relevant membership classifications and applicable gazette regulations.

Together, these certification categories establish a robust professional framework that supports the growth of competent practitioners while safeguarding the interests of businesses and the wider public.

Sustaining Excellence Through Ethics and Lifelong Learning

One of the defining strengths of the AAT Sri Lanka Practicing Certificate framework is its unwavering emphasis on ethics, accountability, and continuous professional development.

In a rapidly changing business environment, accounting professionals must remain responsive to evolving financial regulations, taxation laws, reporting standards, and technological advancements. To maintain practicing status, Members in Practice are therefore required to continuously strengthen their technical knowledge and professional capabilities to ensure the delivery of accurate, compliant, and high-quality services.

Certified members are required to:

- Participate in Continuous Professional Development (CPD) programmes
- Earn the prescribed annual CPD credits
- Adhere strictly to the AAT Sri Lanka Code of Ethics
- Comply with professional and disciplinary regulations
- Renew the Practicing Certificate annually
- Inform the Association of changes to professional or practicing details

This culture of continuous learning not only strengthens individual capability, but also enhances the overall quality, credibility, and resilience of Sri Lanka's accounting profession.

Ensuring Integrity Through a Robust Approval Process

The process of obtaining the Practicing Certificate reflects the high standards upheld by AAT Sri Lanka.

Applications are carefully reviewed by the Membership Division to verify active membership status, CPD compliance, fee payments, and supporting documentation. Eligible applicants are subsequently evaluated through an interview process conducted by a selected panel before recommendations are submitted to the Governing Council for final approval.

This rigorous and transparent evaluation process ensures that practicing status is awarded only to individuals who demonstrate the competence, ethical conduct, and professionalism expected of trusted accounting practitioners.

Empowering Professional Growth and Industry Recognition

Beyond regulatory recognition, the AAT Practicing Certificate creates meaningful opportunities for professional growth, visibility, and business development.

Certified Members in Practice benefit from:

- Enhanced professional recognition and market credibility
- Authorization to use professional designations such as "Approved Accountant"
- Access to exclusive CPD programmes and networking opportunities
- Complimentary technical updates and professional resources
- Inclusion in AAT Sri Lanka's online directory of practitioners
- Greater exposure through entrepreneurial development initiatives
- Access to practice management tools, templates, and professional guidance resources

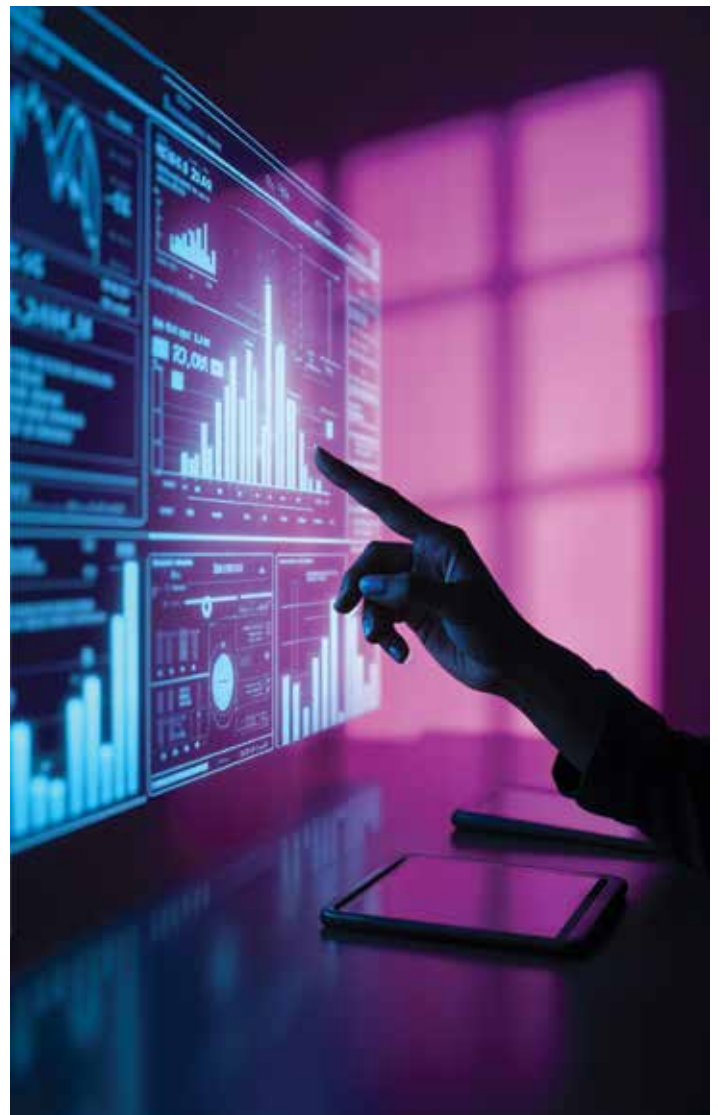
These benefits enable practitioners to strengthen their professional identity, expand their service capabilities, and build trusted relationships within the business community.

Advancing a Profession Built on Trust

As Sri Lanka continues to strengthen its economic and financial landscape, the contribution of ethically grounded and professionally competent accounting practitioners becomes increasingly vital. Businesses, entrepreneurs, and investors rely on financial professionals not only for compliance and reporting, but also for guidance, accountability, and sustainable decision-making.

Through the Certificate to Practice framework, AAT Sri Lanka continues to elevate industry standards while empowering members to serve with integrity, competence, and confidence.

The Member in Practice certification therefore stands as far more than a professional credential. It is a symbol of trust, excellence, and responsibility reflecting AAT Sri Lanka's enduring commitment to shaping future-ready accounting professionals who contribute meaningfully to business growth, financial transparency, and the long-term advancement of Sri Lanka's professional landscape.





From Awareness to Application: Financial Literacy as a Strategic Driver of SME Growth in Sri Lanka

Abstract

Financial literacy is recognized as an essential element in economic participation and stability. Financial literacy in Sri Lanka has been addressed with significant efforts, especially by professional institutions like AAT Sri Lanka. However, there is still a significant difference between being aware of something and applying that knowledge. This article is an extension of the author's previous contributions on financial literacy in Sri Lanka. This article proposes that financial literacy in Sri Lanka needs to be transformed from being simply understood or known to being applied or used in decision-making. This article proposes an integrated conceptual model on financial knowledge, application, and SME performance. It also provides recommendations on how SMEs in Sri Lanka could be improved using financial literacy.

1. Introduction

Small and Medium Enterprises (SMEs) in Sri Lanka have been recognized as playing a significant role in economic development, contributing considerably to employment generation and GDP. However, SMEs in Sri Lanka have been facing significant challenges in maintaining financial stability, which is often attributed not to business opportunities but to poor financial management skills.



Dayal Abhayasinghe

Senior Assistant Bursar, Faculty of Technology, University of Colombo
FMAAT, ACMA, CIPFA (Affil), APFA, FCPM, MBA in Finance (Colombo), HNDA, PQHRM, ACS

Financial literacy in Sri Lanka is recognized to have been emphasized in recent times, with educational and professional institutions contributing considerably. The author's previous article in Insearch 1st Issue 2021 (Volume 12) emphasized the importance of financial literacy in Sri Lanka in enhancing financial behaviour among individuals in Sri Lanka. However, there is still a pertinent question that needs to be addressed: How effectively do SMEs in Sri Lanka apply what is known in terms of financial literacy in making business decisions?

2. Literature Review and Context

Financial literacy is generally accepted to be “the ability to understand and apply financial skills, such as budgeting, investing, and financial planning.” Financial literacy worldwide (e.g., Lusardi & Mitchell, 2014) has been strongly linked with positive financial outcomes.

Financial literacy in Sri Lanka has been boosted by efforts from institutions like AAT Sri Lanka. The author’s past work focused on:

- The integration of financial literacy with educational systems
- The role of professional bodies in knowledge sharing
- The importance of financial discipline at both individual and organizational levels

Despite all these efforts, SMEs in Sri Lanka have been known to suffer from:

- Poor management of cash flow
- Inadequate utilization of financial statements in business decision-making processes
- Inadequate budgeting and forecasting mechanisms

This is where knowledge is not being translated into effective application.

3. The Gap: From Awareness to Application

Financial literacy efforts have been highly effective in creating knowledge. However, there is still limited impact on SMEs. This is due to several underlying reasons:

3.1 Behavioural Barriers

The entrepreneur may have knowledge but not be able to apply it due to behavioural barriers.

3.2 Informality of SMEs

SMEs in Sri Lanka have been known to be informal in their operations. This makes it difficult for knowledge to be applied.

3.3 Lack of Continuous Professional Support

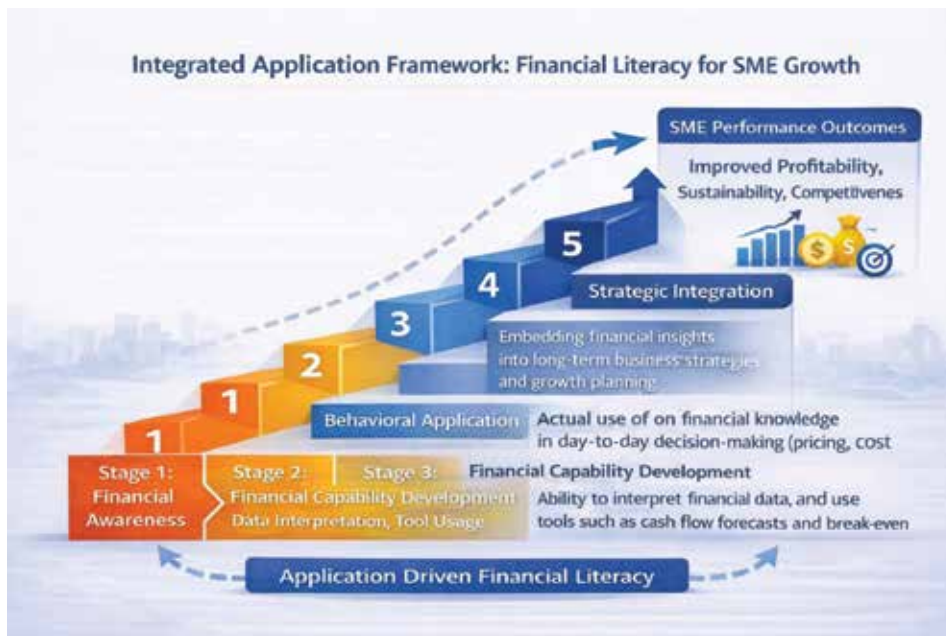
Financial literacy is not being provided with continuous professional support. It is more of a one-time training.

3.4 Lack of Integration with SME Strategy

Financial knowledge is not being integrated with business strategies.

This is where there is a need for a shift in financial literacy.

4. Conceptual Framework: Financial Literacy for SME Growth



This article suggests a model of Integrated Application Framework for financial literacy and SME performance:

Stage 1: Financial Awareness

Basic financial knowledge of concepts such as budgeting, costing, and financial reporting.

Stage 2: Financial Capability Development

Ability to interpret financial information and apply financial tools such as cash flow forecasting and break-even analysis.

Stage 3: Behavioural Application

Actual usage of financial knowledge for decision-making in daily activities.

Stage 4: Strategic Integration

Integration of financial knowledge into long-term business strategies and growth plans.

Stage 5: SME Performance Outcomes

SME performance outcomes such as profitability, sustainability, and competitiveness.

Key Linkage : “Financial literacy can only be considered impactful if it moves from financial awareness to financial application and integration.”

5. Discussion: Implications for Sri Lankan SMEs

5.1 Enhancing Decision-Making Quality

SMEs that apply financial knowledge are better positioned to:

- Manage cash flows effectively
- Make informed decisions for investments
- Prevent over-indebtedness

5.2 Strengthening Business Sustainability

SMEs that apply financial literacy are better positioned to withstand any financial shocks and uncertainties.

5.3 Improving Access to Finance

SMEs that apply financial literacy are better positioned to maintain proper financial records, making them more creditworthy.

5.4 Bridging the Knowledge-Practice Gap

This bridge from financial literacy to financial application ensures that financial literacy results in practical benefits for the economy.

6. Role of Professional Bodies and Stakeholders

Professional institutions like AAT Sri Lanka have an important role to play in furthering applied financial literacy:

6.1 Curriculum Enhancement

6.2 SME Advisory Services

6.3 Industry Collaboration

6.4 Digital Financial Literacy Initiatives

7. Policy Recommendations

To further enhance the impact of financial literacy on the growth of SMEs in Sri Lanka, it is recommended that:

- A shift is made from awareness programs to application programs
- Mandatory financial management training is incorporated into the registration process for SMEs
- Partnerships are encouraged between universities, professional institutions, and SMEs
- The promotion of digital financial literacy programs is pursued
- A system is put in place to monitor and assess the impact of financial literacy programs

8. Conclusion

While financial literacy in Sri Lanka has made tremendous progress in terms of awareness, it is important to note that its true potential lies in its application. For that matter, it is crucial that SMEs, being key players in the growth and development of the country's economy, not only have awareness about financial literacy concepts but also have the ability to strategically apply that knowledge for growth and development. In continuation with the author's previous contributions, this article seeks to highlight that financial literacy in Sri Lanka has to be evolved into an applied and strategy-driven approach. By bridging that gap, it is hoped that the true potential of Sri Lanka's SMEs will be unlocked for sustainable growth.

References

- Abhayasinghe, D. (2021). Financial literacy in Sri Lanka and way forward. *InSearch*, 12(1), 16–20. AAT Sri Lanka.
- Atkinson, A., & Messy, F. A. (2012). *Measuring financial literacy: Results of the OECD/INFE pilot study*. OECD.
- Central Bank of Sri Lanka. (2022). *Annual report 2022*. Central Bank of Sri Lanka.
- Lusardi, A., & Mitchell, O. S. (2014). The economic importance of financial literacy: Theory and evidence. *Journal of Economic Literature*, 52(1), 5–44.
- Organisation for Economic Co-operation and Development. (2020). *OECD/INFE 2020 international survey of adult financial literacy*. OECD.
- World Bank. (2021). *Financial literacy and SME development in South Asia*. World Bank.

Financial Literacy: A Catalyst for SME Growth



Udara Cooray
Associate Manager – Finance, LOLC
Holdings PLC
B.Sc Finance (Special) USJ, MAAT,
ICASL Passed Finalist

Introduction

Small and Medium Enterprises are often driven by vision, energy and a strong desire to create value. Many are led by individuals who deeply understand their product, service and industry. They know how to serve customers, respond to market needs and address operational challenges. However, as the business grows and responsibilities increase, owners begin to realise that operational expertise alone is no longer sufficient to sustain consistent and structured growth. What often distinguishes stable enterprises from those that struggle is financial literacy.

Financial literacy refers to the ability to interpret what financial information truly reveals about a business. It provides clarity, supports sound judgement and enables informed decision-making. In an increasingly uncertain environment, this capability has become a critical driver of long-term SME growth.



The Strategic Role of Financial Literacy in SME Growth

Financial literacy shapes how business owners perceive their organisation and respond to everyday challenges. It transforms scattered financial data into meaningful insight and promotes structured planning instead of reactive decision-making. Most importantly, it strengthens awareness of the business’s current position and its realistic growth potential.

As owners develop a deeper understanding of their financial position, the quality of their decisions improves. They become more deliberate in pricing, more selective in capital commitments and more conscious of how individual choices impact overall financial health. They also begin to identify potential risks earlier, often before they become disruptive. This shift does not arise from complex theory. It develops through consistent engagement with financial information, reducing avoidable errors and guiding focus toward activities that generate sustainable value.

Turning Numbers into Insight

Financial literacy enables owners to interpret the true performance of their business with greater accuracy. Instead of relying solely on assumptions or intuition, they begin to identify patterns that influence strategic thinking. Certain products consistently generate strong margins, while others consume excessive resources. Some periods place pressure on cash flow, while others create opportunities for reinvestment. Certain customers contribute sustainable value, while others introduce financial strain.

These insights allow owners to refine strategy with greater precision. They ask more informed questions and reassess long-standing practices. Operational decisions, including resource allocation are then aligned more closely with what genuinely supports performance and profitability. Financial data evolves from a historical record into a practical lens that provides clarity and direction, even during periods of uncertainty.

Cash Flow: Where Financial Literacy Delivers Its Most Immediate Impact

Cash flow is where the practical value of financial literacy becomes most visible. It is common for SMEs to record healthy sales yet struggle to meet short-term obligations. In most instances, the challenge lies not in revenue generation, but in the timing and management of cash flows.

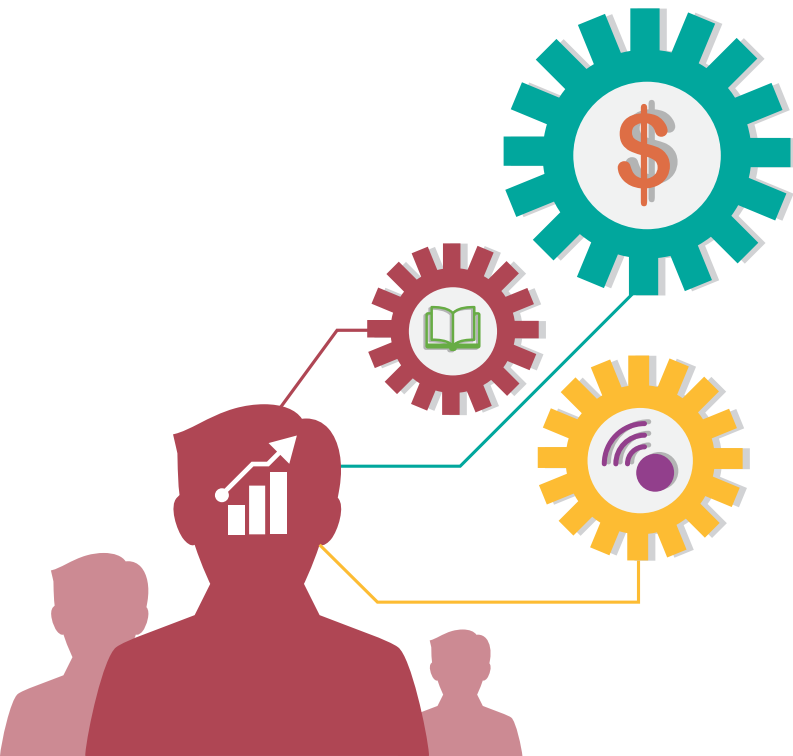
Financially informed owners closely monitor how funds move through the business. They understand when inflows are expected and prepare for periods of tighter liquidity. They track rising expenses and respond before pressure intensifies. They also anticipate commitments such as supplier payments, salaries, rent, and regulatory obligations.

This awareness creates stability and confidence. A business that manages cash flow effectively can pursue new opportunities without exposing to unnecessary financial risks. It can negotiate from a position of strength and build reserves that enhance resilience, allowing businesses to steer the strategically rather than operate in constant reaction.

Pricing Decisions with Greater Confidence

Pricing is one of the most practical areas where financial literacy plays a vital role. Many SMEs base prices on competitor behaviour or perceived customer expectations. Without a clear understanding of the true cost structure, pricing decisions can unintentionally weaken profitability.

Financial literacy allows owners to calculate the actual cost of delivering a product or service, considering inventory, labour, overheads and indirect operational costs. With this level of clarity, pricing becomes deliberate. Owners gain confident to maintain price integrity and make thoughtful adjustments when necessary. This disciplined approach to pricing often strengthens profitability more effectively than relying solely on increased sales volume.



designed by freepik.com

Reducing Waste and Strengthening Spending Discipline

Financially aware businesses begin to approach spending with greater scrutiny and perspective. Owners become more conscious of costs that accumulate gradually without delivering proportional value. They identify unnecessary subscriptions, inefficient processes and spending patterns that no longer align with business objectives.

Financial literacy promotes more disciplined and purposeful spending. It enables owners to direct resources toward initiatives that support sustainable growth, rather than routine or habit-driven expenditure. It also allows for more informed evaluation of whether a proposed expense will deliver meaningful returns or simply place additional strain on the operating structure. Over time, this measured approach contributes to improved cost efficiency, stronger profitability and more effective resource utilisation.

Growth Based on Real Capacity

While growth is a common aspiration for most SMEs, expansion undertaken without financial clarity can place unnecessary strain on operations. Financial literacy provides the framework for responsible and sustainable growth. Owners are better equipped to assess whether proposed investments are financially viable and whether existing cash flow can support those commitments until returns begin to materialise.

They consider how decisions such as recruiting additional staff, increasing inventory levels or opening new locations will influence the overall financial position of the business. They also recognise that growth often involves a temporary period of increased pressure before stability and returns are realised. It ensures that expansion is grounded in strong financial foundations and aligned with realistic operational capacity.

Strengthening Credibility with External Stakeholders

Financial literacy also influences how SMEs are perceived by banks, partners and suppliers. Owners who clearly understand their financial performance communicate with greater precision and confidence. They maintain well-organised records and present information accurately and consistently.

This level of clarity builds trust across the business ecosystem. Financial institutions are more inclined to engage with enterprises that demonstrate discipline, transparency and financial control. Suppliers are more willing to extend improved terms to reliable customers, while strategic partners engage more confidently when financial maturity is evident. This credibility evolves into a meaningful competitive advantage.

A Culture of Planning and Preparedness

One of the most meaningful outcomes of financial literacy is the forward-looking mindset it cultivates. Businesses begin to think beyond immediate pressures and adopt a longer-term perspective. They forecast revenue, prepare for seasonal fluctuations, plan for periods of reduced activity and establish realistic financial goals.

This sense of preparedness reshapes how the business responds to uncertainty. Rather than reacting under pressure, decisions are made with greater perspective and balance. Challenges become more manageable and growth becomes more intentional and structured. Financial literacy enables a business not only to perform more effectively today but also to sustain its strength and resilience over time.

Conclusion: A Practical and Sustainable Path to Growth

Financial literacy is not a specialised technical skill reserved for experts. It is a practical capability that strengthens every dimension of a SME. It sharpens decision-making, enhances financial stability, builds confidence and supports sustainable growth.

For SMEs seeking to move beyond mere survival and achieve long-term success, financial literacy provides a realistic and attainable pathway. It transforms numbers into clarity and clarity into strategy, converting effort into sustainable progress. Most importantly, it empowers businesses to lead with confidence, insight and direction. Financial literacy is not simply advantageous. It is a true catalyst for growth and every SME stands to benefit from embracing it.

References

Chouaieb, H. (2025) 'The role of financial literacy in the growth and sustainability of SMEs: The strategic importance of accounting practices', *SSRN Electronic Journal*. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5351103 (Accessed: 2025).

Dissanayake, H.M.M.L. and Rajakaruna, G.K.N.P. (2024) 'The impact of owners' financial literacy on the financial performance of small and medium-scale enterprises in Sri Lanka', *Proceedings of the 8th Symposium of Accountancy and Finance Research*. Available at: <https://www.researchgate.net/publication/386425153>(Accessed: 2025).

Graña-Álvarez, R., López-Planas, A. and Figueras-Montfort, M. (2024) 'Financial literacy in SMEs: A systematic literature review', *Journal of Small Business Management*, 62(2), pp. 345–362. Available at: <https://www.tandfonline.com/doi/abs/10.1080/00472778.2022.2051176> (Accessed: 2025).

Kalapriya, K. (2024) 'Impact of financial literacy on financial decision making of micro, small and medium-sized enterprises (MSMEs) during crisis', *Asian Journal of Management Studies*, 3(2), pp. 80–96. Available at: <https://ajms.sljol.info/articles/67/files/660f6db2110d5.pdf> (Accessed: 2025).

Kurniasari, F., Nugroho, A. and Widodo, S. (2025) 'Unraveling the impact of financial literacy on performance of SMEs: Empirical evidence from emerging markets', *Cogent Business & Management*, 12(1), pp. 1–18. Available at: <https://www.tandfonline.com/doi/full/10.1080/23311975.2025.2487837> (Accessed: 2025).

Molosiwa, D. and Holland, K. (2025) 'The impact of financial literacy on the performance of small and medium-sized enterprises: A review of literature', *International Journal of Research in Business and Social Science*, 14(1), pp. 92–110. Available at: <https://www.researchgate.net/publication/391427942>(Accessed: 2025).

Weerakoon, W.A.Y.A. and Anuradha, P.A.N.S. (2024) 'Financial literacy on digital banking and financial performance among small and medium-sized enterprises in Sri Lanka', *Asian Finance Review*. Available at: <https://journals.sjp.ac.lk/index.php/afr/article/view/7441> (Accessed: 2025).



**Financial Literacy:
A Catalyst for SME
Growth in
Sri Lanka**

Small and medium enterprises (SMEs) are undeniably the backbone of Sri Lanka’s economy, playing a pivotal role in its growth and development. In Sri Lanka, a business is recognized as an SME if it employs fewer than 300 individuals and generates a turnover of less than 750 million LKR (EDB, 2021). Remarkably, SMEs represent nearly 75% of all businesses, provide about 45% of the nation’s employment opportunities, and contribute over 52% to the GDP (Ministry of Finance, 2015). With annual turnovers ranging from Rs. 16 million to Rs. 750 million, these enterprises are not just commercial entities; they are the lifeblood of their communities, fostering income generation, regional advancement, and long-term social stability.

However, despite their vital contributions, SMEs in Sri Lanka struggle against persistent structural barriers. They often face challenges in securing capital funding, possess low digital capabilities, and lack modern financial management practices. Many SMEs depend heavily on self-funding, personal loans, and bank financing reliant on collateral. This reliance results in even well-established SMEs maintaining relatively small capital bases and hesitating to seek external equity, driven by the fear of sacrificing ownership. In this challenging landscape, financial literacy emerges as an essential tool not merely a skill but a



Savindya Weerakoon
Senior Associate
Deloitte Sri Lanka
MAAT, Final year Undergraduate of
BSc. Honours in Accounting (USJ)



powerful catalyst for transformation. It has the potential to empower the workforce and disrupt outdated thinking, paving the way for a more prosperous and resilient future for Sri Lanka’s economy.

Why Financial Literacy Matters More Than Ever

Financial literacy goes beyond knowing what money is. it is a vital component of financial literacy that empowers individuals to navigate financial resources with confidence and sound judgment. For business owners, being financially literate means

mastering essential tasks such as accurate bookkeeping, comprehending loan terms and conditions, effectively managing risks, preparing detailed financial statements, and considering the sustainability of their operations.

A striking revelation from the Financial Inclusion Survey 2021—conducted by the Central Bank of Sri Lanka (CBSL) and the International Finance Corporation (IFC)—shows that while Sri Lankans generally possess strong financial knowledge, their actions often fail to reflect this understanding. This **“knowledge-behavior gap”** is especially pronounced within the SME sector, where many entrepreneurs may understand fundamental financial principles but struggle to apply them consistently in their businesses. Consequently, we see issues such as poorly managed cash flows, inadequately priced products, and investment plans that are merely hypothetical rather than actionable.

The Persistent Challenge of Access to Finance

Access to finance has long been a significant hurdle for small and medium-sized enterprises (SMEs) in Sri Lanka. Research conducted by Jayasiri et al. (2015) indicates that inadequate documentation, weak financial reporting, and insufficient collateral prevent many SMEs from obtaining credit. Lenders perceive these businesses as high-risk due to a lack of proper financial statements and governance practices, leading to limited lending options and stricter borrowing conditions. Moreover, the financial needs of SMEs are evolving. The changing economic landscape in Sri Lanka requires access to larger capital pools, innovative funding structures, and diversification beyond traditional bank loans. Estimates suggest that local SMEs need between USD 0.5 billion and USD 1 billion in risk capital to grow, digitalize, and integrate into global value chains.

However, engaging with equity financing, venture capital, or digital credit platforms necessitates financial confidence. Without a solid foundation in financial literacy, SMEs cannot fully take advantage of these advanced financing options. Thus, financial literacy becomes the critical link that connects SMEs to the wider financial system, fostering trust, transparency, and the credibility that lenders expect.

FinTech, Regulation, and the Digital Inclusion Gap

Globally, digital financial systems are transforming how small businesses access capital. Studies by Frost (2020) and Buckley & Webster (2016) indicate that countries with strong digital ecosystems experience rapid FinTech adoption, enhanced financial inclusion, and lower transaction costs. However, developing economies face challenges such as digital skills gaps and regulatory uncertainty that hinder this transformation.

Sri Lanka faces similar challenges. While digital payment platforms, online lending, and mobile banking are on the rise, many small and medium-sized enterprises (SMEs) remain

hesitant to adopt these tools. According to Osabutey (2020), SMEs are more likely to embrace FinTech when regulatory frameworks are clear and reliable, providing assurances around cybersecurity, data protection, and fair service. In contrast, Shaikh et al. (2023) note that unclear or evolving regulations can diminish trust and dissuade SMEs from participating in the digital financial landscape.

A recent study by Chandrasena et al. (2025) reinforces this notion, showing that digital financial literacy and perceived regulatory support significantly influence the likelihood of SMEs adopting FinTech in Sri Lanka. Without the necessary knowledge and confidence, small businesses tend to avoid digital wallets, online banking portals, and affordable digital credit—despite their advantages. For a country where many rural and informal businesses remain outside the formal banking system, enhancing digital financial literacy is not just beneficial; it is essential for inclusive growth.

As a Catalyst for SME Growth

When SMEs can understand, interpret, and apply financial knowledge effectively, business transformation becomes attainable. Financial literacy drives SME growth in four key ways:

1.Improved Access to Finance

Financial literacy is essential for helping small and medium-sized enterprises (SMEs) access finance more effectively. When entrepreneurs can prepare accurate financial statements, interpret loan terms, and communicate transparently with lenders, they are better positioned to negotiate favorable financing conditions. Banks naturally prefer SMEs that demonstrate financial discipline and reliability, which means that higher financial literacy directly enhances creditworthiness and opens up a wider range of funding options.

2.Stronger Daily Business Decisions

A financially literate business owner has the skills to make informed decisions that improve day-to-day operations. Competencies such as effective cash-flow management, cost control, and strategic investment planning support healthier business performance. When SMEs can maintain optimal inventory levels and avoid unnecessary losses, they increase profitability and significantly reduce the risk of business failure, ensuring long-term sustainability.

3.Greater Resilience and Risk Management

Financial capability enhances an SME’s ability to withstand economic uncertainty by promoting proactive risk management. Entrepreneurs who understand the importance of savings, insurance, responsible borrowing, and long-term planning are better prepared to navigate financial challenges. This kind of resilience was crucial during Sri Lanka’s recent economic instability, demonstrating how financial literacy can help businesses survive and recover more quickly during crises.

4. Higher Innovation and Digital Adoption

Financial confidence empowers SMEs to embrace innovation and adopt digital solutions that enhance competitiveness. When business owners recognize the financial implications of investing in new technologies or modernizing business models, they are more willing to make such investments. In a rapidly evolving digital economy, this openness to digital adoption becomes an essential driver of growth and long-term sustainability.

Embedding Financial Education into Daily Life

Effective financial education must move beyond one-off training programs and become a continuous part of everyday life. The Central Bank's Financial Literacy Roadmap points out that this requires a multi-dimensional approach—one that reaches diverse groups, encourages regular practice, and sustains long-term engagement.

A key element of this approach is the use of multiple communication channels. Social media, radio, banks, workplaces, and community workshops all play a vital role in delivering financial messages that are accessible and consistent. By spreading information through various platforms, financial education becomes easier to reach for entrepreneurs in both urban and rural areas.

To make financial learning truly effective, it must also be integrated into daily routines. Tools such as budgeting templates, expense trackers, and simple bookkeeping applications help SME owners apply what they learn in real time. This repeated practice transforms theoretical knowledge into practical behaviour, strengthening financial discipline and confidence.

However, learning can only take root if resources are user-friendly. Clear language, practical examples, visuals, and short video explainers help simplify complex financial concepts, making them understandable for entrepreneurs with varying levels of education and digital familiarity. When resources are easy to use, individuals are more likely to engage and apply what they learn.

Sustaining long-term engagement is equally important. Awareness campaigns, public-private partnerships, and community-driven initiatives ensure that financial learning does not fade over time. Continuous exposure reinforces good habits, gradually building a financially confident SME ecosystem. Finally, building the next generation of entrepreneurs requires financial education to begin early. Teaching young people how to manage money, budget, save, use credit responsibly, and invest wisely instills lifelong financial habits. These early skills strengthen households, cultivate independence, and lay the foundation for a future workforce capable of driving innovation and contributing to Sri Lanka's long-term economic development.

Conclusion

Financial literacy is more than just a toolkit for individual entrepreneurs; it is a national catalyst for SME growth, resilience, and innovation. As Sri Lanka rebuilds and modernizes its economy, enhancing financial capability becomes essential. When knowledge transforms into action, and action results in disciplined financial behavior, SMEs thrive. If Sri Lanka can make financial literacy practical, accessible, and an integral part of daily life, the SME sector will evolve into a more competitive, resilient, and future-ready engine of economic growth.

References:

- <https://www.adb.org/sites/default/files/publication/408131/swp-054-sme-venture-capital-sri-lanka.pdf>
- <https://www.srilankabusiness.com/blog/role-of-smes-sri-lanka.html>
- Central Bank of Sri Lanka (CBSL). (2021). *Financial Inclusion Survey 2021*. Retrieved from CBSL Publications.
- Central Bank of Sri Lanka (CBSL). (2023). *Financial Literacy Roadmap for Sri Lanka*. Monetary Policy & Financial Inclusion Department.
- Chandrasena, A., Wijesinghe, C., & Perera, P. (2025). Digital financial literacy and FinTech adoption among SMEs in Sri Lanka. *Sri Lanka Journal of Management Studies*, 14(1), 44–62.
- Export Development Board (EDB). (2021). *SME Classification in Sri Lanka*. Sri Lanka Export Development Board.
- Frost, J. (2020). The economic forces driving FinTech adoption. *Bank for International Settlements (BIS) Working Paper*, No. 865.
- Buckley, R., & Webster, S. (2016). FinTech, regulation, and financial inclusion: An Asian perspective. *Asian Journal of Comparative Law*, 11(1), 1–25.
- International Finance Corporation (IFC). (2021). *Sri Lanka: Financial Inclusion and Digital Financial Services Diagnostic*. World Bank Group.
- Jayasiri, N., Weerahewa, J., & Knight-John, M. (2015). Constraints to SME development in Sri Lanka: Access to finance. *South Asia Economic Journal*, 16(1), 93–108.
- Ministry of Finance – Government of Sri Lanka. (2015). *National Policy Framework for Small and Medium Enterprises (SME Sector) Development*.
- Osabutey, E. (2020). Regulatory quality, FinTech adoption, and SME competitiveness. *Journal of Small Business and Enterprise Development*, 27(7), 1129–1148.
- Shaikh, A., Glavee-Geo, R., & Karjaluoto, H. (2023). Uncertain regulatory environments and digital financial services adoption. *Technological Forecasting and Social Change*, 190, 122367.
- World Bank Group (2020). *Improving Access to Finance for SMEs in South Asia*. Washington, DC.



Financial Literacy and Strategic HR Decision-Making in SMEs

How HR managers strengthen the workforce through Financial Literacy



Dinusha Dissanayake

MAAT, BBA Spc in HRM, Post Graduate Dip in Psychology, Masters in HRM, ACMA, ACPM, CIPM,

1. Introduction

Small and Medium Enterprises (SMEs) are frequently considered as the heart of economic development, innovation and creating job opportunities. However, many SMEs are functioning under the limited resources including the human resources. In this regard, financial literacy among HR managers becomes vital for utilize the available limited human resources to the maximum level. When HR professionals understand financial principles, they can align human resource strategies with corporate goals which ensuring that those decisions directly enhance the financial stability and sustainability. HR professionals with financial literacy are capable of making more informed and tactical decisions that influence the long-term sustainability of SMEs.

2. Understanding Financial Literacy in the HR Context

Financial literacy refers to the ability to interpret financial data, understand cost structures and use financial knowledge in decision-making. For the HR professionals, this literacy extends beyond managing payroll or employee benefits. Moreover, understanding how labor costs, employee productivity and human resource investments affect overall profitability. A human resources manager with financial literacy can analyze financial statements, managing budgets efficiently, and engage in data-driven decisions about HR costs and the returns on investments in talent.

3. The Importance of Financial Literacy for Human Resource Managers

In today's complex business world, the duties of human resource (HR) managers extend far beyond hiring, training, and employee relations. HR specialists are increasingly expected to play the role of strategic partners who help businesses grow and survive. Financial literacy is a critical skill that has become increasingly important to fulfill this enlarged function.

- **Linking People Strategies to Business Goals**

HR managers who are financially literate may successfully connect HR activities to business results. An HR manager who is knowledgeable about finance, for instance, can make a business case for a new employee development program that shows how the investment would lower attrition, boost productivity, or boost profitability. HR may obtain support for strategic objectives and establish trust with CEOs by being financially knowledgeable.

- **Enhancing Budget Management and Cost Control**

HR departments frequently oversee sizable budgets that salaries, benefits, recruitment costs, and training programs. HR managers may more effectively allocate resources, predict labor expenses, and find possible cost savings without sacrificing employee happiness when they are financially literate. Understanding financial reports further allows HR professionals to evaluate the efficiency of policies such as recruitment, payroll, information system management, Training and development or flexible benefits packages.

- **Strengthening Compensation and Benefits Strategies**

Compensation and benefits are One of the biggest costs for every organization. HR managers with financial literacy can properly analyze the data available in the HR Department, benchmark salaries, and design equitable cost-effective reward systems. Additionally, they are able to explain financial data available within the department in a clear and reasonable manner, which increases employee trust and retention.

- **Supporting Strategic Decision-Making**

Now we are passing the era of data-driven decision making. HR managers who are familiar with financial indicators might take a more active role in corporate planning in a time when data-driven decisions are applicable. They can properly interpret financial statements to understand the real requirement of the organization. Further, make well-informed decisions about workforce planning, forecast how market developments will impact labor costs, and read financial data to understand the company's health.



- **Navigating Economic Challenges**

During economic crisis or organizational restructuring, HR managers can make better decisions about cost reduction, layoffs, or workforce optimization. They can evaluate how financial pressures translate into HR

implications and assist in creating long-term solutions that safeguard the company's finances and employees.

- **Promoting Financial Well-Being Among Employees**

Financial literacy drives to establish Employee wellbeing. HR managers who are knowledgeable in financial concepts develop proper programs to promote employees' financial well-being such as retirement planning, training workshops, savings and debt management. These programs improve worker morale, overall productivity and retention.

4. The tasks a financially literate human resources manager can successfully perform.

1. Workforce Planning

Workforce planning includes forecasting future staffing needs and ensuring the organization has the right people with the right skills at the right time. Without having financial literacy if HR managers involve in hiring or training people which wasting budgets or fail to meet adequate returns.

- **Budget Forecasting:** Financially literate HR managers use financial forecasts and cost-benefit analyses to plan human resource programs within the realistic budget limits.
- **Cost benefits Assessment:** Understanding how human resource costs and investment for people yields revenue enhancements.
- **Scenario Planning:** HR managers with financial knowledge can analyze different workforce scenarios like investments in digitalization, part time workers or hybrid staffing.

2. Formed Compensation Strategies

compensation, which frequently accounts for 40–60% of overall operating costs of any organization. HR knowledge and financial literacy are both necessary for creating pay systems that are both sustainable and successful.

- **Equitable and Sustainable Pay Structures:** HR managers who are financially literate can strike a balance between fiscal pay and fairness, making sure that benefits, incentives, and pay increases employee well-being without sacrificing profitability.
- **Performance-Based Rewards:** Employee motivation and corporate goals can be more closely aligned when pay is tied up with quantifiable business performance. HR managers can create incentive programs linked with financial indicators like profit margins, revenue per employee etc.

3. Enhancing HR Effectiveness Through Financial Insight

Financial literacy increases HR effectiveness by allowing evidence-based decision-making. This skill enhances communication with executives, strengthens cooperation between HR and finance department and presents HR as a strategic business partner rather than a cost center.

- **Data Driven Decision-Making:** HR leaders with financially literate depend on metrics such as cost per hire, turnover costs, and training ROI to evaluate HR initiatives objectively.
- **Strategic Alignment:** HR policies with financial nature are more likely to support business strategies and ensure the best return from the employees.
- **Sustainability and Risk Management:** Understanding financial implications allows HR managers to minimize the risks such as excess labor costs, noncompliance fines, or high turnover expenses.

5. Financial literacy of HR managers on SME Sustainability

HR managers who were having financial literacy directly contribute to organizational sustainability through minimizing labor costs, effective resource allocation and increase the profitability of the organization. Moreover, they connect human resource metrics with the financial outcomes which enhance sustainability. In SMEs, every decision matters. HR managers that are financially literate maximize labor expenses, enhance resource allocation, and increase profitability, all of which directly support the sustainability.

6. Conclusion

Financial literacy is now considering as the key skill which should have for every functional manager to drive their organizational vision forward. HR professionals may connect with CEOs more effectively, make better decisions, and show the quantifiable effects of HR efforts on corporate success by having a solid understanding of financial fundamentals. Basically, financial literacy enables HR managers to close the gap between profit and people, assisting businesses in achieving long-term success. SMEs cannot separate human resource management from financial management. Financial literacy is becoming a strategic requirement for HR professionals rather than an option. Knowing the financial implications of their decisions helps HR managers make better judgments in organizational development, compensation design, and workforce planning. This combination of financial and human capital strategies not only strengthens HR's strategic position but also supports the long-term viability of SMEs.

References

- Wright, P. M., & McMahan, G. C. (1992). Theoretical perspectives for strategic human resource management. *Journal of Management*, 18(2), 295–320.
- Boxall, P., & Purcell, J. (2016). *Strategy and human resource management* (4th ed.). Palgrave Macmillan.
- Harney, B. (2022). Advancing understanding of human resource management in small and growing firms: The RECIPE framework and implications for practice. *International Journal of Human Resource Management*, 33(xx), 1–26. (Review article outlining SME-specific HRM characteristics.)
- Chali, B. D., & Lakatos, V. (2024). The impact of human resource management on financial performance: A systematic review in cooperative enterprises. *Journal of Risk and Financial Management*, 17(10), 439. <https://doi.org/10.3390/jrfm17100439>
- Molina-Abril, G., et al. (2025). Strategic decision-making in SMEs: A review of heuristics, metaheuristics and hybrid approaches. *Algorithms (MDPI)*, 13(7), Article 173. <https://doi.org/10.3390/algorithms13070173>
- Abdallah, W. (2024). Financial literacy and small and medium enterprises: Evidence and implications for policy and practice. *Journal of Financial Reporting & Accounting*, 23(4), 1345–1368. (Emerald publication — empirical review.)
- World Bank. (2019). *Small and medium enterprise finance: Improving access to finance for SMEs around the world* (World Bank Policy Brief). World Bank Publications.
- Abdullahi, A., & Smith, J. (2021). Financial literacy, access to finance and SMEs' growth: Evidence from developing economies. *Small Business Economics*, 57(3), 933–953. <https://doi.org/10.1007/s11187-020-00355-4>
- Haruna, S., & Nurmiati, N. (2023). Financial literacy-based HRM: Optimizing human resource capabilities to improve SME financial outcomes. *Journal of Applied Management and Finance*, 9(2), 45–62.
- Saleh Zadeh, R., & colleagues. (2024). Decision making in human resource management: Applications of AHP, FAHP and ANP. *Frontiers in Psychology*, 15, Article 1400772. <https://doi.org/10.3389/fpsyg.2024.1400772>
- Ibrahim, M., & Riyath, M. I. M. (2025). The effect of owner-manager financial literacy on SME firm performance: Evidence from Sri Lanka. *International Journal of Accounting and Business Finance*, 12(1), 1–19. (Working paper / journal article; recent empirical study.)
- Kalapriya, K. (2024). Impact of financial literacy on financial decision-making among MSME entrepreneurs: Evidence from Sri Lanka. *Asian Journal of Management Studies*, 11(4), 77–96.
- Osei, K., & Mensah, P. (2022). Strategic human resource management and SME performance: The mediating role of employee competence and financial management practices. *Journal of Small Business Management*, 60(S1), 120–145.
- Nguyen, T., & Pham, L. (2020). Financial knowledge, budgeting practices and performance of micro and small enterprises. *Journal of Small Business & Enterprise Development*, 27(4), 577–596. <https://doi.org/10.1108/JSBED-10-2019-0324>
- Muhammad, S., & Khan, A. (2023). Enhancing SME business savings through HR practices and financial education: An empirical analysis. *International Journal of Management*, 44(3), 210–232.
- Belz, C., & Binder, C. (2018). Strategic HRM in entrepreneurial firms: How HR choices shape financial resilience. *Journal of Business Venturing Insights*, 9, e00123.
- European Commission. (2021). *Promoting financial literacy among SMEs: Practical toolkits and case studies*. Publications Office of the European Union.
- Beattie, J., McInnes, P., & Smith, R. (2019). Human capital, financial literacy and SME access to finance: A longitudinal study. *Small Enterprise Research*, 26(2), 123–142.
- Ratten, V., & Jones, P. (2020). Strategic decision-making and entrepreneurial orientation in SMEs: Implications for HR and financial practices. *International Small Business Journal*, 38(7), 585–603.



THE UNTAPPED POWER OF FINANCIAL LITERACY IN SMALL AND MEDIUM SIZED ENTERPRISES (SMEs) GROWTH

Introduction to the SMEs

Small and medium Enterprises are the backbone of the global economy as 95% of the companies across the globe are micro, small or medium enterprises and, they provide 60% of the world's total employment according to the Worlds Trade Organization reports and in Sri Lanka SMEs contributes 52% to the GDP, 45% to the employment and 20% to exports according to the Final budget position report issued by Ministry of Finance, Planning and Economic Development. Beyond the numbers SMEs driven innovations, regional development, and social inclusion. Their ability to adapt quickly to changing market conditions makes them essential drivers of economic recovery and resilience.

Despite all the remarkable statistical data and importance, SMEs struggle with sustainability and growth due to poor financial literacy, which affects operational efficiency and growth prospects. A study by the Asian Development bank (2022) found that nearly 60% of SMEs in South Asia fail within the first five years not due to lack of demand but due to weak financial discipline and poor planning.



Chamoda Nethmini
Accounts Executive -
Lanka Commodity Brokers Limited,
MAAT, CA Statergic Level

What is financial literacy and why is it important to SMEs?

Financial literacy is defined as the combination of knowledge, attitudes, and behavior necessary to make informed financial decisions and achieve financial wellbeing. As per the survey conducted with a nationally representative sample of 4,800 household members aged 18 and above by CBSL and IFC, the summary of financial literacy skills is as follows.

| Component | Max. Possible Score | Avg. Achieved Score | Minimum Target Score |
|--|---------------------|---------------------|----------------------|
| Financial Knowledge (1) | 07 | 5.03 | 5 |
| Financial Attitude (2) | 05 | 2.65 | 3 |
| Financial Behavior (3) | 09 | 4.44 | 6 |
| Overall Financial Literacy Score (1+2+3) | 21 | 12.12 | 14 |

Table 1: Summary of Financial Literacy Scores

According to this there are lapse in translating the financial knowledge of the Sri Lankans into positive financial behavior and attitude. In the Sri Lankan SME landscape, decisions are often influenced by emotions, cultural beliefs, individual experiences, and cognitive biases. This is where behavioral finance becomes an essential lens for understanding why SMEs sometimes struggle with financial discipline, capital allocation, and long-term planning. In most cases many SMEs are family run businesses relying on intuition rather than structured financial planning or financial knowledge. When economy negatively hits, this business often underperforms or crashes because of their lack of knowledge to navigate financial turbulence. In such cases they mismanage debts, overlook tax obligations, and try to survive without any structured plan in their mind.

In today's volatile economy, financial literacy is no longer a classroom skill. In the digital age every system runs on an invisible code like a set of commands that determines how efficiently it functions. Financial literacy empowers entrepreneurs to make strategic choices that enhance profitability and growth and ensure long-term sustainability. Without the proper financial literacy even the most promising business ideas can freeze or crash under pressure.

Financial literacy therefore becomes the most important thing that keeps those enterprises thriving. It translates ambitions into actions and turning raw ideas into sustainable enterprises.

If financial literacy is so crucial, why are many SMEs still struggling?

Many SME owners have limited formal education and rely on informal knowledge passed through family and peers. In some communities discussing finances are considered private and that reduces transparency and learning. Rural SMEs often lack access to training or digital tools for financial education. Many small businesses prioritize survival over strategic learning. As a result, they remain trapped in short term cycles of borrowing and repayment, without mastering the financial tools that could free them.

| Area | Financial Knowledge Score | Financial Attitude Score | Financial Behavior Score | Overall Financial Literacy Score |
|-------|---------------------------|--------------------------|--------------------------|----------------------------------|
| Urban | 5.12 | 2.52 | 4.54 | 12.18 |
| Rural | 5.01 | 2.68 | 4.42 | 12.10 |

Table 2: Financial Literacy among Urban and Rural Population

The survey findings suggested a slight gap between urban and rural individuals. Overall financial literacy levels among urban residents were higher than those of rural Sri Lankan residents.

| Usage | Financial Knowledge Score | Financial Attitude Score | Financial Behavior Score | Overall Financial Literacy Score |
|-------|---------------------------|--------------------------|--------------------------|----------------------------------|
| Yes | 5.34 | 2.75 | 4.95 | 13.04 |
| No | 4.64 | 2.53 | 3.81 | 10.98 |

Table 3: Digital Usage and Financial Literacy

Individuals who use digital transaction tools such as debit or credit cards, internet, or mobile banking, QR codes, or mobile money accounts are considered digitally literate. The findings revealed that digital usage positively correlates with higher financial literacy.

Financing and non-financing support provided for SMEs in Sri Lanka

Most funding requirements of the SMEs were financed through the loan schemes implemented by the commercial and specialized banks utilizing their funds. According to the final budget position report issued by Ministry of Finance, Planning and Economic Development Sri Lanka, approximately Rs. 1,090,161 Mn worth of loans were granted through their loan scheme to fulfill their financial needs.

| Name of Participating Financial Institutions(PFI) | Agriculture | | Services | | Industries | | Other | | Total | |
|---|---------------|--------------------------|---------------|--------------------------|---------------|--------------------------|---------------|--------------------------|----------------|--------------------------|
| | Number | Amount Rs. Million | Number | Amount Rs. Million | Number | Amount Rs. Million | Number | Amount Rs. Million | Number | Amount Rs. Million |
| Bank of Ceylon(BOC) | 3,968 | 39,092 | 1,307 | 4,187 | 3,658 | 22,153 | 3,162 | 15,621 | 12,095 | 81,053 |
| People's Bank(PB) | 484 | 2,307 | 596 | 3,147 | 6,593 | 31,200 | 1,086 | 4,187 | 8,759 | 40,841 |
| Regional Development Bank(RDB) | 7,215 | 8,585 | 5,212 | 9,094 | 5,266 | 9,036 | 923 | 3,002 | 18,616 | 29,716 |
| Sanasa Development Bank Ltd.(SDB) | 1,365 | 3,135 | 347 | 1,288 | 957 | 2,865 | 1,247 | 3,258 | 3,916 | 10,545 |
| State Mortgage and Investment Bank(SMIB) | 13 | 42 | 0 | 0 | 7 | 38 | 14 | 365 | 34 | 445 |
| National Development Bank PLC(NDB) | 494 | 540 | 488 | 1,132 | 1,738 | 3,484 | 13,786 | 9,462 | 16,506 | 14,618 |
| DFCC Bank Ltd. | 3,569 | 8,271 | 235 | 3,144 | 1,508 | 11,580 | 3,776 | 31,366 | 9,088 | 54,362 |
| Commercial Bank of Ceylon PLC | 2,085 | 33,499 | 2,314 | 27,455 | 26,705 | 266,853 | 374 | 3,139 | 31,478 | 330,945 |
| Sampath Bank Ltd. | 647 | 4,460 | 1,470 | 24,847 | 10,336 | 77,949 | 719 | 2,850 | 13,172 | 110,107 |
| Seylan Bank PLC | 1,510 | 25,756 | 2,123 | 16,445 | 4,591 | 53,774 | 6,101 | 56,395 | 14,325 | 152,370 |
| Hatton National Bank PLC(HNB) | 2,919 | 15,412 | 3,419 | 21,135 | 5,735 | 45,915 | 15,484 | 90,580 | 27,557 | 173,042 |
| Nations Trust Bank PLC(NTB) | 355 | 3,965 | 920 | 7,259 | 1,072 | 11,458 | 52 | 3,231 | 2,399 | 25,913 |
| Standard Chartered Bank | 0 | 0 | 29 | 1,436 | 282 | 10,557 | 64 | 149 | 375 | 12,142 |
| Pan Asia Banking Corporation PLC | 103 | 1,543 | 293 | 4,691 | 1,028 | 8,383 | 567 | 7,994 | 1,991 | 22,611 |
| Union Bank of Colombo Ltd. | 150 | 1,033 | 286 | 12,200 | 67 | 1,584 | 2,266 | 14,305 | 2,769 | 29,122 |
| Cargills Bank | 13 | 221 | 32 | 537 | 84 | 802 | 70 | 769 | 199 | 2,329 |
| Total | 24,890 | 147,861 | 19,071 | 137,996 | 69,627 | 557,632 | 49,691 | 246,673 | 163,279 | 1,090,161 |

Source: Respective Banks

Table 4: Loan Distributed by Commercial and Specialized Banks to SMEs 2024

In addition to the financial support National Credit Guarantee Institution Limited aims to facilitate access to finance for underserved businesses by providing credit guarantees to bank loans issued by shareholder financial institutions.

In collaborate with AAT Sri Lanka, the SME Task Force of CA Sri Lanka in 2022 December organized regional events at the district secretariats Colombo, Galle and Kandy to mark the Global Entrepreneurship Week and during these events they conduct an educational event on the importance of the small business governance financial literacy and other important factors. In addition to that task force launched a booklet of "Small Business Finance Literacy and Business Management Advisory Book."

The role of Institutions of Technology

Government can integrate financial literacy into national education and SMEs development programs. Banks can simplify language, create user friendly digital platforms, and offer advisory services. Mobile banking, digital bookkeeping, platforms like quick book can teach financial management. The future of financial literacy is digital. When knowledge meets technology, SMEs evolve from reactive learners to real time decision makers.

Financial literacy is not a luxury skill for entrepreneurs. It is operating system that keeps SMEs alive and ready for the future. An economy performs only its people understand finance. To unlock the next era of inclusive prosperity, we must ensure that every SMEs from the smallest village bakery to the largest tech setup is powered by the latest version of that especial program.

Global Financial Education Program for SMEs

In Kenya, SMEs make up to 98% of all businesses and employ 80% of the workforce. Despite their reach SME contributes only about 40% to GDP revealing a lapse between their potential and actual impact.

Over the years through the Enterprise Development and Financial Inclusion pillar Equity Group Foundation has trained 2.49 million women and youth in financial literacy. They trained and mentored 658,458 SMEs in entrepreneurship and catalyzed the creation of over 2.1 million jobs. The results are visible. According to the 2024 Fin Access Household Survey, formal financial access rose to 84.8%, up from 83.7% in 2021 while financial exclusion declined to 9.9%.

Conclusion

A finance literate entrepreneur is more confident, independent, and visionary. They can articulate their worth, negotiate better deals and inspire others. After learning about cost accounting, profit margins and online payment systems and even digital platforms they can start selling their product and within a year they can triple their income not because they changed their market products but because they change their financial mindset. The illustration that financial literacy can be transformative gender gaps, reduce poverty and strengthen communities. When SME understands money, they control their destiny rather than being controlled by it. To embed financial literacy as a national capability, all sectors must collaborate. Empowering entrepreneurs with financial knowledge is not simply good for business, it is good for society.

References

- i. Ministry of Finance, Government of Sri Lanka. (2024). *Performance report, Ministry of Finance*. Annual Reports. Retrieved from <https://www.treasury.gov.lk/web/annual-reports/section/2024>
- ii. Equity Bank Limited. (n.d.). *Financial & Business Literacy: The Game-Changer for Kenya's MSME Growth*. LinkedIn. Retrieved [14.11.2025], from <https://www.linkedin.com/pulse/financial-business-literacy-game-changer-kenyas-msme-8jjuf>
- iii. Central Bank of Sri Lanka (CBSL). (2021). *Financial Literacy Survey Sri Lanka 2021*. Retrieved from https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/financial_literacy_servey_sri_lanka_2021_e.pdf
- iv. Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). (n.d.). *CA Sri Lanka SME Task Force continue to uplift financial literacy among micro and small businesses*. Retrieved [14.11.2025], from https://www.casrilanka.com/casl/index.php?option=com_content&view=article&id=3781%3Aca-sri-lanka-sme-task-force-continue-to-uplift-financial-literacy-among-micro-and-small-businesses&catid=50%3Ageneral&Itemid=156&lang=en
- v. Central Bank of Sri Lanka (CBSL). (2024). *Financial Literacy Roadmap of Sri Lanka (2024-2028)*. Retrieved from https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/otherpub/financial_literacy_roadmap_of_sri_lanka_e.pdf
- vi. EconomyNext. (n.d.). *How CBSL is changing the retail SME sector in Sri Lanka*. Retrieved [date you accessed], from https://economynext.com/brand_voice/how-cbl-is-changing-the-retail-sme-sector-in-sri-lanka/





Financial Literacy A Catalyst for SME Growth



Duminda Helassage
MAAT, MBA (UK), B.B. Mgt (UoK),
CBA, ACPM
Senior Internal Audit Executive-Alaris
Group of Companies

Introduction

1. Financial Literacy and the SME Growth Imperative

1.1 Overview of the SME Sector and Its Role in Economic Development

Small and Medium Enterprises (SMEs) are the backbone of economies, in developing markets, driving growth, employment, innovation, and poverty reduction. Operating across manufacturing, trade, agriculture, services, and technology, they support formal and informal activity. SMEs create jobs for youth and women, promote entrepreneurship, strengthen supply chains, and foster regional development while reducing dependence on corporations. They boost national income through taxes and exports and adapt to market changes, supporting resilience. However, finance, weak management, and low financial literacy hinder sustainable growth. Strengthening financial knowledge and management practices helps build competitive, scalable, and sustainable SMEs contributing to long-term economic development future (Beck and Demirgüç-Kunt, 2006)

1.2 Financial Literacy in the Context of Business Management

In business management, financial literacy is the ability of entrepreneurs to understand and use financial information for informed decisions that improve efficiency, profitability, and sustainability. It includes knowledge of accounting, budgeting, cash flow, planning, cost control, and interpreting financial statements. For SMEs, it involves strategic application to plan, monitor, and control operations. Financially literate owners assess financial health, manage risks, allocate resources wisely, and align decisions with long-term goals, enabling evidence-based rather than intuition-driven management (OECD, 2018).

1.3 The Relationship Between Financial Competence and Business Longevity

Financial competence is vital for SME survival, enabling them to withstand fluctuations, manage cash flow, forecast income and expenses, maintain liquidity, and control costs, reducing insolvency risks. Competent owners identify opportunities, manage debt, reinvest, and build credibility with banks, investors, and suppliers through reporting, improving access to credit and partnerships. Conversely, weak financial understanding leads to poor planning, uncontrolled spending, pricing errors, and mismanagement, causing failure. Thus, competence promotes stability, growth, risk control, and sustainability.

2. The SME Landscape and Financial Realities

2.1 Overview of SMEs in Developing and Emerging Economies

SMEs are vital to developing and emerging economies, forming most registered businesses and the largest employment source for youth, women, and low-income groups. They reduce unemployment and promote entrepreneurship and self-reliance. SMEs contribute significantly to GDP through production, trade, and services in sectors such as agriculture, manufacturing, retail, construction, and technology. Their wide presence stimulates economic activity, strengthens national income, broadens the tax base, increases exports, and enhances fiscal stability and economic resilience.

SMEs drive grassroots innovation through flexibility and local market insight, enabling tailored products, new technologies, creative business models, and cost-effective production. They stimulate local economic development by revitalizing rural and semi-urban areas, supporting supply chains, and generating regional income. SMEs create demand for local resources, promote trade, and foster balanced growth. By generating jobs and entrepreneurship, they empower communities, reduce income inequality, and support inclusive, sustainable economic development, making them essential to long-term progress.

2.2 Common Financial Challenges Facing SMEs

● Poor Cash Flow Management

Cash flow mismanagement remains one of the leading causes of SME failure. Many small businesses struggle to balance incoming and outgoing funds, often due to delayed customer payments, excessive operational expenses, or lack of cash flow monitoring. Without a clear understanding of cash flow cycles, SMEs may face liquidity shortages that hinder their ability to pay suppliers, employees, and other obligations, even when the business appears profitable on paper (ACCA, 2019).

● Inadequate Bookkeeping Systems

Many SMEs operate with weak or informal record-keeping practices, such as manual logs or incomplete documentation of financial transactions. This lack of accurate and timely financial records limits transparency, reduces accountability, and makes it difficult for business owners to assess true financial performance. Inadequate bookkeeping also affects compliance with tax regulations and challenges credibility with financial institutions.

● Weak Financial Planning and Forecasting

SMEs often fail to engage in structured financial planning and realistic forecasting, relying instead on short-term intuition rather than reactive decision-making. This results in poor budget allocation, inability to anticipate future expenses, and lack of preparedness for growth opportunities as well as downturn. Weak forecasting reduces strategic foresight and increases the risk of financial instability.

● High Dependency on Short-Term Financing

Many SMEs rely heavily on short-term loans, overdrafts, informal borrowing to fund daily operations. While this may provide quick relief, it often leads to high interest costs and debt cycles that strain cash flow. This dependency limits long-term investment capacity and exposes businesses to repayment pressures that can impede sustainable growth.

3. Financial Literacy for Business Owners

3.1. Difference Between Personal and Business Financial Literacy

Personal financial literacy manages individual income, expenses, savings, investments, and debt for stability and long-term security, including budgeting, savings, credit, and retirement planning. Business financial literacy, however, involves skills to run an enterprise effectively, such as understanding revenue, costs, profit margins, cash flow, taxation, reporting, and financing. While personal literacy supports individual well-being, business literacy ensures profitability, compliance, efficiency, and sustainable growth. Confusing both often leads SMEs to mix funds, distort records, and weaken performance (Atrill, 2020).

3.2 Core Competencies for SME Owners

Financially literate SME owners have essential skills for informed decision-making, including preparing and interpreting financial statements, budgeting, managing working capital, and understanding costs and pricing. Core competencies also involve cash flow forecasting, break-even analysis, risk assessment, credit control, and investment evaluation. These skills enable owners to guide strategic planning, control spending, measure performance, and ensure regulatory compliance. Such competencies shift owners from reactive to proactive managers, supporting long-term stability, efficiency, and sustainable business growth.

3.3 Essential Financial Knowledge Areas

● Understanding Income and Expenditure

An understanding of income and expenditure forms the foundation of effective financial management. Income represents the revenue generated from sales and business activities, while expenditure includes all costs and expenses incurred in operations. SME owners must be able to track categories and analyze these elements to determine whether the business is operating at a surplus or deficit. Proper control of expenditure ensures that costs do not exceed revenue, supporting sustainable profitability.

● Profitability vs Liquidity

Profitability refers to a business's ability to generate profit after covering all expenses, while liquidity indicates the ability to meet short-term financial obligations. An SME can be profitable on paper but still face cash flow shortages if funds are tied up in receivables or inventory. Understanding this distinction helps business owners balance earning profits with maintaining sufficient cash to sustain daily operations.

● Working Capital Management

Working capital management involves efficiently managing current assets and liabilities to ensure smooth day-to-day operations. It includes controlling inventory, managing receivables and payables, and ensuring adequate cash reserves. Effective working capital management allows SMEs to maintain operational continuity, meet obligations on time, and avoid unnecessary borrowing.

● Break-Even Analysis

Break-even analysis determines the level of sales required to cover total costs, at which point the business neither makes a profit nor a loss. This tool helps SME owners identify the minimum performance level needed to remain viable. It is essential for pricing decisions, cost control, and evaluating the feasibility of new ventures or product lines.

● Cost Structures and Pricing Models

Understanding cost structures involves identifying fixed and variable costs connected with producing goods or delivering services. This knowledge enables SMEs to develop effective pricing models that cover costs while ensuring competitive margins. Proper pricing based on cost analysis helps maintain profitability, prevent underpricing, and supports strategic positioning in the market.

4. Financial Literacy for Business Owners- Key Components of Financial Literacy in SME Operations

Key components of financial literacy in SME operations include budgeting and financial planning, which guide resource allocation and support strategic growth, record keeping and accounting practices that ensure accurate tracking of financial activities and compliance, effective cash flow management to maintain sufficient liquidity

for daily operations and prevent financial distress, and financial statement interpretation, which enables owners to assess business performance and make informed decisions. Together, these elements strengthen financial control, enhance transparency, improve decision-making, and promote sustainable business growth and long-term stability (ACCA, 2019).

5. Financial Literacy as a Driver of Business Growth

Financial literacy acts as a powerful driver of business growth by improving decision-making through data-driven insights, efficient resource allocation, and risk-informed investments. It enhances profitability and cost control by enabling SMEs to identify waste and operational inefficiencies, apply pricing strategies based on accurate cost analysis, and optimize profit margins.

Furthermore, financial competence supports strategic expansion and scaling by guiding planning for growth opportunities, applying sound investment evaluation techniques, and adopting sustainable expansion models that balance risk with return, ensuring long-term stability, competitiveness, and consistent value creation.

6. Technology and Digital Financial Management

Technology and digital financial management play a dynamic role in strengthening SME financial literacy through the adoption of Financial Technology (FinTech) such as accounting software solutions, mobile payment systems, and digital invoicing with point-of-sale systems that streamline financial processes.

These digital tools offer significant benefits, including real-time financial reporting that supports timely decision-making, enhanced accuracy and operational efficiency through automated processes, and reduced operational costs by minimizing manual errors and administrative workload. Together, these innovations empower SMEs to maintain stronger financial control, improve transparency, and support sustainable business growth.

7. Barriers to Financial Literacy in SMEs

Barriers to financial literacy among SMEs often stem from limited formal education, which restricts owners' understanding of essential financial concepts. This is further compounded by fear and misunderstanding of accounting terminology, causing avoidance of proper financial management practices. Many entrepreneurs also face a lack of time for capacity building due to operational pressures and daily workload. Cultural perceptions of accounting as complex or only necessary for large businesses discourage its adoption, while the perceived high cost of professional financial services limits access to expert support, weakening financial competence and business sustainability (OECD, 2017).

8. Strategies to Strengthen Financial Literacy Among SMEs

Strengthening financial literacy among SMEs requires a structured and collaborative approach that integrates financial education into entrepreneurship training programs to build foundational knowledge. Strategic partnerships with educational institutions can enhance access to expert guidance and practical learning resources. Mentorship programs provide personalized support, allowing business owners to apply financial concepts in real business situations. Simplified training modules ensure complex financial concepts are more easily understood and accessible, while continuous professional development workshops promote ongoing learning and skills enhancement, enabling SMEs to adapt to evolving financial challenges and improve overall business performance (IFC, 2020).

9. Conclusion

Financial literacy stands as a strategic growth tool that empowers SMEs to make informed decisions, manage resources efficiently, improve profitability, and achieve sustainable expansion. This article has highlighted how sound financial knowledge enhances business performance, strengthens resilience, and addresses key challenges such as poor cash flow, weak planning, and limited access to finance. Reinforcing financial literacy as essential for long-term growth is vital for SME stability and competitiveness. SME owners must prioritize financial learning, while policymakers and stakeholders should support accessible training, supportive policies, and capacity-building initiatives to cultivate financially resilient and growth-oriented enterprises.

Referencing List

- ACCA (2019) *Financial Management and SMEs Performance*. London: Association of Chartered Certified Accountants.
- Atrill, P. (2020) *Financial Management for Decision Makers*. 8th ed. Harlow: Pearson Education.
- Beck, T. and Demirgüç-Kunt, A. (2006) 'Small and Medium-Size Enterprises: Access to Finance as a Growth Constraint', *Journal of Banking & Finance*, 30(11), pp. 2931–2943.
- IFC (2020) *SME Finance: Developing Financial Skills for Sustainable Growth*. Washington DC: International Finance Corporation.
- Lusardi, A. and Mitchell, O.S. (2014) 'The Economic Importance of Financial Literacy', *Journal of Economic Literature*, 52(1), pp. 5–44.
- OECD (2017) *Improving Financial Literacy among Entrepreneurs*. Paris: OECD Publishing.
- OECD (2018) *OECD/INFE Toolkit for Measuring Financial Literacy and Financial Inclusion*. Paris: OECD.
- Smallbone, D. and Welter, F. (2019) *Entrepreneurship and SME Development in Transition Economies*. London: Routledge.
- World Bank (2020) *Small and Medium Enterprises (SMEs) Finance: Improving SMEs' Access to Finance*. Washington DC: World Bank Group.
- World Bank (2021) *Digital Financial Services for Small Businesses*. Washington DC: World Bank Group.





BUSINESS SCHOOL

Higher Diploma in ACCOUNTING & FINANCE

The only higher diploma in Accounting & Finance Qualification with National Vocational Qualification (NVQ) Level 6



Final Year of UGC Recognized Degree
Complete in 1 year.

Higher Diploma in Accounting & Finance
Complete in 1 year. **NVQ LEVEL 6**

AAT Passed Finalist/ Member
After completing all 3 levels of AAT.

Commencing: October 2026

CONTACT US:

Call - 011 2 559 670

Whatsapp - 076 8 241 162

OTHER PROGRAMMES AT AAT BUSINESS SCHOOL

- 48 Hours** **Microsoft Office Application**
Saturday / Thursday 9.00 am - 12.00 noon
Commencing every month
- 36 Hours** **Computerized Accounting for SMEs**
Sunday / Tuesday 9.00 am - 12.00 noon
Commencing every month
- 10 Hours** **Advanced MS Excel for Data Analysis**
Tue 7.00 pm - 9.00 pm and Sat 6.00 pm - 9.00 pm
Commencing every month
- 48 Hours** **Diploma in Digital Accounting**
Saturday, 1.30 pm - 4.30 pm
Commencing every month
- 48 Hours** **Certificate course in Taxation**
Sunday, 9.00 am - 1.00 pm
Commencing every 3 months
- 96 Hours** **Diploma in Applied Taxation**
Saturday, 1.00 pm - 5.00 pm
Commencing every 6 months
- 96 Hours** **Diploma in Business Analytics**
Sunday, 9.00 am - 1.00 pm
Commencing every 6 months
- 96 Hours** **Advanced Diploma in Business Analytics**
Sunday 1.00 pm - 5.00 pm
Commencing every 6 months
- 12 Hours** **MS Power BI Essentials for Professionals**
Thursday 7:00pm-10:00pm/Saturday 7:00pm-10:00pm
Commencing every month
- 162 Hours** **Diploma in Corporate Secretarial Practices**
Saturday 3.00pm-7.00pm/Sunday 12.30pm-5.00 pm
Commencing every 6 month

CORPORATE SPONSORS



BUSINESS PROMOTIONAL PARTNERS



www.aatsl.lk