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Financial Literacy & Its Impact on Loan Repayment by SMEs in Sri Lanka

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ABSTRACT: Credit is the most common source of external finance for many SMEs and entrepreneurs, which are often heavily reliant on traditional debt to fulfill their start-up, cash flow and investment needs. Potential sources of finance for the small scale enterprises include commercial banks, nonbank financial institutions, non-governmental organizations, multilateral organizations, business associations, and rotating savings and credit associations. The critical problem most public credit-lending agencies face is poor loan repayment from small and medium enterprises. The critical problem facing most public credit institutions is the low reimbursement of loans by small and medium-sized enterprises. Thus, this study sought to investigate the impact of financial literacy towards the loan repayment by Small and Medium Enterprises (SMEs) in Sri Lanka. The study used a descriptive research plan and a sample of 200 individuals was used. The data collected was classified, summarized analyzed using descriptive statistical tools. The study used the regression model for analyzed the impact of financial literacy to loan repayment by SMEs in Sri Lanka. The study findings established that the book keeping skills, budgeting skills and credit management skills greatly determine the ability of SMEs to repay loans. Findings of the study recommend that SMEs who have little or no financial literacy should enroll in related programs to enhance their capacities.

KEYWORDS; *Financial Literacy, Small & Medium Sized Entrepreneurs (SMEs), Book Keeping Skills, Budgeting Skills, Credit Management Skills*

I. INTRODUCTION

In general, financial literacy means a blend of knowledge, skills, attitudes and behaviors needed to make sound financial decisions and ultimately achieve individual financial security. It has been used to refer to knowledge of financial products (what is a saving account, fixed deposit; the difference between fixed and floating interest rates), knowledge of financial concepts(inflation, compounding, diversification, credit ratings) and mathematical skills required for effective financial decision making (Manosh Kulasena, DailyFT,). When comes to the Sri Lankan context, as per the Standard & Poor's 2014 global financial literacy survey, Sri Lanka has a higher financial literacy rate is about 35% compared to its South Asian Peers. This is not surprising as Sri Lanka has one of the highest print literacy rates for adults in the region, at approximately 92% (DailyFT, 2020). However, the gap between print and financial literacy is too large. In other words Sri Lanka has the biggest gap between print literacy and financial literacy in the region. High print literacy rates do not necessarily have to correlate to financial understandings, but the ability to read and write does deliver the basis on which one can access and use financial services. With the help of checkbooks, the review of bank statements and even ATMs, CDM all require a basic level of literacy. As a result, the highest gap suggests that there are more opportunities to promote financial literacy in Sri Lanka. When financial literacy is low, the rural population and small and medium-sized enterprises are strongly amplified.

When comes to the SME sector in Sri Lanka it has been identified as a key catalyst to drive the economic progress including economic growth, regional development, employment generation and poverty reduction of Sri Lanka. In other words, the SME sector is expected to contribute to the transformation of underdeveloped regions into thriving emerging regions. The Government of Sri Lanka recognizes SMEs as backbone of the economy, as it accounts for more than 75% of the total number of enterprises, provides 45% of the employment and contributes to 52% of the Gross Domestic Production (GDP). SMEs encourage equitable development on a large scale and provide more opportunities for women and young people to participate in the economic development of the country. Different countries use different definitions for SMEs as a function of their level of development. Commonly used indicators include total number of employees, annual turnover and total investment. There are 1,017,267 SMEs registered in Sri Lanka and 2,255,171 people engaged in such SMEs (Economic Census 2013-2014). Most importantly, small and medium-sized businesses provide a contribution to employment and income-generating opportunities for low-income sectors of the economy. The potential associated with the SME sector has been positively adopted by the government and other development partners in economic development, increasing wealth creation and fight against poverty and in employment creation. Although the government including ministry of finance & the Central Bank provided the remedies for the SME sector with the corporation of private banks in Sri Lanka and NGOs and also multilateral and bilateral organizations considerable amount of SMEs were collapsed & fallen into Non Performing Loan (NPL) category. When considering the NPL ratio of Sri Lanka has increased by 0.9%. In other words, in December 2018, Sri Lanka's NPL ratio stood at 3.40% compared with 2.50% in the previous year. Non-performing loans are defined as loans that have been in arrears for over 90 days. Furthermore, with regard to the SME sector, as of March 28, 2019, approximately 170 people have committed suicide after being unable to repay their debt. In 2018 alone, 15 people in Vavuniya and 55 people in the Northeast Province committed suicide because of this crushing debt. The worst situation is some informal micro finance lenders come & harass the micro business women in the house, ask them to sleep with them, take away possessions from the home, and refuses to leave unless they are given the money (Groundview Journal, Nadaraja Devakrishnan, 2019). Therefore, if we look at the SME sector, as of March 28, 2019, approximately 170 people have committed suicide after being unable to pay down the debt. In 2018 alone, 15 people in Vavuniya and 55 people around the North East province have taken their own lives as a direct result of this crippling debt. The worst situation is some informal micro finance lenders come & harass the micro business women in the house, ask them to sleep with them, take away possessions from the home, and refuses to leave unless they are given the money (Groundview Journal, Nadaraja Devakrishnan, 2019).

In Sri Lanka, despite the continued increase in financial support to SMEs by the government and other development agents, there is still a chronic failure and collapse rate of SMEs in Sri Lanka. While SMEs in Sri Lanka have continued to appreciate loan facilities, repayment in most cases has been a problem and thus the aim of investigating the financial literacy and its impact on loan repayment by SMEs in Sri Lanka. In addition, this study was aimed at identifying and analyzing financial literacy and its impact on the repayment of loans by SMEs. It will benefit the performance of SMEs, in particular throughout the country. The project will also help the private and public sectors develop policies that support the development of the SME sector. Delinquent loans play a critical role in a SME sector's cost structure, revenue and cash management. Hence they have to put additional energies to decrease delinquency usually mean additional costs for closer monitoring, more frequent visits to borrowers, more extensive analyses of the portfolio, legal fees for pursuing seriously delinquent borrowers, and other costs. The more time, effort and resources organizations devote to monitoring delinquency, the less time they have to reach new borrowers and expand their services or outreach activities. Consequently, it is one of the most crucial things are operating risks for SME banking and its management is fundamental to the effective and sustainable functioning of any financial institutions including commercial banks, microfinance institutions and others. The management of loan delinquency continues to be one of the difficult tasks of each financial institution. Consequently, the delinquency of loans, which can lead to default, is probably the main reason for the failure of the institutions involved in the granting of credit. The importance of keeping strong loan portfolios and making good loans is often appreciated within an organization. In order to keep loan delinquency under control therefore, the risks it presents must be identified at every stage of the loan process and appropriate mitigating measures embraced to effectively manage it. It is also essential that each person of the SME bank is sensitized and involved in the management of the delinquency of loans. In this regard, financial institutions need a monitoring system that highlights repayment problems clearly and quickly, the loan officers and their supervisors can focus on delinquency before it gets out of hand. This study will help to better understand the impact of the lack of financial literacy among small and medium-sized businesses. Then the SME banking sector can use the recommendations from the study to eliminate them. This study should contribute to the development of the SME banking sector in Sri Lanka, at the same time as that of SMEs. Not only can policy-makers such as the government and the departments concerned continue the results of the study to formulate policies on the repayment of loans by SMEs. This study will supplement existing knowledge of loan repayment and SMEs. Furthermore, prospective researchers can use the study as part of their empirical studies.

Research Problem: Credit line is the most common source of external finance for plethora of SMEs in Sri Lanka, which are often heavily dependent and traditional debt to fulfill their start-up, cash flow and investment needs. And according to the National Policy framework for SME development (pg.15) potential sources of finance for the SME sector include Commercial Banks, nonbank financial institutions, Ministries, Departments, Semi Government Organizations, Private sector BDS providers, Non-Governmental Sector(NGOs), Multilateral and Bilateral Organizations. However, even though the role of banks and other financial institutions is clear in the SME arena, lending to SMEs remains a difficult and discouraging activity because of lack of financial literacy problem and its influence the sustainability of these ventures and they fail to repay the loan properly. The critical problem is most of public & private credit lending agencies face is poor loan repayment from SMEs. Statistics show that loan default tendency by SMEs has been a tragedy and loan repayment problem is an unsolved issue faced by the majority of financial institutions that offer credit facilities to the SME sector. Not only have the lenders, borrowers fail to manage their own ventures profitably. Some of SME owners have taken their own lives as a direct result of this crippling debt & loss of business.

Research Objectives: The main objective of the study is to identify the relationship between financial literacy & loan repayment by SME's in Sri Lanka. The research undertaking further to address the following specific objectives:

1. To determine how book keeping skills influence on loan repayment among SMEs in Sri Lanka.
2. To determine the effects of credit management skills on loan repayment among SMEs in Sri Lanka.
3. To examine how budgeting skills affect loan repayment among SMEs in Sri Lanka.

Research Questions: As per the main objective, the researcher has established the main research question as follows.

Is there relationship between financial literacy and the loan repayment of SMEs in Sri Lanka?

As shown under the research objectives the researcher breaks downed the study's main objective into three questions to address the main objective and the researcher has established a main research question to achieve the main objective and here she has breaks downed the main research question into three specific questions to easy accomplishment. Hence, this study will be response to the following research questions:

1. What are the effects of book keeping skills influence on loan repayment among SMEs in Sri Lanka?
2. What is the role of credit management skills on loan repayment among SMEs in Sri Lanka?
3. What is the role of budgeting skills affect loan repayment among SMEs in Sri Lanka?

II. LITERATURE REVIEW

Several studies have been conducted internationally and locally on issues related to financial literacy and its impact on SME loan repayment. For instance, (Harrison, Phelista & Nyamboga, 2015) examined the impact of financial literacy and its impact on loan repayment by SMEs with particular reference to industries have been benefited from Equity Group Foundation (EGF) literacy program within Ngara, Nairobi Country. Hence they have used Equity Bank's record for capture the population and it is about 300 SMEs and they have used random stratified sampling method to select 10% of the respondents from the target population because of that their sample size is 30 no of SMEs. And they used a self-administered questionnaire and the questions were structured and adjusted Likert range from 1 to 10. In addition, they also identified bookkeeping skills; credit management and budgeting skills are key drivers of financial literacy. In addition, they used descriptive statistics to analyse the data they gathered. The results indicate that financial literacy training has inculcated book-keeping skills in SMEs, which has improved business development prospects. And it revealed that financial literacy in bookkeeping has reduced SME operating costs and has finally made it possible to plan ahead for loan repayment. Furthermore it has been indicated that the ability to perform internal self-auditing, enabled SMEs to improve competitiveness in the various sectors that thee SMEs operated and financial literacy training enabled SMEs acquire more funding from financial institution and also there was a positive relationship effect between budgeting and financial statement analysis skills which in turn improved loan repayment performance by SMEs. However, this study differs from the closed-captioned study because of the country context and also because the sample size is too small to generalize the decision across the economy. Another most related study done by (Henri, Fred & Olive, 2015) and they have examined the role of financial literacy on loan repayment among SMEs with particular reference to Urwego Opportunity Bank of Rwanda. Within the context of the country, there is an enormous difference between Rwanda and Sri Lanka. If we consider the population, the area, the GDP, the unemployment rate and the market conditions of the two countries, there is a huge difference. However, when they come to their study, they conducted their study among 450 clients of the traditional group in four locations in the district of Nyaruugenge.

And as a result of selective sampling, they selected 45 respondents for the study. They also identified three independent variables that affect loan payments such as bookkeeping, credit management and budgeting skills. As their findings, financial literacy has been critical to the success of loan repayment as it allows the clients to use book keeping skills, credit management skills and budgeting skills to pay the loan timely. And it is indicated that financial literacy had led to improved performance on cash flow management, the choice of interest rate, loan period, loan size, planning, running cost and internal audit. And their main recommendation is that Urwego Opportunity Bank should extend its financial literacy program to all its clients across the country. (Ann Mukono, 2015) examined the drivers of SME loan repayment in Nairobi, Kenya. The study used a descriptive research design and a sample of 160 respondents was used and represents 80,000 SME registered in the country of Nairobi. And the study has used 2% of the total population and the study target SME owners and managers and focused on SMEs that have obtained a loan facility with any financial institution in Kenya. And they used simple random stratification sampling methods to select respondents and a questionnaire to collect data for the study. The results of the study have shown that the characteristics of loans, borrowers, enterprises and lenders are major determinants of loan repayment by SMEs in the country of Nairobi, Kenya. However, the study did not identify financial literacy skills from these characteristics and did not consider all of them. (Hussain, Salia & Karim, 2018) inquired about the fact that knowledge is so powerful? And financial literacy and access to finance: Business Case Study in the UK. The objective of this study is to examine the relationship between financial literacy, access to finance and growth among SMEs in the Midlands region of the United Kingdom. And they have assessed whether financial literacy assists SMEs to overcome information asymmetry, mitigates the need for collateral, optimizes capital structure and improves access to finance. Using the purposive sampling technique, 37 firms were selected based on size, location and characteristics, mainly from the city of Birmingham and the joining conurbations. Findings indicated that financial literacy is an interconnected resource that reduces information asymmetry and collateral deficit in the assessment of loan applications; therefore, financial literacy should be part of the school curriculum. The analysis suggests better financial literacy, reduces monitoring costs and is used to optimize the corporate capital structure that positively impacts SME growth. They also noted that knowledge of financial management is recognized as the core resource that helps SME owners make efficient decisions. However, the sample size they used is too small to be generalized to the entire economy of the UK. And within the context of the country, there is an enormous difference between Sri Lanka and the United Kingdom.

III. METHODOLOGY

A research design is a blueprint for conducting the research that specifies the procedures necessary to obtain the information needed to structure and solve the research problems (Cooper & Schindler, 2008). (Orodho, 2006) defines as the arrangement of conditions for collections and analysis of data in a manner that aims to combine relevance to the research purpose with economy in the procedure. According to (Kothari, 2004), a research plan is the conceptual structure within which the research is performed; it is the master plan for data collection, measurement and analysis. The study used a descriptive research outline. Descriptive research consists of gathering information from all individuals sampled by answering questions (Mugenda & Mugenda, 2006). According to (Cooper & Schindler, 2008), a descriptive design ensures complete description of the situation, making sure that there is minimum bias in the collection of data and allowed data collection from sizeable population in an economical way. Descriptive research also includes a field survey in which the study examines the population of interest to inquire about certain questions related to the planned study. A descriptive research plan was used to collect data from small and medium-sized enterprises using questionnaires in an economic manner. The design of a cross-sectional survey was used to complement the study aimed at examining the linkages between financial literacy and SME performance in light of loan repayment. A population is a well-defined set of individuals, services, elements, events, groups of things or households that are surveyed (Mugenda & Mugenda, 2003). The population refers to the entire group of individuals or objects whose findings the researcher wants to generalize. For this study, the population of interest was made up of all Sri Lankan SMEs. According to the Department of Census & Statistics, there are over 1,017 Mn registered SMEs in Sri Lanka.

The demographics of the study included the owners and managers of these companies. To process this case, the researcher has to collect respective data from SMEs registered in Sri Lanka. However the researcher cannot be reached to the entire SME community in Sri Lanka. Since the researcher selected the existing SME client base from one selected leading private bank in Sri Lanka. And the researcher selected 6 out of 8 regions of that bank to collect data due to the convenience basis. According to that she has covered 85 branches out of 111 branches of that private bank around the country and distributed self-structured questionnaires to respective credit officers of each branches. Hence the researcher finally collected data from 200 SMEs out of 220 SMEs. A sample of 220 SMEs from 6 of the 8 client base regions of a specific private bank in Sri Lanka was included in the study. It covers 85 out of 108 branches nationwide. In case of collection of data, the researcher has distributed self-structured questionnaires to respective credit officers of those branches and then they have completed the questionnaire pertaining to the respective SME clients of his branch. In addition few interviews were conducted with relationship managers and recovery officers in regional offices and credit officers in each branches and it helped to solicit information on prevalence of loan repayments. The study employed both primary & secondary. A questionnaire was used to collect the primary data. A questionnaire is form, which is prepared and distributed for the purpose of securing responses (Mugenda & Mugenda, 2003). The researcher self-administered questionnaires for primary data through the ‘drop-and-pick-later’ method to all selected program beneficiaries. This gave the respondents ample time to think through the questions before answering them. They were then collected after one week for analysis. The questions were structured in the context of a custom designed and adjusted Likert Scale of 1 – 5 with 1 being strongly disagreeing and 5 being strongly agreeing. The selfadministering procedure was preferred since was simpler and the respondents read the questions and filled in the answers by themselves. In addition, the self-administration technique was appropriate since the researcher was able to rectify any questions at the ground and make sure all the questions had been responded to. Secondary on the other hand was obtained from books, journals, newspapers, magazines and the internet.

Conceptual framework: On the conceptual framework, the study made three key assumptions to examine the relationship between financial literacy and loan repayment in the Sri Lankan context. In examining this study, the researcher identified some theories related to this information asymmetry, information sharing, moral hazards and adverse selection. By using these theories and reading materials, the researcher has identified the three main independent variables as shown above. Primarily, the study by (Harrison, Phelista and Tom, 2015) identified the same three variables in their study and looked at the same issue in the Kenyan context. And a study by (Henri, Fred and Olive, 2015) have identified same three variables as independents variables of their study and they have examined the role of financial literacy on loan repayment among SMEs in Rwanda. The independent variables that the researcher has identified and their influence on the final result of loan repayment would be explained as follows. Bookkeeping skills are part of being financially literate. It focuses on managing SME cash flow and income expenses and increases the ability to repay loans. But most SMEs are afraid of the simple idea of bookkeeping and accounting. But the reality is that both are quite simple. Bookkeeping and accounting stake two basic aims: to keep track of income and expenses, this improves chances of making a profit, and to collect the financial information necessary for filing various tax returns. There is no requirement to maintain records of any kind. To the extent that your records accurately reflect the revenues and expenditures of the company. In this study, bookkeeping skills include cash flow management, debtor and creditor management, and customer pay management. Another independent variable is credit management skills. The lack of debt and equity funding constitutes a major obstacle to the rapid development of the SME sector. Gain access to finance has been identified as a key component for SMEs to thrive in their drive to build productive capacity, to complete, create jobs as well as to contribute to poverty mitigation in developing countries. Here, researchers have primarily formulated three criteria under credit management competencies as interest rate choices, the loan period as well as the loan amount. Moreover, the researcher argues that if SMEs have made decisions using their credit management skills appropriately, they can pay back the loan without restructuring. When the researcher comes to the budgeting capacity, she has thoroughly examined on the preparation of the operating budget, the budget of employees and whether it is in line with business strategies. And the researcher argues that if SMEs do not have enough budgeting skills definitely they will fail to manage their business profitably and fail to repay the loan properly along with.

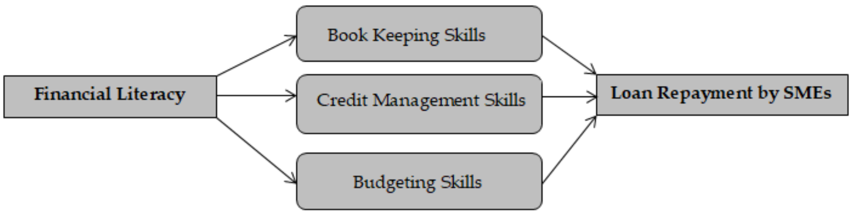

Figure 1: Conceptual Framework

Regarding the conceptual framework, the researcher formulated five sub hypotheses to examine the most significant determinants of the usage of POS in the Sri Lankan context. Therefore, the following hypotheses were formulated and used to test with the relevant data.

Research Hypotheses:
H0: There is no a relationship between the identified factors including Book keeping skill, credit management skill and the budgeting skills and the loan repayment by SMEs in Sri Lanka.
H1: There is a relationship between the identified factors including Book keeping skill, credit management skill and the budgeting skills and the loan repayment by SMEs in Sri Lanka.

Sub-Hypothesis
(H1a): There is a significant relationship between book keeping skills and the loan repayment by SMEs.
(H1b): There is a significant relationship between credit management skills and the loan repayment by SMEs.
(H1c): There is a significant relationship between book budgeting skill and the loan repayment by SMEs.

IV. RESULTS

The main objective of this study was to establish the relationship between financial literacy and loan repayment by SMEs. Hence, the regression model and correlation matrix has been run pertaining to the collected data. By using correlation matrix, the researcher identified the nature of the relationship that each variables have. And by using the regression model the researcher has identified the coefficients that each variable bring with the model and the constant impact for the model. Furthermore, by using descriptive statistics including mean and standard deviation the researcher described the effects of financial literacy to the SMEs loan repayment.

Table 1: Correlation Matrix

	Status of Loan Obtained	Book Keeping Skill	Budgeting Skill	Credit Management Skill
Pearson Correlation				
Status of Loan Obtained	1.000			
Book Keeping Skill	-.730	1.000		
Budgeting Skill	.820	.816	1.000	
Credit Management Skill	.783	.757	.854	1.000

The results on the above table shows that the status of loan obtained has a strong positive correlation with Book keeping skills, Budgeting skills and Credit Management skills as indicated by correlation coefficients of 0.730, 0.820 and 0.783 respectively. These results indicate that there is a strong correlation between loan repayment status and the study variables. The study conducted a multiple regression analysis to test relationship among book keeping skills, budgeting skills and credit management skills against the loan repayment rate. The study applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

Table 2: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.839[a]	.704	.699	.259	.704	155.117	3	196	.000	2.022

a. Predictors: (Constant), Credit_Management_Skill, Book_Keeping_Skill, Budgeting Skill

b. Dependent Variable: Status of Loan Obtained

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of the variation in the dependent variable (loan repayment by SMEs) that is explained by all the four independent variables (Book keeping skills, budgeting skills and credit management skills). The independent variables studied explain only (70.4%) of the effects of financial literacy on the loan repayment by SMEs in Sri Lanka as represented by R2. This means that the other variables not studied in this research contributed (29.6%) and thus further research should be conducted to investigate these other effects of financial literacy on the loan repayment by SMEs in Sri Lanka.

Table 3: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.360	.057		41.407	.000
Book_Keeping_Skill	-.240	.049	-.594	- 4.868	.000
Budgeting_Skill	.159	.029	.475	5.521	.000
Credit_Management_Skill	.101	.046	.248	2.190	.030

[a. Dependent Variable: Status of Loan Obtained]

As per the results, the estimated regression model can be developed as follows,

$$\boldsymbol{Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \varepsilon}$$

$$\boldsymbol{Status\ of\ Loan = 2.360 - 0.240BK + 0.159BS + 0.101CM}$$

As per the SPSS generated table above, the equation ($Y=\beta_0+ \beta_1X_1+ \beta_2X_2+ \beta_3X_3+\varepsilon$) becomes $Y=2.360-0.240X_1+0.159X_2+0.101X_3$. This regression equation shows that taking all the factors into account (Book keeping skills, budgeting skills and credit management skills) at constant zero then loan repayment rate is 2.360. If a unit increase in book keeping skills when other variables at zero leads to 0.240 decrease in loan repayment, the same way a unit increase in budgeting skills and credit management they leads to 0.159 & 0.101 increase in loan repayment respectively. At 5% level of significance and 95% level of confidence, then book keeping, budgeting and credit management skills are significant in explaining the relationship between financial literacy and the loan repayment by SMEs in Sri Lanka since their levels of significance are below the base significance level of 0.05. The interpretation therefore is that the observed data are consistent with the assumption that the null hypothesis is false and thus hypothesis must be rejected and the alternative hypothesis accepted as true. The results are exactly similar to those of (Harrison, Phelista and Nyamboga, 2015) also established that the financial literacy and the loan repayment by SMEs have positive relationship and also as per their study's findings book keeping skills have the negative coefficient as this study. (Henri, Fred and Olive, 2015) also established and proven that there is a positive relationship between financial literacy and the loan repayment by SMEs not only they have recognized those three independent variables as intermediate independent variables under the main independent variable, financial literacy.

From the study findings only 200 questionnaires out of 220 questionnaires administered to the sampled SMEs were returned fully respondent to hence a response rate of 90.90% which was deemed adequate for the study. Correlation analysis was also undertaken to establish the strength of a linear association between the dependent and the independent variables and established that there was a strong correlation between loan repayment status and the study variables. And the study identified that there is no multilinearity issue as well. And finally the regression model was used to check the good of determination of the model by using R square and check the significance of each variable as well as to identified coefficients of each variable to interpret the relationship between dependent and independent variables. According to the results of the study, financial literacy strongly influences loan repayment by SMEs in Sri Lanka. For this study, the study identified and tested three major independent financial literacy variables: bookkeeping, budgeting and credit management skills. As per the findings all three independent variables were significant factors as well as except the book keeping skills other rest of two variables shows strongly positive impact on the loan repayment by SMEs. However, on the basis of the data collected, accounting competences have a strong negative impact on the repayment of the loan. It gives similar results to the study done by (Harrison, Phelista and Nyamboga, 2015). In addition, following the R-square value of this study, it shows that these identified independent variables describe the dependent variable only by 70.40%. Therefore, it is necessary to have a remaining 29.6% of the factors that affect the repayment of loans by SMEs by conducting other research on this topic. And also, as per the studies done by (Harrison, Phelista and Nyamboga, 2015) and (Henri, Fred and Olive, 2015) are mostly similar to this study well hence we concluded that this study has covered the Sri Lankan country context fairly on this case.

V. CONCLUSION

The results of this study make it possible to conclude that the performance of SMEs is effectively influenced by the competences related to budgeting and credit management. On budgeting skills, the findings pointed out that financial literacy regarding the maintenance of an operational budget on a predetermined basis and review those at year end and form that in line with employee performance contract and company strategy because it reduced the SMEs running costs and ultimately enabled advance planning on loan repayment. In addition, financial literacy prepares investors for difficult times through strategies that mitigate risks such as accumulating savings, diversifying assets and purchasing insurance. Not only that it facilitates the decision making processes such as payment of bills on time, proper debt management which improves the credit worthiness of potential borrowers to support livelihoods, economic growth, sound financial systems, and poverty reduction. It also makes it possible to better control one's financial future, to use financial products and services more effectively and to reduce the vulnerability of overzealous retailers or fraudulent schemes. Furthermore, as regards to credit management, it is evident that financial literacy was able to offer optimal capital structure for the business and it was assisted to borrow the loan at low cost at proper time and proper amount with proper tenor as well as it was provided best picture of the business's debt and equity position and balance between not only it was provided the conversant with the process to acquire funding from different financial institution. Therefore, the study recommends that SMEs consider enrolling in financial literacy programs or any related programs to improve their capacity. And the formation of mergers for SMEs facing the constraints of the market in order to remain competitive in the market. Furthermore, access to finance is not necessarily a route to success for Small & Medium Enterprises. Critically, they require mentorship and business skills transfer to make the transition to formal settlement. And without the capacity to take on the next level of business practice, SME owners will continue to be much more comfortable in the informal sector. As well as the providers of various financial literacy programs should consider implementing a program which fits the culture and traditions of the context targeted and avoid one size fits all because different SMEs have different experiences. Financial literacy programs to achieve better results should be provided by neutral providers who may not have any other interest to derive from the program apart from benefiting the target beneficiaries. Further, the provision of technology based financial services must be preceded with the necessary infrastructures to make its implementation realistic like electricity, network connectivity, general improvement of local population literacy levels and identification of business opportunities and ways of exploitation for the entire population to be economically active and then can discern the relevance of financial literacy training and its influence in usage of technology based financial services and products. And linkages between the SMEs should be developed especially within the associations to enable better operation, coordination and collective benefits. Business Development Center (SLBDC) should link up, develop products and mechanisms to ensure that their services area accessed and taken up by entrepreneurs who are members of the association. One of the main limitations of the study is that the research has only focused on the SMEs perspective not the other industries and the individuals. It is recommended for the future researchers to focus on other firms in different industries to find out if the same results would be obtained. And the further study should be carried to find out the challenges facing the formation of SMEs in Sri Lanka.

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