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The Impact of Digital Financial Literacy on Performance of Small and Medium-Scale Enterprises in Matara District, Sri Lanka

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Digital financial literacy comprises the knowledge, attitudes, and skills required to use digital technologies safely and effectively for financial tasks. This study examines the impact of digital financial literacy on entrepreneurial performance among small and medium enterprises (SMEs) in Matara District, Sri Lanka. As digital transformation reshapes the entrepreneurial landscape, understanding how digital financial competencies influence business performance becomes critical for developing economies undergoing rapid technological change. The study adopted a deductive, quantitative research approach with a cross-sectional survey design. Snowball sampling was used because there was no comprehensive list of SMEs that use digital financial tools. Primary data were collected from 114 SMEs through a structured questionnaire adapted from validated instruments with contextual modifications for Sri Lanka. All questions were constructed as five-point Likert-scale items. The results of the multiple regression model indicate that 59.7% of the variance in entrepreneurial performance ($R^2 = 0.597$, $F = 32.026$, $p < 0.000$) is predicted by digital financial literacy. Among the five dimensions of digital financial literacy, four dimensions significantly predicted performance, including Digital Financial Risk Control ($\beta = 0.285$, $p = 0.000$), Awareness of Digital Financial Risk ($\beta = 0.289$, $p = 0.005$), Financial Knowledge ($\beta = 0.193$, $p = 0.031$), and Digital Knowledge ($\beta = 0.171$, $p = 0.044$). Notably, Knowledge of Digital Financial Services ($\beta = 0.001$, $p = 0.986$) did not show a significant effect, suggesting that mere awareness of available tools is insufficient without reliable infrastructure, user-friendly platforms, and supportive regulatory environments. Results emphasize the need for comprehensive digital financial literacy programs that focus on risk management and practical application rather than basic awareness. Policymakers, financial institutions, and educational institutions should prioritize interventions that bridge the gap between knowledge and effective implementation. This study contributes to the literature on digital financial literacy in developing economic contexts, providing empirical evidence from a regional district perspective and identifying critical competencies for SME success in digitalized markets.

Keywords: Digital financial literacy, Entrepreneurial performance, Matara District, SMEs, Sri Lanka