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UNLOCKING FORMAL FINANCE FOR SMES: EMPIRICAL EVIDENCE FROM NORTH WESTERN PROVINCE, SRI LANKA

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Abstract

The study establishes a link between access to formal financing and the performance of owners of Small and medium-sized enterprises (SMEs) by highlighting how formal finance enables them to secure competitive capital for innovation, collaboration, and financial resilience. Thus, the research aims to examine the factors influencing access to formal finance among SMEs operating in the North-Western Province of Sri Lanka. Notwithstanding the significant role of SMEs in driving economic growth, many enterprises face barriers to accessing formal financial assistance due to various limitations. Using a quantitative research method, the research examines determinants such as managerial experience, financial knowledge, the presence of a well-developed business plan, and compliance with management regulations. 100 SMEs were surveyed using convenience sampling to collect data on these variables, and statistical tests, such as regression and factor analysis, were conducted to examine effects and relationships. The results show that managerial experience and financial literacy are positively associated with greater access to formal finance, and properly developed business plans and adherence to management regulations further increase access. Entrepreneurs' financial literacy needs to be enhanced through training in financial analysis, loan cost analysis, cash flow valuation, business planning, and financial reporting. Managerial skill development in finance, marketing, business planning, production, and human resource management is also needed to support more effective decision-making and operational efficiency. This research advances the literature on SMEs' challenges in securing formal financing and offers actionable recommendations for financial institutions and regulators to support this vital sector in Sri Lanka.

Keywords: Access to Finance, Business Plan, Financial Literacy, Managerial Experience, Small and Medium Enterprises

INTRODUCTION

SMEs are typically of great significance to most economies, especially in developing nations, compared to developed ones. SMEs are pivotal in employment creation and global economic advancement, as they comprise the majority of firms globally. They constitute about 90% of enterprises and more than 50% of global employment. Formal SMEs generate as much as 40%

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of national income (GDP) in developing economies (Ye & Kulathunga, 2019). If we take into consideration the unofficial SMEs, they are far larger. For this reason alone - the worldwide lack of skills - the growth of SMEs has become a prime agenda for most governments worldwide.

With a focus on SMEs in Sri Lanka's North Western Province, the research seeks to illustrate how various factors influence accessibility. The study also points out that SMEs face severe difficulties regarding access to formal finance, as it is also supported by Cull et al. (2014), who identify that financial institutions show great wariness toward the small-scale sector due to its perceived high risk from a financial point of view, since limited financial history, absence of collateral, and sometimes even weak management exist. This can only be partly offset by high interest rates or stringent terms secured on SME loans. Due to low levels of formal financial inclusion, this is particularly pertinent for the North-Western Province.

Managerial expertise is one factor that determines access to funding. As discovered from the research, the SMEs that had seasoned management accessed formal finance more easily as they were more exposed to financial processes and better knew the ways of the financial institutions. Financial literacy is another important factor that plays a vital role. The thesis maintains that financially literate SMEs can achieve improved financial control over their resources, a true reflection of their financial reports, and improved creditworthiness, as evidenced in Chilembo (2011).

The fact that a well-thought-out business strategy is a key component in improving one's access to capital further supports this view. A good business plan maps a path to growth and risk management, thereby making SMEs bankable. Empirical research shows that banks and other formal financial institutions consider SMEs with a strong business plan to be more credible.

Moreover, standards and regulations that guide financial management help improve access to finance. SMEs with sound financial management are perceived as less risky, and this can also be taken into account when improving their chances of obtaining loans. Nonetheless, the thesis identifies numerous challenges confronting SMEs in the North Western Province in meeting regulatory requirements, thereby negatively affecting their access to formal finance.

Highlights the universal financial access problems faced by SMEs in the North Western Province of Sri Lanka. Beginning with Cull et al. (2014) and Kauffmann (2005), the referenced

studies indicate that SMEs encounter difficulties in obtaining finance due to restricted access to loans, high interest rates, complex application processes, few financially literate individuals, and weak credit reporting systems. Banks perceive SMEs as risky borrowers and have difficulty in getting credible information about them, which compounds these problems.

This is in line with global comparisons; being in the category of SMEs, many were situated in the unorganized business segment, hence the same can be observed in North Western Sri Lanka. Getting finance from formal financial institutions, especially banks, becomes even more out of reach due to this informality. Even some SMEs in the formal sector find access to finance problematic, indicating that financing is a challenge across both informal and formal SMEs.

While numerous researchers have studied the obstacles to access to finance by SMEs (Jayawardane & Gamlath, 2020), it does seem that more research is still called for with a view to making further contributions to the body of knowledge in this area, as well as to understand it better. This study has examined the obstacles to access to finance that SMEs encounter in this region and considers their removal to be of utmost importance.

This goes to repeat that the removal of structural obstacles, which discourage access to formal finance by North Western Sri Lankan SMEs, is fundamental, citing the research value in identifying and understanding those hindrances to focused activity that can stimulate growth and development of SMEs in the region (Chilembo, 2021). Access to formal finance for SMEs is extremely restricted. It has also, over time, been observed to be one of the most binding constraints to their sustainability and growth. In most emerging economies, including Sri Lanka, SMEs do not receive bank loans or credit facilities for various reasons. These are caused by strict collateral requirements, high interest rates, the need to fill out forms, and, in general, mutual distrust or misunderstanding between banks and small businesses. Despite this, most financial institutions consider that providing loan facilities to SMEs is not beneficial and that this generates high transaction costs (Gamage, 2015). Though developing nations are entitled to borrow from international funding agencies like the Asian Development Bank (ADB) and the International Finance Corporation (IFC) to fund SMEs, Sri Lanka faces many limitations in accessing those facilities (Niranjala, 2020). Moreover, Sri Lankan SMEs are not in a position to expand their businesses as they have less access to formal finance (Niranjala & Jianguo, 2017).

These barriers are thus often driving forces that compel SMEs to adopt alternative, informal financing methods. Informal sources could include borrowing from family and friends, community savings groups, or moneylenders who may charge exorbitant interest rates. This phenomenon is very visible in the Sri Lankan context. Such systems, while accessible, often lack regulation, leaving participants at risk of exploitation and financial instability.

There is also the danger that reliance on informal financing modes will, by definition, restrict the growth potential of SMEs, since these sources may not always have the funds to finance growth or innovation. Generally, inadequate access to formal finance entraps SMEs in a vicious circle of limited growth and market opportunities in Sri Lanka and elsewhere. This issue, therefore, necessitates openness in financial policies and support arrangements that may facilitate the connection between SMEs and formal financial institutions, thereby promoting a robust and sustainable business environment.

Even though several past studies have shown that the factors like experience of managers, financial literacy, planning of the business and financial management regulations affect SMEs' access to formal finance, the existing body of knowledge in the area has studied these factors separately or under different national contexts and institutional settings. There is a scarcity of empirical research on how these factors affect access to formal finance of SMEs simultaneously under the Sri Lankan SME environment. There is a scarcity of such research done within the North Western Province of Sri Lanka. The contribution of this study lies on its attempt to integrate these four factors together into one theoretical framework to explain the access to formal finance of SMEs. Another contribution of the study lies in its attempt to provide context-specific empirical evidence in an emerging market economy where information asymmetry, financial capability and financial management regulations continue to influence the financing decisions.

LITERATURE REVIEW

Definition of SMEs

Global organisations such as the World Bank, the European Union, the United Nations, and the World Trade Organisation (WTO) use the acronym "SME" to refer to small and Medium Enterprises (Wikipedia, 2019). Besides, SMEs are defined by the European Union as enterprises with a turnover of not more than EUR 50 million, fewer than 250 employees, a

balance sheet total of not more than EUR 43 million, and in which other firms own no more than 25% of the capital.

In Sri Lanka, according to the Ministry of Industry and Commerce (2015), the definition of SMEs varies by nation, while capital size and number of employees are commonly used dimensions. Furthermore, the authors noted that there is no official definition of this industry in Sri Lanka, which has proven to be a major barrier to SME promotion efforts because different organizations use somewhat different criteria to define it. The Ministry of Industry and Commerce (2017) defines SMEs based on their annual turnover and number of employees.

Table 1: Identification Criteria of SMEs

Sector	Enterprise Category	Annual Turnover (Rs. Mn)	Number of Employees
Manufacturing	Medium	251 – 750	51 – 300
	Small	16 – 250	Up to 50
	Micro	Below 15	Fewer than 10
Service	Medium	251 – 750	51 – 200
	Small	16 – 250	Up to 50
	Micro	Below 15	Fewer than 10

Source: (Ministry of Industry and Commerce, 2017)

It is evident from this that numerous definitions of SMEs have been proposed by various organizations and individuals in the North Western Province of Sri Lanka and in other nations. As a result, there is now confusion over SMEs' eligibility for several forms of assistance. The definition of SMEs that the Ministry of Industry and Commerce provided in 2017 serves as the basis for the current study, despite the numerous definitions (Table 1).

Empirical Evidence

Justification for the Connection between Management Experience and Access to Formal Financing

It is equally plausible that managerial experience can be considered a critical driver of an SME's ability to obtain formal funding. Experienced managers, in fact, have acquired considerable experience and skills that are beneficial in handling complex types of lending organizations. Experienced managers, under these circumstances, are well acquainted with lenders' norms and

standards and can build and sustain strong rapport with lending institutions, facilitating easy access to funds.

For instance, Nguyen (2019) demonstrated in his Vietnamese research that managerial knowledge was positively associated with access to finance. Evidence shows that experienced managers were better positioned to make efficient loan requests that met the lender's strict requirements. This means, the research points out, that not only must it have a well-defined business plan, but also be able to articulate the financial requirements and growth prospects for the business in a manner most appealing to lenders. The study points out improved managerial capacity to deliver a perfect application as an additional factor that increases the chances of an SME obtaining financing.

Such a hypothesis is also supported by the example of Abor and Biekpe (2007), who write that mature firms can obtain formal loans, typically due to experienced management, while young firms are unable to do so. Their well-established records demonstrate their profitability and stability over the long term, thereby reducing lenders' perceived risk. Hence, the bank is most likely to advance loans to such companies, as they exhibit consistent performance and good management; thus, they are deemed to have a higher chance of securing loans. The experience and legitimacy of management are highly relevant in shaping perceptions and decisions based on researchers' findings.

The reason is that experienced managers have developed financial management skills that are exactly what is needed to formulate sound business proposals. These enable them to analyse their financial data more effectively, project future financial performances, and negotiate contingency budgets in great detail-all factors well thought out by potential lenders. They also discovered that this kind of financial expertise, beyond improving the quality of loan proposals, helps lenders believe in the company's ability to manage its finances.

Justification for the link between Financial Literacy and Access to Formal Financing

Financial literacy is a platform that enables SMEs to access formal finance. It implies that one is knowledgeable about financial issues, products, and risks; owners with greater financial literacy, therefore, will make appropriate choices for their business. More financially literate owners are much more likely to comply with the strict terms lenders propose and to understand complex financial situations.

The research by Fatoki and Asah (2011) supports the view that financial literacy is the strongest determinant of an SME's higher likelihood of accessing finance. The discovery indicated that owners with higher levels of knowledge are more likely to access credit from formal sources. Higher literacy means they can comprehend and compare different financial options, identify risks and rewards, and meet the lender's requirements. For instance, owners with literacy abilities could better predict financial reports and cash flows and present their financial requirements in a way acceptable to lenders. Nguyen (2019) also highlighted financial literacy in his research, finding that owners with better financial skills can develop more detailed and persuasive business plans. Business plans are therefore significant documents in a loan application because they demonstrate the owner's understanding of his business, including its financial situation, competitive edge, and growth potential. Assuming everything else is equal, the lender would prefer to lend to those SMEs that have a track record of prudent financial management and planning and, by extension, an indication of the owner's financial literacy.

Besides, Beck et al. (2005) considered the broader implications of financial literacy for access to formal finance. Research found that the owners' financial illiteracy created information asymmetry between lenders and SMEs. In a more precise sense, such unidirectionality would include cases where the lenders are aware of the nature of financial products and the risks associated therewith, but the small enterprise owner is not suitably placed to represent the enterprise fairly. Therefore, the SME would not provide the documents or information the lender requires, thereby reducing its capacity to access a loan. Beck et al. (2005) explained that information shortages can be minimized by improving financial education among SME owners and by enhancing their capacity to communicate their business needs clearly, thereby improving access to formal finance.

Justification for the Association between the Business Plan and Access to Formal Financing

A carefully developed business plan is of utmost significance for SMEs; it serves as both a business and a lender's guide. It contains an SME's vision, operational plan, and financial projections, all of which make it an effective tool for gaining access to potential investors.

Nguyen Hoang Tien (2019) noted that comprehensive business planning is a significant factor when it comes to access to finance. With a complete business plan, the lender can have a clear vision of the SME's organizational structure, market stance, and other growth opportunities.

Such transparency will not only guarantee the establishment of confidence between the lender and the SME but also ensure the preparedness of the entrepreneur with their business plans. A sound business planning strategy for operations and growth will ensure that, if lenders can visualize it, they will be more willing to see the SME as a lower-risk option.

In light of these views, Chowdhury (2017) also averred that lenders would more likely target funding for SMEs with a clear strategic direction through their respective business plans. A good business plan not only mirrors the business model but also encompasses the minutest financial projections, including estimated cash flows, profit margins, and break-even points. Such projections are as important to lenders as they determine whether an investment will be profitable and sustainable. This realistic and knowledgeable financial data will put the SMEs in a position to offer growth potential and repayment capacity, the two major concerns of the lender. Fatoki and Asah (2011) also argued that a good business plan reflects a manager's financial knowledge and planning capability. An SME owned by an owner who has taken the time to develop a well-drafted business plan informs lenders that the owner understands the money game and the business world. This level of competence raises the prospects of obtaining finance, as lenders are eager to transact with business owners who demonstrate a clear vision of financial principles and business practices.

The general conclusions derived from the above research highlight the significant importance of a strong business plan in making small and medium-sized businesses more appealing to financing institutions. A well-prepared business plan not only demonstrates the strategic direction and organizational structure of the SME but also includes critical financial projections that enable lenders to assess the investment's feasibility. Thus, a good business plan significantly facilitates access to necessary financial capital and is hence a very useful instrument for SMEs seeking finance to fund their business operations and expansion strategies.

Justification for the link between Financial Management Regulations and Access to Formal Financing

Consequently, compliance with financial management regulations significantly enhances SMEs' access to credit. Many lenders believe that compliance with such regulations reflects the overall credibility of the borrower SME, its financial soundness, and its corporate

governance practices. (Tien, 2019) asserted that the running of SMEs' activities in compliance with the rules laid down regarding how their finances are handled, in general, they are in a position to access good-quality finance. If SMEs can prove compliance with all the money rules, lenders trust the healthy money habits they portray. This can also mean that the company is well-managed and will always be able to fulfil its financial obligations. This goes a long way toward boosting lenders' confidence in the SME's ability to repay. Effectively, lenders look at such stable and reliable businesses. Hence, regulatory compliance becomes one of the key requirements for accessing finance.

But Beck et al. (2005) believed that while stringent lending policies do create issues for SMEs, those firms that are more considerate and collaborative in adhering to financial regulations and compliance requirements find it easier to overcome this hurdle. That is, for example, if an SME maintains better accounts, prepares timely reports, and plans its cash flow more effectively, its case is more convincing to lenders. This proactive action on their behalf alleviates the risks associated with lending, thereby making them more attractive to the house of finance.

Pandula (2011) supported the contention that oversight of rule observance is a portal to enabling credit. It is where he opined that future research should examine how observance of financial administration regulations is advantageous to SMEs in accessing finance. It therefore suggests that, in the literature review, there is some acknowledgement that further analysis will be needed to better understand this relationship and, in turn, possibly reveal other sources of financing that will prove effective for SMEs.

It is apparent, therefore, that by bringing together evidence from such research, financial management regulations, apart from enhancing credibility, play a crucial role in enabling them to have a greater opportunity to secure formal financing. SMEs' observation of such regulation, for instance, sends a message to lenders that they are well-organized and able to fulfil their financing commitments. Therefore, they will be able to overcome any hurdles posed by inflexible lending policies and continue enhancing their overall appeal as borrowers.

That is, business planning, financial literacy, managerial experience, and compliance with financial management regulations are all interrelated variables which capture much of SMEs' access to formal finance. All contribute towards building the credibility and attractiveness of SMEs to prospective lenders. Studies consistently show that firms with mature management,

accounting experience, and proper business plans backed by regulatory compliance are more likely to secure financing. The outcome, therefore, is increased access to financial institutions by SMEs, and their viability and growth are achieved when improvement activities concentrate on the above factor.

However, a vast amount of previous literature has shown that the above mentioned determinants have positive effects on SMEs' ability to acquire formal finance. On the other hand, past research efforts have focused on individual determinants or on developed countries and different developing nations such as Vietnam, Bangladesh and China. Therefore, little empirical evidence is available on the effect of the combination of the above determinants on the ability of SMEs to get formal finance in the Sri Lankan context, especially in the North Western province of the country. Besides, past literature has not paid sufficient attention to the interaction between the above mentioned determinants within a single analytical framework to explain SMEs' ability to get formal finance. This study adds to the existing literature by incorporating the determinants into one framework and providing empirical evidence to further understand SMEs' financing in the Sri Lankan context. The conclusions drawn from this research are also applicable in using Information Asymmetry theory and Financial Inclusion theory.

RESEARCH METHODOLOGY

The primary objective of this investigation is to ascertain the correlation between the determinants influencing SMEs' access to financing in the North Western Province. Different variables have been considered for analysis by employing the literature. The conceptual framework depicted in Figure 1 provides an overview of how the aforementioned objective will be achieved.

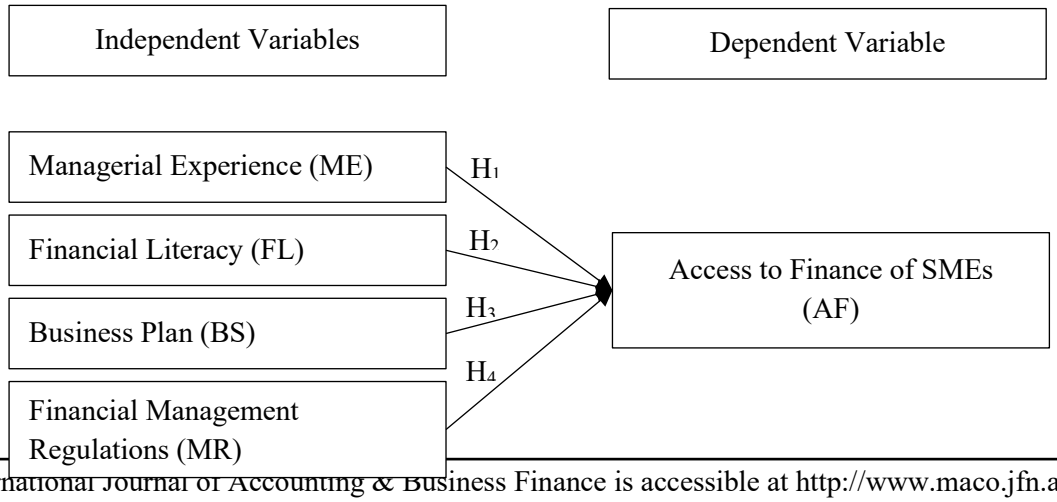


Figure 1: Conceptual Framework

Source: Constructed by authors,2024

Operationalization of Variables

The dependent variable, access to finance, is assessed alongside four quantitative independent variables: managerial experience, owner financial literacy, business plan, and financial management regulations. These variables are measured using Likert-scale questions, where 1 indicates complete disagreement, and 5 indicates complete agreement. The operationalization of the variables is depicted in Table 2.

Table 2: Operationalisation of variables

Variable	Sub Variable	Definition	Source
Independent variable	Managerial Experience (ME)	The period during which one has worked in the management of SMEs, at the same level of competence and efficiency in the discharge of their responsibilities, may be termed managerial experience.	Tran et al. (2019); Ogubazghi & Muturi (2014)
	Financial Literacy (FL)	Financial literacy is essential for enhancing access to funding by creating conditions and incentives that promote beneficial financial behaviours, such as saving, budgeting, and prudent credit use.	Tran et al. (2019); Rajakaruna et al. (2025)
	Business Plan (BS)	One of the elements of good financial management is an efficient business plan, which facilitates easier access to financing for enterprises.	Tran et al. (2019)
	Financial Management Regulations (MR)	The owners or managers possess a solid understanding of financial management principles and are actively engaged in implementing them in their circumstances.	Tran et al. (2019)

Dependent Variable	Access to formal finance (AF)	Access to formal funding denotes the capacity of SMEs to secure loans and other financial services from regulated entities, such as banks, contingent on criteria such as creditworthiness and collateral.	Tran et al. (2019)

Source: Constructed by authors, 2024

Hypothesis of the study

Given the conceptualization of the research problem, viable hypotheses have been generated to analyse the determinants of SMEs' access to credit in Sri Lanka.

H_1: Managerial experience is significantly associated with SMEs' access to formal finance of SMEs in North Western Province in Sri Lanka.

H_2: Financial literacy among SME owners has a significant influence on their ability to obtain formal financial support in the North Western Province of Sri Lanka.

H_3: The presence of an efficient business plan is significantly related to SMEs' access to formal funding in the North Western Province of Sri Lanka.

H_4: Compliance with financial management regulations is significantly associated with SMEs' access to formal financing in the North Western Province of Sri Lanka.

Sampling and data collection method

The researchers considered the North Western Province of Sri Lanka for the study because this is the second most economically important province in Sri Lanka (Statistics Department, 2022). Moreover, the province hosts a considerable number of SMEs, with the Department of Census

and Statistics reporting 2,588 SMEs in the North Western Province. Despite Morgan's chart suggesting a sample size of 335, the researchers, constrained by low funding and a short timeframe, opted for a sample of 150. Accordingly, the researcher distributed 150 questionnaires to SME owners in two districts, Kurunegala and Puttalam, for convenience. Similar studies have been conducted with small samples (Niranjala, 2020; Pandula, 2011). However, only 114 responses were received, and 14 were excluded due to missing data. Finally, the survey results from 100 respondents were analyzed. The study's response rate is 76%, surpassing the 47% observed in prior similar research (Iqbal et al., 2019).

Data Analysis

The authors employed diverse statistical techniques to ascertain the factors affecting access to finance and their relative significance in determining this access. They conducted reliability testing and statistical analysis of these factors using SPSS 2.0 and Cronbach's Alpha as the reliability coefficient. Subsequently, the authors conducted ANOVA analysis and employed a linear regression model for their investigation.

Demographic Profile

Table 3 presents the demographic characteristics of SME owners who provided valid responses for the study. The gender distribution indicates a moderately balanced representation, with male respondents accounting for 55 per cent and females for 45 per cent. The age profile reveals that a substantial proportion of owners fall within the 21-30 and 31-40 age categories, suggesting that relatively young entrepreneurs largely drive the SME sector in the North Western Province. Educational attainment varies across the sample, with the largest share holding G.C.E. Advanced Level qualification, followed by G.C.E. Ordinary Level qualification. Respondents are mainly based in the Kurunegala district (63%), with the remainder operating in the Puttalam district, reflecting the geographical concentration of SMEs within the province.

Table 3: Demographic profile

Profile	Measurement	Per cent (%)
Gender	Male	55
	Female	45
Age	21-30	43
	31-40	33
	41-50	13

	50 above	10
	Prefer not to say	01
Educational Level	G.C.E A/L	35
	G.C.E O/L	26
	Diploma	16
	Graduate	12
	Other	11
Residential Area	Kurunegala	63
	Puttalam	37

Source: Constructed by authors based on SPSS output, 2024

Descriptive Statics

Table 4 reports the descriptive statistics for managerial experience (ME), financial literacy (FL), business plan (BS), management regulations (MR), and access to finance (AF), including minimum and maximum values, means, standard deviations, and skewness. The mean values, ranging from 1.60 to 1.77, indicate that respondents generally agreed with the statements measuring each construct. The standard deviation ranges from 0.431 to 0.823, suggesting a reasonable degree of dispersion. Overall, the descriptive statistics demonstrate that the dataset is suitable for subsequent inferential analysis.

Table 4: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
						Statistic	Std. Error
ME	100	1.0	4.0	1.60	.524	1.943	.241
FL	100	1.0	4.0	1.69	.823	1.766	.241
BS	100	1.0	4.0	1.65	.479	1.468	.241
MR	100	1.0	3.0	1.64	.431	1.304	.241
AF	100	1.0	3.0	1.77	.544	1.447	.241

Source: Constructed by author's based on SPSS output, 2024

Reliability Analysis

Table 5 presents Cronbach's alpha coefficients for the study variables, assessing the internal consistency of the measurement scales used in the questionnaire. Management experience (alpha = 0.728) and access to finance (alpha = 0.745) demonstrate acceptable reliability, indicating that the items within these constructs consistently measure underlying concepts. Financial literacy (alpha = 0.646), business planning (alpha = 0.636), and management regulations (alpha = 0.654) fall within the questionable but near acceptable range according to conventional thresholds, suggesting moderate internal consistency. Overall, the measurement

instruments demonstrate sufficient reliability for empirical analysis and support the application of these constructs in subsequent statistical testing.

Table 5: Cronbach's Alpha

Variable	Cronbach's Alpha
Managerial Experience	0.728
Financial Literacy	0.646
Business Plan	0.636
Management Regulations	0.654
Access to Finance	0.745

Source: Constructed by authors based on SPSS output, 2024

Correlation Analysis

As shown in Table 6, managerial experience, financial literacy, business plan, and management regulations all have a significantly positive correlation with access to formal finance for SMEs. This implies that improved firm-level characteristics are associated with increased access to formal financial sources. The results indicate the absence of multicollinearity concerns, thereby validating the continuation of the multivariate analysis to further investigate the relative impact of each determinant.

Table 6: Correlation analysis

		ME	FL	BS	MR	AF
ME	Pearson Correlation	1	.501**	.555**	.691**	.633**
	Sig. (2-tailed)		.000	.000	.000	.000
FL	Pearson Correlation	.501**	1	.380**	.439**	.532**
	Sig. (2-tailed)	.000	.000	.000	.000	.000
BS	Pearson Correlation	.550**	.380**	1	.515**	.348**
	Sig. (2-tailed)	.000	.000		.000	.000
MR	Pearson Correlation	.691**	.439**	.515**	1	.654**
	Sig. (2-tailed)	.000	.000	.000		.000
AF	Pearson Correlation	.633**	.532**	.348**	.654**	1
	Sig. (2-tailed)	.000	.000	.000	.000	

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

Source: Constructed by authors based on SPSS output, 2024

Regression Analysis

Table 7: Model summary Table

Model	R	R Square	Adjusted R-Square	Std. Error of the Estimate
1	.736[a]	.542	.522	.376

Source: Constructed by authors based on SPSS output, 2024

According to Table 7 and Table 8, the regression model indicates a strong association between the explanatory variables and access to formal finance (R = 0.736). The model explains 54.2% of the variation in access to finance, and the adjusted R^2 of 0.522 suggests it has reasonable explanatory power after accounting for the model's complexity. The model's statistical significance is confirmed by the ANOVA results ($F = 28.060$, $p < 0.001$). This implies that SMEs' access to formal finance in the North Western Province is meaningfully explained by managerial experience, financial literacy, business planning, and management regulations.

Table 8: ANOVA Table

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	15.886	4	3.972	28.060	.000[b]
Regression	13.446	95	.142		
Total	29.332	99			

a. Dependent variable: FA
b. Predictors: (Constant) MR, FL, BS, ME

Source: Constructed by authors based on SPSS output, 2024

Table 9: Regression Results (Coefficients)

Variables		Standardized Coefficients (B)	t	Sig.
1	(Constant)	.072	3.369	.013
	ME	.306	2.811	.006
	FL	.358	3.104	.003
	BS	.132	1.347	.016
	MR	.502	4.006	.000

a. Dependent Variable: FA

Source: Constructed by authors based on SPSS output, 2024

Table 9 presents the regression coefficient estimates for the determinants of SMEs' access to formal finance. The results indicate that managerial experience exerts a positive and statistically significant effect on access to finance ($\beta = 0.306$, $p = 0.006$). Financial literacy is

likewise positively associated with financing access ($\beta = 0.358$, $p = 0.003$), highlighting the importance of financial knowledge in engaging with formal financial institutions. Management regulations emerge as the strongest predictor among the variables ($\beta = 0.502$, $p < 0.001$), suggesting that regulatory compliance and sound financial governance substantially enhance SMEs' ability to secure formal funding.

Business planning also displays a positive and statistically significant relationship with access to finance ($\beta = 0.132$, $p = 0.016$), although its magnitude is comparatively smaller than that of the other factors.

Overall, the findings provide strong empirical support for the study's hypotheses, confirming that managerial capability, financial literacy, structured business planning, and adherence to management regulations play significant roles in shaping SMEs' access to formal finance in Sri Lanka's North Western Province.

Not only does this paper validate some of the correlations previously identified in literature, but it also adds value by showing the combined effect of managerial experience, financial knowledge, business planning and financial management regulations in one empirical model within the Sri Lankan SME environment. While previous studies have tended to evaluate such factors separately, this paper shows that all of them are important to increase access to formal finance. This allows a much better understanding of the behavior of SMEs regarding their financing in emerging markets.

Similarly, Chowdhury (2017) found a positive relationship between entrepreneurial characteristics and firms' access to finance. The study suggests that access to funding is influenced by factors such as the entrepreneur's skills, firm size, age of the business, and the availability of collateral. These findings provide supporting evidence for the results obtained in the present study.

Among the variables examined in this study, management regulations emerged as the strongest predictor of access to formal finance, as indicated by the highest t-value and a p-value below 0.001. This finding is partly consistent with studies conducted in other developing countries. For instance, research conducted in Bangladesh (Chowdhury, 2017) and Vietnam (Nguyen, 2019) also highlights the importance of managerial and institutional factors in determining

SMEs' access to finance. However, Nguyen (2019) also emphasized the influence of firm size and education level, which were not included as primary variables in the present study.

Discussion and Conclusion

The aim of this study was to examine the factors influencing SMEs' access to formal finance in the North Western Province of Sri Lanka. Four main factors were considered as potential determinants: managerial experience, financial literacy, business planning, and management regulations, while access to formal finance was treated as the dependent variable. The analysis was conducted using SPSS based on data collected from 100 SME owners operating in the North Western Province.

Hypothesis testing was then performed to examine the influence of managerial experience, financial literacy, business planning, and management regulations on access to formal finance. The results indicate that each of these variables has a positive and statistically significant relationship with access to formal financing. In addition, the ANOVA test confirmed that the overall regression model is statistically significant. The findings indicate that the selected factors significantly affect SMEs' access to formal finance in the North Western Province of Sri Lanka. These findings are consistent with much of the existing literature. However, improving these factors within SMEs remains a challenge in developing economies such as Sri Lanka, particularly due to limited financial knowledge and weak financial planning practices among many small business owners.

Managerial experience was found to have a statistically significant influence on access to formal finance. SMEs managed by more experienced individuals are more likely to obtain financial services from formal institutions. Experienced managers are often better equipped to make sound financial decisions, plan business activities effectively, and manage risks, which increases the confidence of financial institutions in providing loans or credit.

Financial literacy also plays an important role in improving SMEs' access to finance. Higher levels of financial knowledge help entrepreneurs maintain proper financial records, manage resources more effectively, and understand the costs and benefits of different financing options. As a result, SMEs with higher financial literacy tend to be viewed as more credible by lenders, which reduces the perceived risk associated with providing finance.

The study also shows that compliance with financial management regulations is an important determinant of access to formal finance. SMEs that adhere to tax requirements, auditing standards, and financial reporting practices are generally in a better position to obtain financial support from formal institutions. Compliance with such regulations increases transparency and enhances the legitimacy of business operations, thereby improving lenders' confidence.

At the same time, access to finance can be influenced by broader external factors, including interest rates, economic conditions, government policies, and the availability of credit in the financial system. Favorable economic conditions and supportive policies can facilitate easier access to finance, whereas unfavorable conditions may pose barriers to SMEs seeking formal funding.

This study suggests that while certain determinants of SME financing are common across countries, regional and institutional contexts may also shape the relative importance of different factors. Therefore, further comparative research across South Asian economies may help to better understand these variations.

In summary, the findings of this study demonstrate that managerial experience, financial literacy, business planning, and management regulations play a significant role in shaping SMEs' ability to access formal finance. Strengthening these internal capabilities could therefore improve financing opportunities for SMEs in the North Western Province of Sri Lanka.

The current study makes valuable theoretical and practical contributions to the field of SME finance. On a theoretical level, the paper contributes by building on the body of knowledge in the area by bringing together four factors which determine access to formal finance under one analytical framework and confirming their significance for the case of Sri Lanka. On the practical side, the results of the study offer information that will help in crafting interventions aimed at enhancing access to formal financial services for SMEs.

Implications

Enhancing Financial Literacy for Entrepreneurs:

First, policymakers have to intervene to boost entrepreneurs' financial literacy through the Internet, books, and business growth and affairs related to financial services training. Gaps in analytical skills, especially in estimating financial positions using liquidity analysis, assets management, loan and debt management, and profit analysis, do not exist. The second fundamental element for calculating the cost of a loan is the concept of funding, cost selection, and interest and cash flow valuation. Besides, problem-solving is reinforced by business planning, such as improved budgeting and financial control, which entail analytical thinking, cash flow forecasting, and the management of capital, revenues, expenses, and profits. Finally, on-site financial reporting experience enables business owners to control the status of assets, capital, revenue from sales, expenses, and cash balance by interpreting financial statement indicators. Furthermore, it may be proposed to the government and other regulatory bodies to conduct training and awareness programs to increase financial literacy among SME entrepreneurs.

Strengthening Managerial Abilities of SME Owners:

Good managerial skills are most crucial to the business performance of any firm, including financial management. Business owners should focus on key managerial abilities, including financial management, marketing, planning, manufacturing, and human resource management. Thus, training in these fields can improve SME owners' decision-making. Moreover, the business planning training improves the provision of effective strategies for developing strong business plans. Among the training programs is production management training, which entails managing schedules and processes to maximise production. Marketing skills training, including market research, product design, and marketing strategies, helps achieve sales targets at minimal cost. Lastly, human resources management training helps in creating effective structures and methods of selection that maximise employees' potential on one side and exert control on the other.

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