

Financial Market Prospects for Community-based Agri-Business entities (PUCs) Introduced by ASMP

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Executive Summary

This policy paper examines the financial market prospects for Public Unlisted Companies (PUCs) established under the Agriculture Sector Modernization Project (ASMP) in Sri Lanka. The study identifies major financial barriers such as limited access to credit, high collateral requirements, and low financial literacy among PUC members. It explores financial accessibility, affordability, product suitability, risk mitigation, impact, sustainability, and scalability. Key recommendations focus on enhancing financial literacy, developing tailored financial products, strengthening risk-sharing mechanisms, and improving banking-PUC linkages to ensure the long-term viability of PUCs in the agricultural sector.

Key messages and recommendations

PUCs struggle with financial accessibility due to stringent eligibility criteria, lack of awareness, and reliance on informal financial markets. Banks are hesitant to lend due to perceived risks, limiting the ability of PUCs to invest in modern agricultural practices and expand operations.

- ✘ Recommendation 1: Enhance Financial Literacy – Implement structured training programs for PUC members to improve financial planning, record-keeping, and credit management.
- ✘ Recommendation 2: Strengthen Banking-PUC Linkages – Facilitate direct partnerships between banks and PUCs to improve trust and streamline loan application processes.
- ✘ Recommendation 3: Introduce Risk-Sharing Mechanisms – Expand loan guarantee schemes and insurance products to mitigate risks for lenders and borrowers.
- ✘ Recommendation 4: Develop Tailored Financial Products – Encourage banks to create low-interest, collateral-free loans with flexible repayment terms suited to agricultural cycles.
- ✘ Recommendation 5: Promote Digital Financial Services – Leverage mobile banking and blockchain-based credit tracking to enhance accessibility and transparency.
- ✘ Recommendation 6: Encourage Market Expansion and Diversification – Support value addition and export-oriented strategies through financial incentives and policy support.

Introduction

Financing is a critical barrier for smallholder farmers in Sri Lanka to access new technology and other inputs that they need to increase crop yields and income. Smallholder farmers themselves are largely outside the formal

economic sector as they frequently do not have the means to secure loans or other financial support. They suffer from collateral issues, less financial literacy that limits their access to formal financial market. They largely depend on the informal financial market where the interest rates are very high.

ASMP has introduced a new business modality into the smallholder sector with the intention of overcoming limitations with smallholder farmers and empowering them in the formal economic sector. ASMP has trained project beneficiary farmers to establish and operate Farmer Producer Organizations (FPO)/ Farmer Companies (FC) that can have better access to capital through formal sources. ASMP recognizes FPOs/ FCs as Publicly Unlisted Companies (PUCs) which have been established under the Companies Act No. 7 of 2007.

Although PUCs are successfully operating on the soil, it is said that they still lack access to finance. This has been one of the key constraints on providing economic services for their members. There is a substantial reluctance by financial institutions to extend lending to the agriculture sector and farmer-based organizations (FBOs). In this context, an in-depth analysis is required to identify appropriate financial support system(s) that local financial institutes can offer to PUCs and their membership.

About the policy study

The objective of this study is to analyze the different types of financial support systems implemented by the financial institutions in Sri Lanka to support PUCs and their membership and to identify the most appropriate financial modalities that can be offered through the Sri Lankan formal financial market, meeting their investment needs. Further, current status and the capacity of PUCs and their investment needs is identified to assess how well they fit into the formal financial market.

In this study, we carried out a desk review and a field study to achieve the underlying objectives. The desk review mainly aimed at identifying and evaluating the legal status and the enabling environment that support PUCs to enter into formal financial market in country. All financial products tailored to small and medium agribusinesses sector that are offered by different institutions in the formal financial market were identified and assessed for their suitability to cater investment needs of PUCs established under the ASMP.

The field study aimed to evaluate the fitness of PUCs for the formal financial market and to understand their potential and investment needs. Further perceptions of institutions in the formal financial market for investing in PUCs were investigated while identifying strengths, weaknesses, opportunities, and threats to investing in PUCs. We collected both secondary data and primary data required for the analysis that support achieving the respective objectives of the study. Secondary data were collected through the desk review, while primary data were collected through the field survey, key informant interviews, and focus group discussions held with all stakeholders of ASMP.

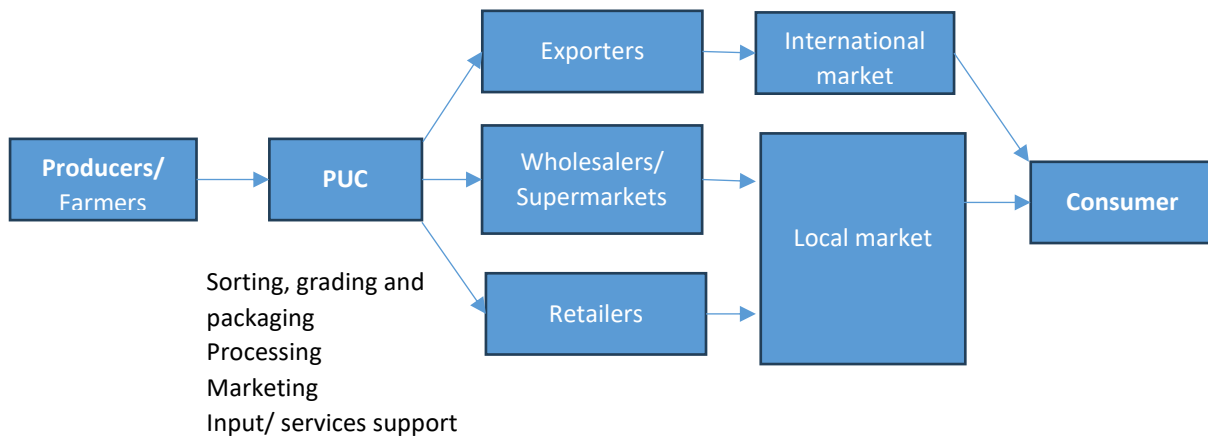
We evaluated existing financial support modalities tailored to Agri-businesses and the status of PUCs for their capacity to access the formal financial market based on seven key criteria. They are respectively: Accessibility, Affordability, Product Suitability, Risk Mitigation, Impact, Sustainability, and Scalability. The reliability of data was assured through triangulation, which was analyzed applying both qualitative and quantitative methods.



Meeting PUCs and membership during the field research, © Keminda Herath

Study results, conclusions, and recommendations

- ✘ PUCs are growing as a small agri-business belonging to int SME agribusiness sector of the country, which has been given full legal coverage as a business entity by the Companies Act No. 7 of 2007. Thus, its eligibility to access the formal fanatical market is very high. However, the current scale of operation is a limiting factor, which is depicted in the following figure, which elaborates on the PUC-based supply chain of high-value agro-products introduced by ASMP. The growth rate of PUCs is found to be slow.



- ✘ Fixed assets of PUCs were on the average 21.5 million LKR with a standard deviation of 5 million LKR. Mean variable assets is 5.5 million LKR with a standard deviation of 5.1 million LKR. Most of PUCs maintain a fixed deposit, which a mean value is 2.1 million LKR with a standard deviation of 0.67 million LKR. Their current bank balance remains, on average, at 2.7 million LKR with a standard deviation of .34 million LKR.
- ✘ The percentage of PUCs that have taken action to be developed further, expanding the business, was investigated using ten aspects, with an average percentage was 43.6% with a standard deviation of 12.8%. This indicates that most of the PUCs are growing slowly and taking fewer initiatives to expand with new innovations
- ✘ Financial literacy of PUCs' management and membership was measured on a five-point Likert scale ranging from highly unsatisfactory to highly satisfactory by means of seven standard criteria. The average financial literacy score of PUC management was 3.17, reflecting that their financial literacy is at a moderate level. The financial literacy score of the membership of PUCs is 2.57, which indicates their financial literacy level is at a poor to moderate level.
- ✘ Financial Facilities Accessibility – PUCs face multiple challenges in accessing formal financial institutions. Physical distance from banking facilities, particularly in rural areas, limits farmers' ability to engage with banks. Strict eligibility requirements, such as high collateral demands and extensive documentation, further exclude many smallholder farmers. Additionally, limited financial literacy among PUC members makes it difficult for them to navigate loan application processes, understand financial products, and manage credit effectively. These barriers contribute to the continued reliance on informal lending sources, which often come with higher costs and unfavorable terms.
- ✘ Affordability – High-interest rates, processing fees, and mandatory insurance costs make borrowing unattractive for smallholder farmers. While some government-backed loans offer lower interest rates, many financial products remain out of reach due to additional fees, such as administrative charges and legal expenses for collateral assessment. Mandatory insurance premiums further increase borrowing costs, discouraging PUCs from accessing formal credit. Limited awareness about available subsidies or concessional loans exacerbates the issue, leaving many PUCs unable to afford crucial investments in infrastructure and production expansion.

- ✘ **Product Suitability** – While banks offer agricultural loans, most are not tailored to the unique needs of PUCs. Many loan schemes focus on individual farmers rather than cooperative-based businesses, limiting PUCs' ability to secure adequate funding. Loan repayment schedules often do not align with agricultural cycles, placing financial strain on PUCs during off-seasons. Additionally, loan sizes may be too small for PUCs to finance larger projects such as processing units or cold storage facilities. Without customized financial products, PUCs struggle to access the capital necessary for scaling up their operations.
- ✘ **Risk Mitigation** – Limited adoption of crop insurance and collateral-free loans increases financial vulnerability among PUCs. Traditional collateral requirements prevent many smallholder farmers from securing loans, as they lack land titles or other high-value assets. The absence of widely adopted insurance products exposes PUCs to risks such as crop failure, market fluctuations, and extreme weather events. While some insurance schemes exist, low awareness and perceived high costs deter farmers from enrolling, leaving them financially unprotected against unpredictable agricultural risks.
- ✘ **Impact** – Restricted credit access stifles innovation and prevents PUCs from expanding production and market reach. Inadequate financing hampers investments in modern farming techniques, mechanization, and value-added processing. This limitation affects competitiveness in both domestic and export markets. Without sufficient capital, PUCs cannot build necessary infrastructure, enter new markets, or negotiate better terms with buyers. The lack of investment in technology adoption and training further slows productivity improvements, hindering the long-term growth potential of PUCs and their member farmers.
- ✘ **Sustainability and Scalability** – PUCs require financial independence and long-term investment strategies to remain viable beyond ASMP support. Many PUCs currently rely on donor funding or government-backed loans, raising concerns about their sustainability once external support ends. To achieve long-term financial stability, PUCs need to diversify revenue streams, establish better financial management practices, and strengthen their market position. Scalability also depends on improved credit access, stronger partnerships with financial institutions, and investment in high-value agricultural products. Without a clear financial roadmap, PUCs risk stagnation and dependency on external assistance.

Recommendation 1: Enhancing Financial Literacy

Conduct targeted training sessions on budgeting, credit management, and investment strategies. Develop financial literacy modules in local languages tailored to PUCs and smallholder farmers.

Recommendation 2: Strengthening Banking-PUC Linkages

Organize stakeholder meetings to improve communication between banks and PUCs. Simplify loan application procedures and reduce bureaucratic barriers.

Recommendation 3: Expanding Risk-Sharing Mechanisms

Introduce government-backed loan guarantees to encourage banks to lend to PUCs. Promote bundled loan-insurance products to reduce default risks and enhance financial security.

Recommendation 4: Encouraging Market Expansion and Diversification

Provide financial incentives for PUCs engaging in export and value-added agricultural products. Support infrastructure development, such as cold storage and processing units, to enhance supply chain efficiency.

Recommendation 5: Developing Tailored Financial Products

Design low-interest, long-term loans aligned with agricultural income cycles. Offer cooperative-based lending models with flexible collateral requirements.

Opinion piece

The Future of Agri-Finance for PUCs

Agriculture remains the backbone of Sri Lanka's economy, yet financial exclusion continues to limit the potential of smallholder farmers. PUCs, established under ASMP, offer a structured approach to agricultural development, but their success hinges on effective financial support systems. By bridging the financing gap, strengthening risk management strategies, and leveraging digital financial services, Sri Lanka can create an inclusive financial ecosystem that empowers PUCs. This requires a collaborative approach, involving government bodies, financial institutions, and development partners, to ensure that PUCs thrive beyond the ASMP framework and contribute to a resilient agricultural economy..

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