A REVIEW ON AGRICULTURAL CREDIT ISSUES AND RELATED POLICIES ADDRESSING COMPETITIVEMARKET BASED ECONOMY IN SRI LANKA DURING THE TRANSITION PERIOD OF PRE COVID-19 AND POST COVID-19 PERIOD

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Abstract

The scholarly article addresses the problems of financing in Sri Lankan agricultural credits during pre Covid-19 and post Covid-19 period. Initially the article investigates why credit markets work imperfectly, even when the government policies and support of the institutional bodies are at a favorable condition for the agricultural sector. Focusing the attention of the issues related to the agricultural credit could be mentioned as; available information, adverse selection criteria of the farmers, credit rationing, the choice of the debt instrument, accessibility for agricultural credits on various commercial banks and micro finance banks. The study brings out why these related problems may cause augmentation to dynamic nature in agricultural credit. The HINARI, AGOLA, Google Scholar database were accessed, the Central Bank Report, Government and Private Bank Reports which were published in 2020 and papers published between 2020-2021 were used to meet the research problem, based on which the theoretical frameworks were exposed. Thus, it depicts deviation of the transaction cost, credit rationing and fluctuation of interest rate and response by the lenders. The study addresses the main objectives, 1. to investigate agriculture credit problems. 2. to suggest the policy in the government to formulate the economic policies to boost agriculture sector during Covid-19 period 3. to access the impact of involvement of the policy makers in agricultural credit disbursement. 4. to identify difficulties in the credit rules and regulations 5. to evaluate risks involving lending loans for the farm sector. Throughout the theoretical based framework, the study has clearly understood Covid-19 pandemic has created a problematic condition related to high risk and profitability changes. Therefore, it is vital to stress the following policies. Flexible strategies and plans for allocating loans with low interest in short and long periods by targeting farming organizations as selected groups are highly recommended.

Keywords: Agricultural Credit Scheme, Central Bank, Covid-19

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1. Introduction

In the sense of the rural economy, for the purpose of exploiting the maximum financial gains and modernizing agriculture sector, credit plays a crucial role (Riaz A *et al*., 2012).Many reasons impact the imperfect functioning of credit markets in the third world countries; lack of organized information, less availability of resources, deformity management and governance processes (Khan & Hussain, 2011).As a result of the imperfection of credit markets and the related agricultural policies, improvements of the agriculture sector do not function well. The credit rational policies, available in the government and private banks as well as other related financial institutions, do not allow the farmers to obtain loans at concession interest rates. The study investigates transitions which were made in the agricultural credit during the pre and the post Covid -19 period. During Covid -19 period it a special attention was given to growth of agricultural self-sufficiency. Although there is a higher demand for the agriculture sector the accessibility for loan schemes seem to become impossible. Therefore, as an alteration crediting resulted in farmers from switching from formal to informal sector of loaning. It is clearly acknowledged that smooth and reasonable allowance of credits are really helpful in boosting the productivity of agricultural activities (Saleem *et al.*,2011). Thereby, the responsibility goes to every elected government to meet the high demand of credit requirement in the farming community. Unlike the conventional markets, credit markets consist of price risk and yield risk. Credit markets are created to generate values through utilizing the loans, which include an exchange of current cash to pay back cash in the future terms. According to the contract made by the bank and the farmers; there is a promise in supplementing with additional bans, similarly lending facilities are determined based on the integrity and deportment of both the parties in the case of handling credit. However, in certain cases the trust will be broken by the creditors (Von Pischke, 1991). Comparably, the agriculture sector faced many challenges such as low earnings of farmers due to extravagant cost of inputs. More debt facilities are required in the profit-oriented agriculture and the agribusiness sector. On all accounts of facilitating agriculture crediting mechanism for the required parties, agriculture production can be boosted in an effortless manner and within a short period of time (Abedullah *et al*., 2009). Government mandated policies are needed in credit rationing for addressing the following issue.

Sanderatne (2002) study noted, agriculture sector in Sri Lanka is facing many difficulties including access to water, costly energy resources with continuous rising prices of inputs. Hence, he proposed that the offered credit schemes are a rebate for them. Established standard credit system allows satisfying the debenture requirements of farmers yet allocation is overestimated and is done within a short term during post Covid-19.

For conveying the future demand for fruits and vegetables during post Covid-19 period, Sri Lankan government made policies to raise agricultural production. The home gardening programme called '*Saubhagya Gewatta*' (Prosperous Home Gardens), 'From garden to table' was organized by Ministry of Agriculture. During the midst of Covid-19 pandemic, Sri Lankan government originated the *Saubhaagya* National Programme on 4 April 2020.Theprogrammetargets to develop 1 million home gardens. Already initiated seed farm projects in rural areas are encouraged by the programme. Organic fertilizer use and production are popularized and home crop production and home gardens for self-consumption are promoted. Government's assistance was provided for the accessibility of the following loans, and the process was operated in an effective manner. In terms of development policies related to the agriculture sector dualistic agricultural credit system was promoted in the sense of formal and informal credit market. The promotions were taken placed during the transition period of Covid-19. The formal credit systems became more competitive, transparency and refinancing possibilities were upgraded related to the policy development in the market economy. The commercial banks and the other financial institutions encouraged especially the small farmers to expand agricultural credit with respect to the net of institutional credit allowance for larger proportion of farming community (Iqbalet *al*., 2003). The prime aim of credit rationing is to maximize expected profits of the lender. Consequently, lenders will increase the interest rates from the intention of increasing the expected profits. Thus, it was the conventional credit rational policy which existed before the pandemic. Yet, without compromising the expected profits which were dependent upon the interest payments the government made policies to reduce the interest rates. The government and the private financial institutions offered the lowest best interest rates, without provisioning limits for amount of available credit (Stiglitz*et al*., 1982).

As consequence, two major functioning economic obstructions of the market economy were identified: unbalanced information due to adverse selection and moral hazards. The size of investment and contractual instruments used, were determined by the borrower's wealth. Bad credit risks are adverse outcomes related to borrowers those who most actively seek loans, since they were more likely to be selected as the lenders (Swinnen & Gow, 1997). According to the point of view of the lender the incentive activities that are available in the financial market related to the agriculture sector are more uncertain and hazardous. The banking system has a sizable portfolio of medium and long term for agriculture with repayment periods extending between 5 to 7 years. The bank's refinance support mostly agricultural projects on very attractive terms and the commercial banks in particular have changed their attitude towards projects with fairly long gestation lags requiring financial accommodation over long period (Central bank Report, 2019). The Bank's efforts are now directed towards encouraging the banking system to extend repayment periods up to about 10 years, so as to accommodate the financial requirements of many agricultural crops which require a long period to come into bearing. Many crops cultivated in Sri Lanka on a commercial scale such as tea, rubber, and a variety of other crops, have cropping cycle, from the stage of planting to the stage of bearing spread over 3 to 7 years. Such crops cannot exist through bank credit unless the banking system is willing to lend long, while at the same time extending grace periods on the loan to match the requirements of the crop indicated by the cropping cycle. Lender's capability depends on how he monitors the borrower's activities and the credit rationing (Harris and Raviv, 1979). Doing so, credit rationing policies are adjusted according to the upcoming circumstance during the Covid-19 period based on high rate of inflation. Licensed Financial

Institution through online or any other communication arrangements and the requests were offered before 30 April 2020 for selected relief packages that should be submitted within a process of 45 days from the date of the request.

During the pandemic period, debt moratorium for interest and capital allowed for all eligible sectors were rapidly restrained. The government existing tenure allowed to extend the payback period based on the government rebate. Settlement or maturing dates during the Covid-19 period were extended up to 25 March 2020for permanent overdraft and for trade finance facilities. Investment purpose loan LKR 300 million per bank per borrower was granted to amplify business activities for the venture capital since they were granted by the banks. The agriculture sector and agro-processing businesses were permitted to access the concessions given by the government. As exemptions, Fisheries and Livestock related business sectors were allotment from income tax from year of assessment 2019/2020.Central bank reported the financial institutions to fund additional loans or new loan facilities in terms of Rupees for working capital or investment purposes under subjected conditions, those were issued as submission of a credible business plan (Central Bank of Sri Lanka,2019). Rupees should not exceed Rs.25 million per bank per borrower and Rs. 10 million per other financial institution per borrower for the eligible group performing and non-performing borrowers for two months working capital requirement, which was higher, and it was based on the requirement for working capital cycle. The above mentioned loaning schemes should be repaid within two years for the interest rate which is equal to 4% p.a.; accordingly, Central Bank of Sri Lanka will subsidies interest cost up to 4% for licensed banks and up to 7% for other financial institutions as a rebate. Credit facility was entitled only for banks and only for performing borrowers in rupees not exceeding Rs. 300 mn per bank per borrower to expand business activities, regardless the government's effort was to control the budget limits. With the interest rate equal to maximum of AWPLLP plus 1.5% the loans were granted. A suspension period prevailed in between 25.03.2020 to 30.09.2020 since both working capital loans and investment loans were aggregated in the loan scheme. Equivalently, financial institutions may obtain suitable assistance to mitigate the risk relating to any additional credit facilities granted under this refinance facility. The study has manipulated how limitations of accessing the credit as legitimate issues related to property ownership, lack of organized business data, less capability of local banks to follow the standard procedures based on the law obligation and different primary lending practices followed by the local money lenders in the third world countries (Ngoc et al., 2009).

Research question

Following research question was formulated in this study:

- What extent do the Agricultural Credit issues and related policies address the competitive market-based economy in Sri Lanka during the transition period of pre-Covid and post Covid-19 period?

Objectives

The prime objective of the study was to find the impact of Agricultural Credit issues related policies during the transition period of competitive market-based economy in Sri Lanka during pre-Covid and Post Covid-19 period.

- To investigate the agriculture credit problems
- To understand as to what extent, have commercial banks helped in obtaining the necessary financial facilities for agriculture

2. Review of Literature

The study was based on secondary data which were obtained from published books and journals. The study was conducted based on the transition period of pre and post Covid -19, further 40 studies were selected for critical review on random basis from the sampling frame. In addition to that discussions were conducted with the experts in the financial sector as well as with the Heads of the farm organizations and finally with the farmers who pretended to obtain loans. According to (Sanderatne, 2002) granted credit has been designated to the rural areas not only based on range of the specificity of crops, but also the credit is delivered based on financial institution network. Initially, through the involvement of the government cooperatives department of food and department of agrarian services disbursing of credit to farmers were handled. After 1967, Central bank of Sri Lanka supervised credit allocation for agriculture which was done by state and private commercial banks

Attanayake, (1993) highlighted that based on the past credit scheme records, providing credits and number of loan schemes for the rural communities which were not effective when it came to the practice. The dependency level on informal sector satisfies the credit needs of small holder farmers who have not changed for the provision of the credit.

Wickrammarachchi (2001) mentioned financial liberalization policiesimpact many financial institutions to accomplish their service conveniently to the rural sector of Sri Lanka. Rapid deployment of the rural savings resulted in grant loans to the rural areas related to the reinforcement of the agriculture sector. Credit policies of the government based on market orientation was modified based on micro credit and micro financing that targeted the ground level, since they are depicted by one recent study of the financing system (Chandrasiri, 2005). Sri Lankan credit schemes of small holder farmers depend on credit based on three different sources: institutional, semi- institutional and non- institutional.

In most cases the informal credit schemes are almost short term, involves extreme interest rates and unfair terms carried out by the informal credit system. Thus, the short term loan schemes were offered to the farmers during the Covid-19 period with easy procedure and with almost on the spot availability.

According to McKinnon (1990), in the market economy, monetary policy instrument involves monitoring the supply of total money, the allocation of credit inside the economy was left, which is unprejudiced from financial institutions which deals based on the assessments of risks and financial returns. Due to sudden economic recession which occur during the post Covid period, the financial plan was well considered based on understanding the reality of the physical deputies of the agriculture sector which contributes for the GDP, in case they were addressed within the government amendments. In the sense of the financial plans, working capital, long term loans for financing investment and public money holdings for the rural farmers were concerned (Calomiris, 1993)

According to Borish *et al*. (1995), Central Bank of Sri Lanka as the main government institutional body undergoes the central planning, the agricultural loaning schemes in Sri Lanka which almost consist of less independence related independency of offering loan schemes. Congregating the tributary security related to agricultural operations was a great distress that was faced by the local farmers. So, commercial banks assist local farmers to constrain agricultural sector related controversies. This is substantially due to the inability of the farmers to deposit in the process of obtaining credit for agriculture. There was a lack of financial institution for the allocation of efficient credits for the farmers. According to the discussions that were undertaken with the small farmers those who were procured with the agriculture sector the influence of the political agenda's impact the inefficiency of obtaining loan schemes rather than the economic criteria.

The partnership with commercial lending organizations coupled with the lenders as well as the borrowers who negotiate long term economic viability or liquidation. Further, additional problems that arose during the post Covid-19 period were inaccessibility of attending experience and skills of banking officials for normal working habitual leading to the inefficiency of the banking operations for allocation of credits. According to D'Browski and Jamrozik (1997), the bankers need to be more educated about the cash flows in the sector related to provision of agriculture credits.

When investigating the market structure of the loan scheme in agricultural sector, the agriculture credit supply is limited. Moreover, the property rights are not fully restored; there is difficulty in obtaining the guarantees. Without having clear ownership rights, in lands or rental markets, it creates problematic conditions for the lenders in valuing guarantee loans. The current government has implemented policies to facilitate commercial credits for the investment of the agro-based industry.

The Regional banks, Cooperative banks and participatory micro credit institutions such as Farmer's bank and Samurdhi bank are mostly popular among the local farmers for accessing loans. Based on the flexible strategies during loan lending, farmers are more enthusiastic to deal with them. The Regional Development Bank which follows flexible rules and regulations and easy methods to grant loans are becoming more popular based on the easy accessibility to the farmers.

Offering long term assets for short term loans, is a typical issue related to the agriculture loans. The agriculture sector can be named as a high-risk sector compared with the other industries because they may be destroyed due to pest, disease, droughts and floods. With the intention of avoiding higher risk and uncertainty during the transition period of pre and post Covid-19, banks further require a very high level of collaterals. High rate of inflation during the pandemic and the variation of the asset's value led to high collate ration of loans allocation. (Szabo., 1997).

The post Covid-19 period can be named as a specific period where the agricultural supply chain was interrupted. Therefore, the farmers have difficulties to sell their products in the local markets. Further due to the bans and the restrictions for the export of agricultural commodities over several countries resulted to fall the farm incomes, therefore the input prices were further increased due to the restriction of the importation of some agricultural inputs, although there was a rapid fall of the output prices. Especially in the sense of several crops, the monopolistic power of wholesale markets. Due to the shortage of cash flow some firms postponed the payments of their suppliers.

According to Stiglitz (1994), government interventions were created as a result of imperfections that are existing in the capital market that has resulted to give a rise to a demand for, but the government is not necessarily at an informational advantage relative to private lenders. During the Covid-19 period, market economy related to agriculture made a specific exposure related to motivation of the exportation of the agriculture commodities in order to gain more foreign exchange. There is a direct competition that can be seen with commercial banks for offering the loan schemes. The direct competition for creditworthy borrowers, farm credit system and commercial banks often have an adversarial relationship in policy reclaim. Commercial bank assets result unfair competition from farm credit system for borrowers because of tax advantages that can lower the relative cost of funds for the farm credit system.

‘Preferential interest rates’ in credit granting have resulted in making agricultural products cheaper in the agricultural marketing channels. Subsidies are paid for by the government. There is increase deficit in the budget and that induce government borrowing to have negative impacts on living cost and nominal interest rates. The consistency of the political and the social conditions have created more favorable condition to incorporate the allowance of credit schemes. Just the same, economic adjustments are eventually made, while implementing novel strategies.

3. Analysis

Table 1: Medium and long term credit fund loan schemes approved for refinance under category 1

Name of Credit Scheme	Refinance Allocation
Credit Scheme for Paddy purchasing farmers	Rs. 50,000 or 75% of the estimated stock
Kapruka Credit Scheme	Rs.200,000
Sarusara Loan	75% of the total Cost of the Project
New Comprehensive Rural Credit Scheme	Rs 504,000
New Comprehensive Rural Credit Scheme: Home Gardening	Rs. 40,000
New Comprehensive Rural Credit Scheme: Nurseries	Rs. 500,000
Cultivation of Kollu project offered by Peoples Bank	Rs. 300,000
KrushiNavodhaya Loan Scheme	Rs. 100,000
Agro Livestock Development Loan Scheme	Rs. 400,000
Total	Rs. 2,054,000

Source: Central Bank of Sri Lanka (2019). 40th Anniversary Commemorative Volume

4. Discussion

Sri Lanka is an agricultural country existing based on the production of agricultural commodities. Majority of farmers are poor and very poor and cannot afford their field costs. Sri Lankan Government has given attention to this sector and has arranged institutional sources for provision of credit and has increased the credit supply year wise. During the pandemic period, the government has introduced a pivotal model for offering loans by identifying the current issues prevailing among rural based communities to upgrade the current status of agriculture. The current study made a strong emphasis over the offering of loam schemes for the agriculture sector.

'Krushi Navodaya Loan Scheme' –was a credit scheme which was offered to small farmers in order to buy agricultural equipment, services and other inputs. The granted loan was coupled with several development programmes for enhancing income generating avenues of the farming community. Small farmers are approached to purchase agricultural machineries and tools, and related inputs to maximize their income level through the facilitated loan schemes. New avenues operate through initially introduced loan schemes for small farmers. Farmers can easily access to move towards new systemizations, methodologies, and market opportunities.

The loans are offered to the identified specific categories. Credit facilities are granted to develop agriculture and agro-based industries to purchase agricultural equipment, animal husbandries, and extension services for agricultural activities, organic farming and producing organic fertilizers, enhancing storage facilities, micro irrigation and drip irrigation distribution system. In Mahaweli areas special loan scheme was introduced by gazette under the Mahaweli Authority Act. The ultimate goal of offering the loan scheme was to expand the potential for value addition of the agricultural and other products in the Mahaweli area. Agro-processing, livestock production and processing, ornamental fish breeding and farming, freshwater fish processing similarly introduction to high tech agriculture, and manufacturing high tech machinery, equipment and spare parts are implemented. The dairy farmers who were recruited primarily in dairy farming activities were offered special loan schemes by the agro livestock development to improve revenues.

The dairy farmers were encouraged to purchase cows/heifers, chilling equipment, service and construction of cattle sheds for enhancement of liquid milk production and to adopt new technology and techniques. The loan is eligible for the categories of purchasing of cows, heifers, equipment for development of dairy projects and rearing of cattle sheep, processing of liquid milk and production of milk- based products in agro based and agro related processing industries. Progression of the processing industry reached maximum up to Rs. 400,000 and the loan is offered for airy industry and maximum Rs300 million loan is offered for processing industry within the payment period up to 5 years.

Commercial banks, other banks like farmer's bank, Samurdhi banks and Cooperative banks and Community organizations have been assigned nominal interest rates on cash loans as well as pawning to facilitate easy access of getting loans. Also varying interest rates are given for individual agricultural credit schemes of each bank, based on the identical credit policies. Different banks and financial institutions have designed different strategies to allocate different credit schemes based on the type of procedural requirements, linked with rules and regulations to farmers. Within the post Covid period government banks; Peoples Bank and Bank of Ceylon introduced flexible methods in dealing with guarantees for accepting two fellow guaranties those who have bank accounts in the same bank. Thus, the Banks like Hatton National Bank, Commercial Bank and Seylan Bank required valuable fixed assets or acceptable personal guarantees. Further, the government banks had made crop insuring policies which are more concessionary for the farmers, while the private banks did not make similar demands. Hence, in a practical sense the crop insurance policy which was introduced by the government was not successful.

The farmers were demotivated to deal with the banks due to the problems arisen, during the process of obtaining a loan from the banks, yet it was a vital practice that the farmers had to visit the commercial banks a number of times to complete the procedural requirements. Number of days for visitation of the banks to obtain a loan from the government banks and the financial institutions should be reduced. Generally, two weeks are required to obtain a loan from either Peoples Bank or Bank of Ceylon. Although the private Banks like Commercial Bank utilize more flexible methods, reducing the number of days to 9 days. In terms of rural small -scale farmers mortgaging gold is one of the easiest methods of obtaining cash. It is recommended if a single day loan obtaining process is working, it may be more productive. When the number of visits to obtain loans increased, bus fair and additional expenses for food also had to be expended by the borrowers. As a result, the farmers were not much more enthusiastic to obtain the loans.

The community organizations offer credits at higher interest rates in order to develop the credit funds. According to the data, which was gathered by the farmers, it revealed that the monthly interest is 3-5% offered by the farmer organizations and the death donation societies. Thus, farmers should wait for three to five days to obtain loans. The nominal interest rate of pawning from government to private financial institutions varies.

The agro-input dealers, boutique owners, economic center traders, agro based processors had no interest so they appeared as interest free loans, some with hidden interests added into them. It may demotivate them for obtaining the loans. Major problems in the rural sector can be considered as; consisting mostly of poor, landless and marginal farmers, whose problems seem more acute.

In the post Covid-19 period, the policy of banks on rural credit and rural development, accentuate further due to the inequality in incomes. Therefore, the bank itself which made the policy on rural credit and rural development, have laid emphasis on poverty alleviation and creation of employment for the unemployed in the rural community. Basically, the Central Bank and the Government of Sri Lanka have identified the negative impact over the credit schemes and generated off farm incomes through small investments. Exploiting the skills and simple technology available in rural areas was an important objective in many credit schemes designed for the rural poor farmers. When investigating the problematic issues related to banking credit schemes, it is clearly identified that the lower recovery rates, high administrative costs and low profitability of rural credit operations troubled the financial institutions. The recommended strengthening of lending programs and a more market-oriented credit structure to promote expansion in rural leading is proposed. Lack of market orientation in lending rates has also been pointed out as a reason for the slow growth of rural lending. The Bank's initiative in the provision of refinance has been faulted for lack of progress. The refinance policy has tried to accommodate both growth and equity goals for the development of the rural based agro-system. A conscious policy of concessional interest rates on sub loans under refinance schemes should be adopted. Although Central Bank itself has no power in moderating the whole process, the banks or any financial institutions are free to use their own resources, lend on their own terms and conditions and at rates which ensure a satisfactory return to a bank. Although the bank has the freedom to take any inclination, the bank does not have the advantage to exploit. If the banks were dismantled, their refinance schemes and the credit guarantee support for rural lending from banking systems fail. The rural sector and the rural poor cannot compete on equal terms with the other more developed, commercial sectors in the economy for resources. Therefore, some kind of assistance and support will have to continue to be extended from the Bank to ensure that resources flow through the banking system to rural areas. So, it is important to develop a strategy as a policy of the complete market orientation in rural lending may not be desirable. In the recent times, the introduction of 'Naya Niyamaka Schemes' which is variously described by several banks participating in the schemes, without exception, sought both refinance on concessional terms and guarantees' from the Bank in support of the scheme. Thus, if the bank decided not to support the scheme, it results in complete market orientation in approach, interest rates and in all other aspects. As a result of tackling rural indebtedness of the farmers, resources of the banking system channeled through this scheme appear to flow not to the rural poor, the intended beneficiaries; but to others at interest rates well above that the amount stipulated under the scheme. The bank will, therefore, continue to play a role on this field. Further, reforms to the institutional framework are also under consideration. Banks are actively examining the process and further banks monitor the process of cultivation. Further, reforms for the institutional framework are also under consideration of the Ministry of Finance. Banks are actively examining the feasibility of establishing a Credit Guarantee Corporation to undertake the credit guarantee operations of the bank on a broader scale. An area in which the bank has already made a start, and which is likely to expand in this decade is poverty alleviation. Under the small farmers and landless credit project now in operation in many rural districts peculiarly like the poorest segments in the community will be assisted with credit to create for themselves some means of livelihood. In addition to that the non-Governmental organizations (NGO) in the country carry a programme of poverty alleviation of the rural communities by offering loans for agro based projects.

According to the discussions that were undertaken with the farmers, it is clearly proven that farmers have to wait for certain period of time to obtain a loan. In addition to that, the difficulty of obtaining guarantees and the financial institution does not allow to offer the asked amount loan. The group guarantees were accepted as securities of loans under the government commercial banks because it has become a problem as some members of the group had not repaid the loan. Some farmers, who receivers and were not interested in joining insurance schemes. In addition to that the strict procedures that were exist like filling number of forms, bank officers ignoring the farmer's needs, the bank's strict regulations if the farmers failed repayments and the distance to the banks. In addition to that when considering about the issues related to offering loans from non-banks, if the farmers are unable to obtain memberships, the inefficiency of maximum offering of loans, the difficulty to deal with transactions with the group system, the incapability of the informal financial institutions and the less amount of money granted. Further some farmers are unaware about the benefits of farmer's bank. Some farmers are having the attitude that they should not be indebted. Further farmer's banks are not functioning properly which leads the farming community not to obtain loans to expand their farming activities.

5. Conclusion

The imperfect nature of the local credit market has created problematic conditions in the financial sector during the pandemic situation. The study stresses on the main problematic areas that should be addresses in the development of policy in the credit schemes. Sri Lankan Government with the cooperation of the Central Bank has settled several reforms to stimulate restricting the bank sector offering loans.

The current study clearly identified the evidence to prove that most banks and financial institutions are reluctant to offer credit schemes for the farming communities based on the high risk of the sector since agriculture is sensitive to vulnerabilities of weather conditions and other external factors. High nominal inflation during the Covid-19 period demotivated the banks as well as the financial institutions to offer credit loan schemes over the agricultural activities. Further, the existing legitimate issues related to the land and property rights and ineffective markets lead to the credit related problematic conditions in the farming community.

Findings of the research that will be effective for policy makers.

- Increase dimensions of allocating credit to the farmers, particularly based on designing accessing more flexible strategies and plans with low interest.
- Simplified methods and short period should be arranged for obtaining loaning facilities.
- Introducing crop and livestock insurance schemes to enhance the credit security.
- Allocating credit loan schemes targeting farming-based organizations, therefore it is much easier to find the collaterals.
- Establishing stability policies and amendments related to land and property rights.
- The number of visits to obtain a loan should be minimized and the strict rules and regulations for the guarantees should be minimized.
- A particular division in the financial institutions should be operated with well trained staff members with sound agriculture and financing knowledge to provide better service.

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