

Role of Credit Accessibility and Financial Literacy on Firm Performance: Evidence from Sri Lanka's Plant Nursery Sector

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Abstract

Small and medium-sized plant nurseries are critical actors in Sri Lanka's agri-enterprise sector, contributing to rural employment, environmental sustainability, and crop system diversification. Despite their growing importance, these enterprises face persistent challenges in accessing formal credit and managing finances effectively. While credit constraints are widely recognized, limited empirical research has examined how financial literacy influences agribusiness performance within the Sri Lankan context. This study investigates the combined effect of credit accessibility and financial literacy on the performance of nursery enterprises, while also identifying key credit-related challenges and potential mitigation strategies. A cross-sectional survey was conducted among 220 nursery operators in the North Western and North Central Provinces. Stratified random sampling was applied based on business size and district location. Data were collected using a structured, pre-tested questionnaire, and reliability was confirmed. Firm performance was measured using a combination of financial and non-financial indicators. Binary Logistic Regression (BLR) was used to identify significant predictors of performance, while the Relative Importance Index (RII) was applied to rank credit related constraints and mitigation strategies. Results indicated that credit accessibility significantly influenced firm performance. Financial literacy showed a significant positive association, with moderate and high literacy levels contributing to better firm performance. Firm size had a marginally significant effect, with small-scale nurseries outperforming micro scale ones. Key challenges included high interest rates, strict collateral requirements, and complex loan procedures. Recommended solutions were low-interest loans, simplified loan processes, and reduced collateral requirements. This study highlights the critical importance of improving financial literacy and enhancing credit accessibility to support the performance of rural plant nursery enterprises.

Keywords: agribusiness, credit accessibility, financial literacy, firm performance, plant nurseries