# FACTORS AFFECTING NON-PERFORMING SMALL SCALE LOANS: A CASE IN REGIONAL DEVELOPMENT BANK (RDB) IN POLONNARUWA DISTRICT, SRI LANKA

**W. M. P. Thenuwara and L. P. Rupasena**

*Department of Agricultural Systems, Faculty of Agriculture, Rajarata University of Sri Lanka, Puliyankulama, Anuradhapura*

Commercial banks in Sri Lanka prefer non-agricultural loans due to high risk involved in agricultural loans though they have to play a major role in providing credit to develop commercial agriculture which needs more investment. Therefore banks need to develop risk management strategies to reduce non-performing loans by identifying factors that have contributed to non-performing loans. This research aimed to identify factors affecting non-performing small scale loans issued by five RDB branches in Polonnaruwa district. The sample included 150 randomly selected loan borrowers who were granted credit from January 2016 to December 2016 comprising 100 non-performing loan borrowers and 50 performing loan borrowers. Primary data were collected from key personal interviews comprising loan officers and bank managers and group discussions with borrowers using questionnaire. Secondary data were collected from loan applications. The binary logistic regression was fitted with independent variables of gender, monthly income, family dependents, loan amount, interest rate, repayment period and collateral type. Chi-Square statistic was statistically significant at one percent level indicating that there is a relationship between the independent variables and the dependent variable. The results of the regression analysis revealed that gender, monthly income, repayment period and collateral type were statistically significant in the prediction of non-performing loans. Accordingly, lower income borrowers and female borrowers have a more tendency to become defaulters compared to the higher income borrowers and male borrowers. Key personal interviews revealed that inadequate loan monitoring risk assessment and budgetary allocation for loan monitoring as major weaknesses of the existing credit monitoring system. The study concluded that monthly-income, gender, repayment period collateral type and poor monitoring mechanism are the main factors affecting on non-performing small scale loans. Hence RDB should pay more attention to such factors in selecting applicants and in strengthening loan monitoring system.

*Keywords*: Logistic regression model, Non - performing loans, Small scale loans