

FACTORS AFFECTING NON - PERFORMANCE OF AGRO-BASED LOANS: A CASE STUDY OF PEOPLE'S BANK IN KURUNEGALA REGION, SRI LANKA

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Agricultural credit plays a pivotal role as a leading source of financial support for the farming community. However, the financial institutes which provide agricultural credit have experienced a financial pressure owing to the poor loan recovery rates. Thus, this study aimed to identify the factors affecting on poor recovery rates of agricultural credits in the service area of People's Bank, Kurunegala Region. The multistage stratified random sampling technique was employed to draw a sample of 250 agricultural loan borrowers. Primary data were collected from the key person interviews and focus group discussions, whilst secondary data were extracted from the bank records. Descriptive analytical techniques, factor analysis and Binary Logistic Regression were employed in data analysis. Descriptive analysis showed that a 52% of non-performing borrowers had previously obtained unsettled loans and only 24% of the total non-performers have undergone a proper loan monitoring mechanism. As per the factor analysis, loan monitoring (0.68), availability of previous loans (0.78), civil status (0.77) and number of dependents in the family (0.71) received the highest factor loadings among the extracted four factors respectively. The Binary Logistic Regression disclosed that age, monthly income level, number of dependents, previous loans, civil status and loan monitoring were statistically significant ($p < 0.05$) in determining the non-performance of agro-based loans. Related to the monthly income, the possibility of being non-performing is 36.8 times higher in income level 1 (Rs: 10,000 -25,000) compared to income level 3 (Rs: 26,000 - 55,000). Similarly, the number of dependents in the family (OR = 15), previous loans (OR = 13) and age of the farmer (OR = 1.09) increase the likelihood of being non-performing. On the contrary, the existence of a proper loan monitoring mechanism has decreased the possibility of being non-performing by 94% as compared to those not having such a system. Study concludes that both borrower characteristics and bank specific factors influence the repayment performance and recommends to consider the identified factors in selecting the applicants and to implement strict loan monitoring system to minimize the low recovery rate.

Keywords: Agricultural loans, Logistic regression, Factor analysis, Non-performance