FACTORS AFFECTING REPAYMENT PERFORMANCE OF AGRICULTURAL LOANS: CASE IN EPPAWALA DIVISIONAL SECRETARIAT AREA, SRI LANKA

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Microcredit has identified as a one of the effective means in poverty alleviation. The People's Bank has introduced an agricultural loan scheme called *"SARUSARA"* in order to contribute to poverty alleviation by easing the financial burdens of the farmers. However, the number of non-performing agricultural loans (NPL) has been increasing overtime and it is a worldwide issue that affects banking industry's viability. Therefore, this study was conducted in the area under the purview of the People's Bank of Eppawala to identify factors that have contributed to non-performing loans (NPL). Primary data were collected from a random sample of 145 farmers in Hammillawa, Katiyawa, Nallamudawa, Kiralogama and Nabadawa villages and convenient sample of 16 loan officers in 8 branches of People's Bank in Anuradhapura region using questionnaires. Secondary data was collected from bank records. Figures, statistical tables and narratives such as percentages, mean scores and standard deviations were used in data analysis. Majority of the farmers were paddy farmers and were 40-55 years old and married males. They also have received primary education. They cultivated 0.5-1.5 acres of paddy and had earned an average seasonal income of Rs.80, 000-100.000 per acre. Majority of the loan officers were 25-35 years old females. Only 24.5% farmers have failed to settle the agricultural loans they have obtained. Both 66.5% farmers and 42.5% loan officers are moderately unsatisfied about the credit size. Nallamudawa is a village that has been facing wild elephant attacks in some seasons and also has exposed to bad weather. As a result, farmers have lost their harvest either totally or partially. But, some farmers have not paid the loan back willfully. Strengthening of bank specific factors like credit assessment, and credit monitoring will reduce NPLs. Borrower specific factors like loan diversion, poor credit culture, willful defaulting, natural and animal hazards and socio economic factors like gender, marital state and number of dependents have contributed to the increased number of NPLs. Thus, increasing the income level of farmer, providing a crop insurance program, providing suitable irrigation methods will reduce the number of NPLs. Increasing loan recovery efficiency and good loan underwriting methods, sound credit assessment and increased credit monitoring are some recommendations that can be made to reduce the number of NPLs of *"SARUSARA"*.

Keywords: Agriculture lending, Microcredit, Non-performing loans, SARUSARA