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Factors affecting the loan repayment behaviour and credit risk of farmers in *Kotiyagala* village in Monaragala District

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Capital investments in agriculture and loan repayment are important in the smooth running of farm business entities. Analyzing the loan repayment behavior of farmers is critically important with the adoption of modern commercial farming operations in Sri Lanka. With this backdrop, a study was carried out in *Kotiyagala* village (6.772544N, 81.530066E) in the Monaragala District. One hundred farmers were selected randomly to collect information. Both structured questionnaire and small group discussions were used for collection of primary data. A multiple regression model was used in the process of data analysis. Independent variables have an impact on the paid credit amount (the dependant variable) at significant level of 95%. Results show demographic characters like age ($p=0.01$), income ($p=0.01$), and family size ($p=0.02$) have a strictly significant impact on loan repayment. In contrast, interest rate ($p=0.003$) and loan application cost ($p=0.002$), which are lender specific characters, also significantly impact on loan repayment. The borrower specific characters like value of collateral ($p=0.00$) and possession of farm machinery ($p=0.001$) have a significant impact on the particular loan repayment. As a policy measure, the rural farmers need proper micro credit facilities and affordable interest rates to overcome the inefficiencies in the loan repayment. Further, farmers who currently borrow money from less organized financial markets, due to collateral issues, must be supported via such introductions.

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