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The Factors Affecting the Non Performing Portfolio in Micro Lending: An Empirical Study on the "Gami Pubuduwa" Scheme of Hatton National Bank,

By

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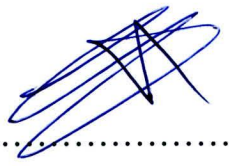
The work described in this thesis was carried out by me under the supervision of Ms. P.A.N.S.Anuradha (Senior lecturer Department of Finance of the University of Sri Jayewardenepura) and a report on this has not been submitted in whole or part to any university or any other institution for another Degree/Diploma



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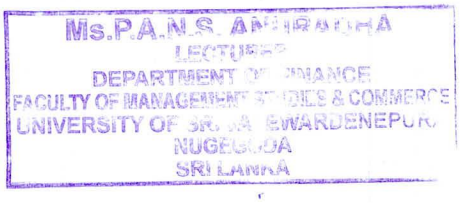

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Factors Influencing the Non Performing portfolio in Micro Lending; An empirical Study On the Gami Pubuduwa Scheme Of Hatton National Bank Plc.

By L.R.P.Ranatungha

ABSTRACT

The purpose of this study is to understand the pre-loan evaluation factors and post loan factors which have influence Non Performing Loans (NPL) in micro lending within the Sri Lankan context. The research used the empirical approach and it was conducted on the Gami Pubuduwa (GP) loan scheme of Hatton National Bank(HNB) of Sri Lanka. This scheme is among the main renowned microfinance schemes conducted by private sector commercial banks. Microfinance officers, who actively involved in the field of micro lending and actual non performing loan clients were selected as sample and systematic random sampling and convince sampling were used respectively. Pre-loan evaluation factors were studied by using the popular loan evaluation model; Character, Ability, Margin, Purpose, Amount, Repayment, Interest (CAMPARI) and post loan factors were considered through three basic management functions, namely marketing management, operational management and financial management. A 'Sinhala' questionnaire was used to collect the data from actual NPL clients and an English questionnaire was use for the loan officers. Data of the two segments were tested separately to reduce the complexity and the model was tested using the binomial sign test.

The findings show the importance of proper consideration of the ability of the borrower and purpose of loan in prior loan evaluation to reduce NPLs in micro lending. Both loan offices and actual micro loan clients confirm the poor financial management

practices which have an impact on NPL in micro lending. Further, Loan officers are at the opinion that poor operational management practices also lead to NPLs in micro lending.

The propose study is subject to number of limitations; dependence on primary data quality on the respondents genuineness, poor relationship between bank and actual NPL clients, subject findings may be relevant only to sample (HNB) and generalization of same may have limitations and the available literature on microfinance being mainly based on economic development and eradication of poverty and not on NPL analysis are a few of them

Keywords – Micro Lending, Non Performing Loans, Pre-Loan evaluation factors, Post loan-factors.

Chapter 1

INTRODUCTION

1.1 Background of the Study

1.1.1 Microfinance and Non Performing Loans

A huge variation in the income distributions patterns of the world within the current open economic system has created a reasonable number of people as low income earners or the poor. The opportunities available for this segment, to be economically active are very low and which reasoned to poor living standards of a large number of people in the worlds population. The recent statistics of the World Bank show that out of the total world population a considerable number of people are living below the poverty line. Among the major reasons for the said phenomenon: lack of opportunities to approach to the banking system by poor people which is a common occurrence among the developing countries of the world.

Microfinance(MF)[1], which is a rapidly growing segment in the finance industry endeavors to provide a reasonable solution to the said problem of increasing poorness due to lack of financing opportunities for the poor. The main components of microfinance are micro lending, micro saving and micro insurance and the most demand is for micro lending (Robinsion (2009)) Most of the financial resources in the world are shared by the economically active wealthy people and also the majority of the financial institutions in the world are trying to improve their bottom line with minimum risk, This could be among the

[1] Broad area of microfinance refer to micro loans , micro savings and micro insurance The subject study is only based on micro loans