

## Factors Affecting non Recovery of Kapruka Ayojana Credit Scheme Implemented by Coconut Cultivation Board in Kuliypitiya Region

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### ABSTRACT

This study was carried out to identify the major factors that are associated with default of Kapruka Ayojana Credit Scheme. A questionnaire survey was conducted with creditors in Kuliypitiya Coconut Cultivation Board Region. Data that were collected from 47 credit borrowers were analyzed with Statistical Package for the Social Sciences (SPSS), Version 17.0. The results revealed that there was no correlation between factors that were identified through Focus Group Discussions (FGD) with credit officers and recovery officers (willful defaulter, misuse of credits, increase cost of living etc.) and non-performing level of Kapruka Ayojana Credits. However, default of Kapruka credits was correlated with age, average monthly income, education level and experience in cultivation of the borrowers. This study expressed that it needs deep study on this area and to identify real factors affected on default of Kapruka Ayojana Credits.

**KEYWORDS:** Default, Kapruka Ayojana Credit Scheme, Non-performing level.

### INTRODUCTION

Coconut (*Cocos nucifera* L.) is a traditional plantation crop grown in Sri Lanka. The coconut palm plays an important role in the economy of Sri Lanka. National annual coconut production in 2011 was 2,808 Million nuts and earned billion Rs. 29.4 by exporting coconut products (Anon, 2012a).

Coconut cultivation is a less intensive land use system. Nature of the tree provides extensive space for intercropping, livestock etc. Productivity of a coconut land can be increased by practicing proper cultural practices like irrigation, fertilizer application, weeding etc. However, most of the smallholders acquire a low income. They lack enough resources for a systematic cultivation. Hence, the smallholders are in need of a credit facility.

Coconut is a perennial crop and farmers have to wait at least 5 to 10 years to get proper yield. Therefore, farmers hesitate to obtain loan for the coconut cultivations. Owing to the above reason a low interest loan scheme, which is called "Kapruka Ayojana Credit Scheme", has been introduced by the Coconut Cultivation Board (CCB) in 1998.

The Kapruka Ayojana credit scheme is the only loan scheme catering to the agriculture field offering financial assistance and technical extension services for the land development of coconut cultivators economically and conveniently. The concept of this loan scheme is developing coconut lands as complete farming units. Also, increase

the production of coconut and the productivity of coconut lands, enhance income and standard of living of coconut farmers and increase employment opportunities. Under the third stage of the loan scheme, amount of million Rs. 1,094 have been given to 5,359 cultivators to develop 32201 acres of coconut lands (Atapattu, 2013).

Kapruka Ayojana Credit Scheme provides guidance and financial assistance towards realization of higher productivity and steady income by making sure optimum utilization of available resources in the land. This loan scheme is implemented island wide and commercial banks, state banks and rural development banks are take part in this scheme (Wijesinghe *et al.*, 2005). Several types of loan categories are being found in the scheme. They are, New planting coconut with intercropping, Replanting coconut with intercropping, Intercropping with coconut plantation, Rehabilitation of coconut plantation, Coconut mono-cropping, Establishment of irrigation system for coconut, Establishment of intercrop Nurseries, Farm equipments and special projects.

"Kapruka Ayojana Naya" is 5 years loan scheme. Minimum extent of land eligible for credit scheme is ½ acres and maximum is 50 acres. The unique characteristics of the scheme are assistance given by the CCB officers for preparation of development plans, inclusive of 6 months to one year grace period, repayment can arranged monthly, quarterly or half yearly depending on the income generating pattern of

the project financed, partial refunding of loan interest paid to the bank and concessionary rate of interest. Loan borrower has to pay interest for the loan during the grace period. The Kapruka National Coordination Committee decides the interest rate for those loans every year.

The highest advantage of this loan scheme is reimbursement of the interest. Hundred percent of the loan interest paid in 1<sup>st</sup> year (50 percent of the loan interest paid in the case of Farm Equipment Loan categories) and 50 percent of the loan interest paid in 2<sup>nd</sup> to 5<sup>th</sup> year (No rebate for Farm Equipment Loan categories) will be granted a rebate to the borrowers by CCB. Borrowers should fulfill some conditions to be eligible for the interest Rebate. They are, completion of agricultural practices recommended and agreed upon in the Farm Plan successfully within the stipulated period, repayment of Bank's loan installment and interest up to date. Rebate is remitted direct to the Bank accounts of the borrower half-yearly by the CCB (Anon, 2000).

The loan is released in stages according to the cultivation plan and on written recommendation the respective Coconut Development Officer (CDO)/Regional Manager (RM) of CCB. The CDOs and bank officers before release of second installment and subsequent installments to ensure the end use of funds released previously carry out field inspections jointly (Anon, 1998).

However, to encourage the financial institutions connected with the loan scheme, engage in 100% re-financing completion programme and a 50% loan recovery programme, in North Western Province 13% of Kapruka Ayojana credits are in non-performing section (Anon, 2012b).

The objectives of this study were to determine the factors that influence the default of Kapruka Ayojana Credit Scheme in Kuliyaipitiya Coconut Cultivation Board Region and identify the socio-economic status of farmer. Also, identify strategies to increase recovery of the credit scheme.

#### METHODOLOGY

Focus Group Discussions (FGD) were carried out with Credit Officers and Recovery Officers of banks. According to them ten main factors were identified for default of Kapruka Ayojana credits. Those ten factors consisting of five-point likert scale ranging from "Strongly Disagree" to "Strongly Agree" were selected from questionnaire. A personal interviewing survey was conducted in Kuliyaipitiya Coconut Cultivation Board Region to collect primary data from the

Kapruka Ayojana credit borrowers. The survey covered the areas of Pannala, Kuliyaipitiya, Hettipola and Welpalla. Twenty seven nonperforming borrowers and 20 performing loan borrowers were selected randomly.

#### Model

$$Y = f(X1, X2, X3, X4, X5, X6, X7, X8, X9, X10)$$

Where,

Y = Nonperforming Level

X1 = Willful defaulter

X2 = Misuse of credits

X3 = Natural disasters

X4 = Pest and diseases

X5 = Reduce coconut price

X6 = Increase cost of living

X7 = Lack of knowledge on management practices

X8 = Destroying intercrops

X9 = Ineffective marketing system

X10 = Poor quality coconut seedlings

Data were analyzed using the Statistical Package for Social Science (SPSS) Version 17.0 and checked correlation between these ten factors and non-performing level of Kapruka Ayojana Credit Scheme.

#### RESULTS AND DISCUSSION

Results reveal that increasing cost of living was emerged as inferential factor of default of Kapruka Ayojana credits ( $\bar{x} = 4.00$ ,  $SD = 1.18$ ). Reduced coconut price at the market ( $\bar{x} = 3.67$ ,  $SD = 0.83$ ) and pest and diseases ( $\bar{x} = 3.56$ ,  $SD = 1.45$ ) were the other main factors affected to default of Kapruka loans (Table 1). Powdery mildew, mites and black beetles were the major pests and diseases damaged to coconut fields in Kuliyaipitiya area.

Due to drought condition in past time, coconut production was reduced. That was affected to nonpayment of Kapruka loans due to lesser income from coconuts.

Ninety two percent of Kapruka credit borrowers sold their coconut production to village collectors. They were satisfied with the price that they obtained from those collectors. Therefore, the results showed that ineffective marketing system was not a factor that affects to default of loans.

Eight per cent of Kapruka credit borrowers were attended training programs on

**Table 1. Factors Affecting Non recovery of Kapruka Ayojana Credits**

Factors	Mean	Standard Deviation	Correlation	P value
Willful defaulter	3.33	1.07	0.323	0.100
Misuse of credits	3.33	1.52	0.042	0.837
Natural disasters	3.44	1.28	-0.107	0.596
Pest and diseases	3.56	1.45	-0.297	0.132
Reduce coconut price	3.67	0.83	-0.076	0.707
Increase cost of living	4.00	1.18	0.080	0.690
Lack of knowledge	2.78	1.25	-0.059	0.771
Destroying inter crops	3.11	1.55	-0.190	0.344
Ineffective marketing system	2.22	0.93	-0.327	0.096
Poor quality coconut seedlings	3.22	1.34	-0.369	0.058

\*\**-Correlation is significant at the 0.01 level (2tailed); \*-Correlation is significant at the 0.05 level (2-tailed)*

coconut cultivations and gathered knowledge on it. Majority of credit borrowers had cultivated coconut with their experience. However, the knowledge on coconut cultivation was enough to continue the cultivation. Knowledge on coconut cultivation was not affected to default of Kapruka loans.

Nevertheless, all the factors that were found in focus group discussion for default of Kapruka loans were not significant at  $p = 0.05$  level with non-performing level (Table 1).

Hence, non-performing level was compared with credit borrowers' demographics. From that four factors (age, monthly income, education level and experience in coconut cultivation) emerged as significant factors (Table 2).

**Table 2. Demographic Factors of Non performing Kapruka Credit Borrowers**

Demographics	Correlation	P value
Gender	-0.174	0.386
Age	-0.445*	0.020
No. of family members	0.104	0.606
Monthly income	-0.396*	0.041
Education level	-0.657**	0.000
Experience	-0.571**	0.002
Loan Amount	0.000	1.000
Cultivated extent	-0.341	0.082
Ownership	-0.328	0.095
Purpose	-0.107	0.595
Inter crops	0.363	0.062
Security	-0.328	0.095

\*\**-Correlation is significant at the 0.01 level (2-tailed); \*-Correlation is significant at the 0.05 level (2-tailed)*

Age of the credit borrower and the nonperforming rate was negatively correlated ( $r = -0.445$ ,  $P < 0.05$ ). As people become mature default rate of credits were decreased. There was a moral impact towards payment of credits with increasing age limits.

Monthly income was associated with the default of Kapruka loans ( $r = -0.396$ ,  $P < 0.05$ ). Generally with the increase of the income from production, the repayment ability had increased. It affected positively to increase recovery rate of credits.

Experience in coconut cultivation ( $r = -0.571$ ,  $P < 0.05$ ) and education level of loan holder ( $r = -0.657$ ,  $P < 0.05$ ) were also negatively correlated with non-performing level of Kapruka Ayojana credits. Experienced coconut cultivators knew advantages of Kapruka Ayojana credit scheme and they obtained credit facilities several times and were increased production and productivity of the coconut lands. They attempt to obtain interest rebate by completing agricultural practices agreed upon in farm plan and repaying loan facility up to date. Therefore, with the experience of credit borrowers in coconut cultivation, default rate of Kapruka Ayojana credit scheme was reduced.

Since four demographics of non-performing credit borrowers correlated with non performing factor, it was compared with demographics of regular loan holders.

Interestingly there were considerable differences between these two groups.

**Table 3. Comparison of Non-Performing and Regular Kapruka Credit Holders' Demographics**

Demographics	Regular Loan Holders		Non Performing Loan Holders	
	Mean	Standard Deviation	Mean	Standard Deviation
Age	6.11	2.09	5.78	2.29
Monthly income	3.76	1.65	2.67	1.59
Education level	2.87	0.79	2.33	0.48
Experience	3.69	1.28	3.67	1.27

### CONCLUSIONS

The results of the study revealed that factors that were identified through focused group discussions were not correlated with credit default level of Kapruka Ayojana Credits in Kuliypitiya Coconut Cultivation Board Region. However, age, monthly income, education level of credit borrower and experience in coconut cultivation were negatively correlated with nonperforming level. There were considerable differences between those four factors with performing loan borrowers.

Kapruka loan defaulting factors that were identified from banks were not actual factors and there were some other factors that were not identified yet. To find out those real factors should be done deep experiment and this was an area for future findings.

Also deep study should be done on demographic changes between nonperforming and performing Kapruka Credit holders.

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