A STUDY ON FACTORS AFFECTING FOR NON-PERFORMING LOANS WITH SPECIAL REFERENCE TO SMALL AND MEDIUM ENTERPRISES

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ABSTRACT

The objective of the study was to determine the causes of Non-Performing loans in small and medium enterprises. Non-Performing loans are widely associated with bank failure and financial crises for financial institutions as well as the macro economy of the country. The eradication of NPL's is a necessary condition to improve the economic status and stability of the banking and lending sector. If the Non-Performing loans are kept existing and continuously rolled over the resources are locked up in unprofitable sector; thus, hindering the economic growth and impairing the economic efficiency. The study adopted the Descriptive Design and applied both simple regression models on primary data to determine the relationship between causes of Non-Performing Loans in small and medium enterprises.

Non-performing loan was used as the dependent variable. The sample of this study comprised of 392 small and medium enterprises in Monaragala and data was analyzed using SPSS. Here, the researcher adopts Descriptive statistics, Correlation analysis and Regression analysis to test the research questions.

The study revealed that non- performing loans of small and medium enterprises are positively correlated with individual characteristics, business characteristics and loan characteristics respectively. The study concludes that the independent variables considered in the study jointly caused the non-performing loans in small and medium enterprises. The study also found that the non-performing loans were positively correlated with individual characteristics, business characteristics and loan characteristics. The objective of the study, which was to determine the causes of non-performing loans in small and medium enterprises, was therefore met. The study recommends that in order for the financial institutions to improve, there is a need for the significance affect factors should be introduced for the purpose of providing loans to the SMEs.

Key Words: Non-Performing loans (NPL)

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