

## Analysis of Personalized Determinants of Paying Back Loans by Poor with Special Reference to Kotmale DS Division, Nuwara Eliya District

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### Introduction

Due to the poverty all over the world, it influences in borrowing loans and paying back loans. Past research articles have identified that the poverty level is higher in rural sectors and estate sectors and as a result of that poor people tend to borrow loans so as to fulfill their needs. However, it has been identified that they have been facing difficulties in paying back their loans due to several reasons. Individuals' personalized determinants influence in different degrees when they pay back their loans. Therefore, this research study aimed to identify whether there is a relationship between personalized determinants and paying back loans. In this research study Income, Expenditure, Age, Gender, Employment sector, Education, House hold size are considered as personalized determinants.

There is no any research study found in this area of research in Sri Lanka. Therefore, this research study fulfills the gap by identifying whether there is a significant effect of personalized determinants of paying back loans or not. The objectives of this study were to identify the relationship between personalized determinants and paying back loans by poor people and to identify the difficulties facing by poor people when they pay back their loans.

### Methodology

Sample of this study was comprised with 105 estate households in Kothmale Divisional Secretariat (DS) Division as it accounts for the highest number of tea estates in the Nuwara Eliya District. Nuwara Eliya District is the district which is having the highest poverty rate in Sri Lanka according to the Statistical Report produced by Census and Statistics Department. A structured questionnaire was used to collect data and both descriptive statistics and econometric analysis were employed in order to analyze the data. Thus, the following binary logistic model was tested in this study.

$$Y = \beta_0 + \beta_1 \text{Inc} + \beta_2 \text{HHS} + \beta_3 \text{Edu} + \beta_4 \text{Dep} + \beta_5 \text{Exp} + \beta_6 D_1 + \beta_7 D_2$$

Where;

Inc = Income level

HHS = House hold size

Edu = Education level

Dep = Number of dependents

Exp = Expenditure

Y=1:- If they paid back loan on time

Y= 0:- Otherwise

$D_1$  = Gender

$D_2$  = Employment sector

$D_1$  = {1= Male, 0= Female}

$D_2$  = {1=Government Servant,  
0=Private sector}

### Results and discussion

Considering the result of the logistic regression model, the test was significant at 1% significant level. Regression results indicated that there are positive and significant effects of income level and number of dependents on punctuality of loan pay back. Moreover, the variable, Expenditure, has a negative and significant effect on punctuality of loan pay back. Hence, the regression model can be expressed as follows.

$$\text{Loan paid back punctually} = -0.3001374 + 0.0003408\text{Inc}^* + 1.879123\text{Dep}^{***} \\ - 0.0004622\text{Exp}^{***}$$

Note: \*\*\*( $P < 0.01$ ), \*\*( $P < 0.05$ ), \*( $P < 0.10$ )

According to the coefficients of the model, it is clear that there is a strong positive relationship between the number of dependents and punctuality of loan pay back while there is a weak negative relationship between the expenses and the punctuality of Loan pay back. Further, the descriptive analysis revealed that there is a high distance from home to bank, insufficient income and a higher level of expenditure, education expenses of the children and inadequate knowledge about borrowing and paying back loans.

### Conclusions

Income level, number of dependents and expenditure were found to have a significant influence on the punctuality of loan pay back while house hold size, education level, gender and employment sector were not having a significant influence on the punctuality of loan pay back. Finally, in order to overcome such problems it is important to arrange awareness programs about loans pay back, Anti-narcotic programs and proper family management.

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