



# Lanka Microfinance Practitioners' Association



**ANNUAL REPORT**  
2018/2019

## **Vision**

A “Dynamic & Sustainable Microfinance Sector for an Inclusive Financial System in Sri Lanka”

## **Mission**

To “contribute to the development of sustainable and effective microfinance service by, supporting all the stakeholders in the sector and creating a conducive environment through collective action in an effective and efficient manner”.

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## Message from the LMFPA President



On behalf of the members of LMFPA it gives me great pleasure to deliver the President's message for the 13th Annual Report.

One of the key achievements of LMFPA during this year was obtaining microfinance license for microfinance companies from the Central Bank. This was long delayed due to various reasons but LMFPA board kept this matter as a top priority and undertook heavy lobbying activity with the Government. This was successfully achieved when 3 LMFPA member MFIs received their respective licenses in 2019.

The year 2018/2019 by far could be viewed as the most turbulent time for the Sri Lankan microfinance industry. A lot of negative criticism was hurled at the sector due to the increased incidents of multiple borrowings, over indebtedness, and media reports on high interest rates charged by MFIs. The issues were at the level of national policy and political circles and it also brought unrest in the grassroots level as several government officials and political figures creating difficulties for MFIs to operate in the rural areas. The government implemented a debt relief programme intending to write off loans of women borrowers in 12 drought affected districts in the country. But this actually created a devastating situation in not only the 12 districts but throughout the country increasing the Non Performing Loans (NPLs) of MFIs. The situation got worse when the industry reputation was hit hard by the report of the United Nations foreign debt and Human Rights expert Mr. Juan Pablo Bohoslavsky.

The biggest concern for LMFPA during this time was to safeguard the microfinance industry and ensure that the poor are not victimized due to the various issues that occurred. The association provided its feedback to the report by the UN expert highlighting the importance of introduction of the Code of Conduct and Recommended Maximum Interest Rate (RMIR) policy for its members which was later commended by the UN expert. Further LMFPA provided research evidence on the impact of microfinance on poverty alleviation to address major criticism against the microfinance industry. In order to strengthen staff capacity in relation to social bottom line of microfinance, a training program on the importance of social bottom line of MFIs was conducted for senior managers of MFIs by a leading social activist in microfinance Dr Wimal Dissanayake.

Taking forward the initiation of the previous board about the lack of Credit Regulation in the country, further lobbying was undertaken by LMFPA during the year under review. Representing the membership during the time when the government is drafting a new micro credit regulation is another important activity that LMFPA had undertaken during this period. The new proposed Act envisions to regulate every institution engaged in the business of money lending and LMFPA was instrumental in providing valuable feedback to the Central Bank safeguarding the best interest of microfinance clients, MFIs and the industry at large. Other important areas that LMFPA lobbied for are for tax reliefs for MFIs, accessibility to the CRIB as well as the access to engage in micro insurance services in addition to micro credit.

The importance of responsible financing is a culture that LMFPFA want to promote in its membership and therefore the association in partnership with the Smart Campaign and several international funding organizations was able to organize a 02 day workshop jointly with the Centre for Banking Studies that created awareness on Client Protection Principles to not only MFIs but Regulatory bodies as well such as the Central Bank, NGO secretariat, Credit Information Bureau and the Insurance Regulatory Commission. It was a very successful programme participated by more than 100 representatives from the financial and government sector. As part of being responsible institutions, LMFPFA also created a database for its members that stores information of fraudulent ex employees of MFIs. This was to safeguard the industry from recruiting people of malpractice and unethical principles and the initiative proved successful more than once when some MFIs were able to avoid recruiting personnel of bad repute thanks to the information in the database.

Our members' active participation in LMFPFA initiatives and efforts to safeguard the microfinance industry is the only true indicator of success of LMFPFA. Therefore I take this opportunity to thank our members who have shown great commitment and support during troubled times in the industry and upholding the goodwill of microfinance in Sri Lanka. The main focus of LMFPFA is to represent its members as responsible financial institutions and therefore members' compliance in maintaining that reputation is vital for the future outlook of the industry. It is anyway not encouraging that there are still some members that have not yet fully complied with self regulatory mechanisms such as Code of conduct, RMIR and fraudulent staff database and information sharing. I also like to thank the board of directors for their support during my tenure as President and the staff for their dedicated work in managing and coordinating the activities of LMFPFA.

**Anura Atapattu**  
**Hony President – 2018/2019**

## Corporate Information

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**Tel:** + 94 11 4367621, 4369612

**Fax:** +94 11 2099511

**Email:** info@lankamicrofinance.com

**Web:** www.microfinance.lk

**Legal Form:** Re-registered under the Companies Act no.7 of 2007 Registration no- GA 136

**Auditors:** Edirisinghe & Co. Chartered Accountants

**Secretaries:** Hemba Waduge Thilanka Priyadarshana Sampath

**Bankers:** Commercial Bank of Ceylon PLC

## Overview of the Microfinance Industry for 2018/2019

*(Based on information received from 39 members)*

Outreach of MFIs according to provinces

Western	49
Southern	39
Central	35
Sabaragamuwa	25
North Western	33
North Central	28
Uva	20
Northern	32
Eastern	33

Total loan portfolio – LKR 84 billion

Total number of active borrowers – 2.5 million

Total staff employed – 22,344

## The Board of Directors



**Mr. Anura Atapattu**  
Hony. President

Mr. Anura Atapattu is the Managing Director of Berendina Micro Investment Company (BMIC). He is also the Chairman of two other organizations in the Berendina group namely Berendina Development Services (Gte) Limited (BDS) and Berendina Employment Centre (Gte) Ltd (BEC). He was also served as the Chief Executive Officer – Sarvodaya Rural Enterprises Development Services (REDS) and the Deputy Managing Director of Sarvodaya Economic Enterprises Development Services (Guarantee) Ltd (SEEDS). He had been in a Board member of SEEDS, BDS, BEC, BMIC, and LMFPA for many years. He has been the founding Chairman of Development Facilitators Limited a consulting, training and research provider for Microfinance, MSME and other development spheres in Sri Lanka and abroad. He is a consultant in profession and has undertaken many assignments nationally and internationally and has represented Sri Lanka development sector in many local international conferences, seminars and events. He holds a B. Sc. (Agric), Post-graduate Diploma in Economic Development and a Masters in Business Administration (MBA) - University of Lincoln – UK. His local and international professional experience, exposure and networking is of great value to LMFPA.



**Mr. Gnanasiri Abewardhana**  
Hony. Secretary

Mr. Gnanasiri Abewardhana counts more than 20 years of experience in financial service sector having commenced his career at Central Finance in 1995 and afterwards serving at People Leasing where he setup their respective leasing divisions & branch network. Later on He joined Asset Line Company Ltd in 2005 as Assistant Manager to steer the financial service cluster of the David Pieris Motor Company. He was promoted as Regional manager until 2008. He monitored & covered Branch Administration, Marketing function (Leasing Hire purchase, loan) & Recovery function in the following areas: Jaffna Mannar, Vavuniya, Anuradhapura, Puttalam, Trincomalee, Kurunegala, Polonnaruwa, Kuliyaipitiya, Rathnapura & Matara.

Mr. Abewardhana holds a Bsc Management Degree from University of Jayawardenepura. Currently he is the Vice President of Alumni Association of Public Administration Department in Sri Jayawardhanapura University and also an active Executive committee member in the Alumni Association of University of Sri Jayawardenepura.

Currently he is working as General Manager and Chief Executive Officer in Dumbara Micro Credit since 2015.



**Ms. Renuka Rathnawage**  
Hony. Treasurer

Renuka Rathnawage is the Founder & CEO of Sejaya Micro Credit, serves as a regional Head at Gojo & Company Inc. Japan. She is a Certified Management Accountant and Certified Professional Manager from Sri Lanka and holding Master in Business Administration from the University of Wales in the U.K. She is reading for Master in Financial Economics in the University of Colombo. Renuka started her career as an accountant in 1998 at NGO/MFI and was promoted up to General Manager. In 2008 Renuka joined Sewa Community Credit, an MFI in Sri Lanka, as CEO/Director and took over the leadership for the company facing a severe crisis and was able to turn around the company to a profit making entity by restructuring all the systems and building a cohesive team. She served as a director of the Lanka Micro Finance Practitioners' Association as a director for 3 years.



**Mr. Wasantha Gunawardhane**  
Hony. Vice President

Mr. Wasantha Gunawardhane is the Senior Manager of People's Microfinance Limited, a fully owned subsidiary of People's Leasing & Finance PLC which has state ownership through being the subsidiary of People's Bank. He obtains twenty six years exposure in microfinance & community development fields. Mr. Wasantha has vast work knowledge & experience in General Administration, Human Resource Management & Operations Management in NGO sector and co-operatives focused on Business Development & Animal Husbandry. Meantime being a chairman of co-operative sector he gathered corporate level management exposure.

He started his career as the first employee of Berendina Foundation and developed his career growth by being the Resident Project Manager in the same company. Thereafter he acted as Head of Field Operations in LakJaya Microfinance. Previously Mr. Wasantha served as the Hony. Vice President of LMFPFA in 2013/2014 & 2017/2018 and also as a Director in 2014/2015 and 2016/2017



**Dr. Bisowela Gunasekara**  
Hony. Asst. Secretary

A founder member of LMFPFA, Dr. Bisowela Gunasekara has previously served the LMFPFA as Treasurer, Secretary and Manager. He is a Journalist by profession. He is also an experienced banker since 1968 and has worked at People's Bank and Seylan Merchant Bank. In 1977 Dr. Bisowela started his Microfinance career through a Children's' Savings Programme with the help of Sarvodaya movement. During this period he was working for Sarvodaya movement and with the guidance of its chairman Dr. A. T. Ariyaratne he was able to start SEEDS (GTE) Ltd and for 13 years served in its Advisory panel.

He also served in the advisory panel of Sewalanka Foundation and pioneered its microfinance programmes and managed the organization's community mobilization programmes. At the same time he served at the Arthacharya Foundation microfinance initiatives and served as one of the directors of the board.

Presently Dr. Bisowela is the Chairman and Managing Director of Sustainable Appropriate Projects Co. Ltd (SAPCO) and Community Based Microfinance Institution Network (CBMIN). He is also a Director of the SIYB Association of Sri Lanka (ILO).



**Mr. S. W. Kiriarachchi**  
Director

Mr. Kiriarachchi is the chairman of Agro Micro Investments Ltd and a Director of Agromart Foundation and has vast experience in Microfinance and community development fields. Mr. Kiriarachchi has immense hands-on experience in administration, Agriculture, human resource management with his career in the public sector. He is a Retired Secretary who served in Chief Ministry and Ministry of Agriculture, Lands, Irrigation, High ways, Local Government, Transport, Industries, Housing and Construction, etc. He also held the post of Chairman of Wayamba Development Authority, Passenger Transport Board Machinery Authority, Industrial Service Bureau, Human Resources Development Authority and Wayamba Training Institute. Mr. Kiriarachchi has also served as the chairman of LMFPFA in the years 2010/2011 and 2014/2015 and his wide experience and knowledge in Microfinance and administration had given the LMFPFA an unprecedented driving force to move forward with dignity.





**Mr. Ramesh Fonseka**  
Director

Mr. Fonseka is a Graduate from the University of Charleston WV USA in Business Administration and a Post Graduate Diploma Holder in Business Administration from PIM-SUJ and a former President PIM alumni association. He also holds a Diploma in International Trade shipping and Logistics and a certificate in Micro Finance.

Mr. Fonseka has over 10 years hands on experience in MFI and currently holds the post of AGM-MIS/Compliance at HNB Finance Ltd. Prior to it he has held many coveted posts as Deputy Director at Grameen Micro Finance Ltd and Senior AGM Ceylinco Grameen Automobiles Ltd. He started his carrier as a factory executive at Anglo Asian Supermarkets Ltd and became one of the youngest Regional Managers at Bata Shoe Company (Ceylon)Ltd. Prior to joining the Ceylinco Group in 2004 he held the post of Marketing Manager E.S.F. International Forwarders.



**Mr. Priyantha Gunawardhana**  
Director

Mr. Priyantha Gunawardhana is the Managing Director of Pragathi Sewa Foundation in the Anuradhapura district. He holds a Bachelor of Arts Degree from the University of Sri Jayawardenapura and a Diploma in Education from the National Institute of Education. He has also undergone training on Institutional Development and Organizational Management, Financial Management, Financial Analysis, Delinquency Management and Participatory Rural Appraisal. He also has international exposure on microfinance and has undergone training in Bangladesh, Italy and India. He is a very experienced trainer and microfinance practitioner.



**Mr. Felician Jayakody**  
Director

Mr. Felician Jayakody joined Sarvodaya Development Finance Ltd from January 2018. He counts over 27 years of banking experience having served International and Local banks.

He has experience in Branch Banking, Trade Finance, Corporate /SME Banking, Leasing, Project financing, Relationship Banking, Syndications, Risk Management, Treasury, Process Development & Re- Engineering, Audit, Credit Administration, Recoveries, Islamic Banking, Compliance and FCBU.

He started his career at Hatton National Bank where he served for 11 years and moved to Nations Trust Bank as Customer Relationship Manager.

Prior to joining Emirates NBD Bank in the United Arab Emirates, he was the Regional Manager at Pan Asia Banking Corporation.

Having returned to Srilanka from the United Arab Emirates in June 2012, Mr. Felician has functioned as a Head of Corporate Banking / FCBU (WR) in Amana Bank Plc prior to joining SDF.



**Mr. M. M. Attanayake**  
Director

Mr. Attanayake, Director/CEO of Lak Jaya Microfinance, has experience of 36 years in the Central Bank of Sri Lanka during which he held the position of Director in several departments. Representing the Central Bank he has served as Executive Chairman of Nuwara Eliya Regional Development Bank, (1988-1988) Director/Trustee – National Development Trust Fund (2002 – 2005); and Adviser to the SME Bank. He has also served in Microfinance project implemented by UNDP in Papua New Guinea (1993-1995) as Chief Technical Officer. His expertise runs across many fields including Economics, Regional Development, Rural Credit, Micro, Small and Medium Enterprise Financing. He holds Master of Economic Degree from Monash University, Australia, Post Graduate Diploma from Vidyodaya University and B.A (Hons.) from University of Sri Lanka and served as visiting lecturer in several universities in Sri Lanka, He is an expert trainer in Microfinance who can bring insights to developing the capacities of member organizations.



**Mr. A. Prasad Seneviratne**  
Director

Mr. Prasad Seneviratne who was an old boy of Trinity College Kandy, and obtained his Bachelors degree in Business Administration from the University of South Alabama in the USA, and has gained experience of being a Director on Board of several companies. He was the Managing Director of Silvereen Finance Company Ltd, until June 2009 (which was registered under the central bank of Sri Lanka).

Presently he is functioning as the Managing Director of Silvereen Micro Credit Company Ltd., Silvereen Real Estate Company (pvt) Ltd., and Silvereen Trade Solutions Company (pvt) Ltd., (previously known as Silvereen Agencies Company (pvt) Ltd., the importers of brand new and recondition motor vehicles from Japan), and counts more than 14 years of experience in the mainstream financial sector.



**Mr. Udaya Wewelwala**  
Director

Mr. Udaya Wewelwala is the General Manager of Development Facilitators (Pvt) Limited and well experienced consultant, researcher and trainer with local and international experience in fields of Microfinance, Soft Skills, Institutional Development, Community Development and MSME development. He is a licensed/accredited trainer in fields of Microfinance and Enterprise Development certified by CGAP, Asian Development Bank Institute & Tokyo Development Learning Centre, Frankfurt School of Finance & Management and ILO-SIYB. He was a consultant to design and develop leading microfinance operations in Sri Lanka and has developed a large number of training modules to capacitate microfinance staff of many MFIs in the country. He also serves as the Head of lecturer panel and course material designing consultant in the Microfinance Diploma course offered by the Sri Lanka Institute of Credit Management (SLICM).

He is a Master Degree holder in Development Studies from University of Colombo, an Attorney-at-Law and holds a BSc (Agric. Majoring in Agric Economics) from University of Peradeniya.



**Dr. Wimal Dissanayake**  
Director

Dr. Wimal Dissanayake has a PhD and MSc in Social Science. He obtained his first degree from the University of Kelaniya in 1974. He entered the government service in 1974 itself as a Rural Development Officer attached to the Galle District and in 1978 he commenced his work as a Training & Research Officer attached to Institute for Rural Development and Research of the Department of Rural Development & Research of the Ministry of Public Administration and Home affairs.

He had been serving for over the past three decades as the Senior Training and Research Officer at the “Action for Research & Training for the Rural Development” program conducted under the funding by the Konrad Adenauer Foundation of West Germany and the auspices of the UNDP and the government of Sri Lanka.

He had assisted the government in the commencement of courses at the University of Ruhuna and also at the University of Sri Jayawardanapura on Rural development and he is also a Senior Visiting Lecturer for these courses at the respective Universities.

He had formed three “Women's Community Based Organizations” in Habaraduwa, Akmeemana and Welipitiya with funding from Government and Foreign Sources on behalf of the community there and had transferred their management and the running to them.

With a wide experience maturity on Training and Research Dr. Wimal Dissanayake had already published over 20 Training programs. While serving in Government Service he had been the team leader for Galle team in the Community Water Supply and Sanitation Improvement program conducted by the World Bank and also in the “Gami Diriya” program of the World Bank. Further he had been an Assistant Project Director of CARE International. He had been the President of the Galle District “Organization of Civil Societies” and also he is a consultant in Training and Research for the “Grama Shakthi People's Movement”.

### **Meeting Attendance**

<b>Board Member</b>	<b>Meetings Attended</b>	<b>Meetings Apologized</b>	<b>Attended by representative</b>	<b>Total</b>
Mr. Anura Atapattu	11	1		12
Mr. Wasantha Gunawardena	8	4		12
Mr. Gnanasiri Abeywardena	11	1		12
Ms. Renuka Rathnahewage	3	4	5	12
Dr. Bisowela Gunasekara	7	5		12
Mr. S. W. Kiriarachchi	6	5	1	12
Mr. M. M. Attanayake	7	5		12
Mr. Ramesh Fonseka	7	5		12
Mr. Priyantha Gunawardena	1	11		12
Dr. Wimal Dissanayake	4	7	1	12
Mr. Felician Jayakody	3	4	5	12
Mr. Prasad Seneviratne	3	9		12
Mr. Udaya Wewelwala	8	4		12

## Our Members

01	Agro Micro Investments Ltd	34	Nomic International Ltd
02	Akmeemana Women Development Society	35	People's Micro Commerce Ltd
03	Alliance Finance Co. PLC	36	Pragathi Sewa Foundation
04	Arthavida Intermediary Ltd	37	Purewin Credit & Investments Ltd
05	Berendina Micro Investment Company Ltd	38	Puttalam District Isuru
06	Bimpuh Finance PLC		Development Company
07	Business Development Co-operative Society	39	Rajarata Praja Kendraya
08	Candia Credit Ltd	40	Rajeeda Holdings (Pvt) Ltd
09	Capital Credit & Investments (Pvt) Ltd	41	Reliance Investments Co (Pvt) Ltd
10	Care Investments (Pvt) Ltd	42	S. N. Micro Credit (Pvt) Ltd
11	Commercial Credit & Finance PLC	43	SANASA Development Bank PLC
12	DCS Credit & Investment (Pvt) Ltd	44	SANASA Federation Ltd
13	Development Facilitators (Pvt) Ltd	45	Sareeram Sri Lanka National Foundation
14	Dumbara Micro Credit Company	46	Sarvodaya Development Finance Ltd
15	ECLOF Lanka (Gte) Ltd	47	Saviya Development Foundation
16	Gampola Udapalatha Prajashakthi Foundation	48	SEEDS (Gte) Ltd
17	Graduate Investment Ltd	49	Sejaya Micro Credit Ltd
18	Habaraduwa Participatory Development Foundation	50	Sewa Community Credit Ltd
19	Hambantota WDF	51	Silvereen Micro Credit Company Ltd
20	HNB Grameen Finance Ltd	52	SIYB Association of Sri Lanka
21	IDEAs Consultancy (Pvt) Ltd	53	South Asia Partnership Sri Lanka
22	Janatha Microfinance (Pvt) Ltd	54	Sri Lanka Business Development Centre
23	Janarukula (Gte) Company	55	Sri Lanka Savings Bank
24	KiwiFund (Gte) Ltd	56	Stromme Micro Finance Asia (Gte) Ltd
25	Lak Jaya Microfinance Ltd	57	Sustainable Appropriate Projects Co. Ltd
26	Lanka Credit & Business Finance Ltd	58	The Institute for Development of Community Strengths (INDECOS)
27	Lanka Financial Services for Underserved Settlements	59	Uva Govijana Kendraya
28	Loans & Land Investment (Pvt) Ltd	60	Ventura Crystal Investments Ltd
29	LOLC Development Finance PLC	61	VisionFund Lanka Ltd
30	LOLC Finance PLC	62	Wickramaratna Micro Credit (Pvt) Ltd
31	Muslim Aid Micro Credit (Gte) Ltd	63	Wijitha Finance Ltd
32	Nation Lanka Finance PLC	64	Y GRO Ltd
33	Negombo Community Development Company	65	Yes Foundation
		66	YMCA Batticaloa

## **Review of Activities in 2018/2019**

As the representative body of microfinance practitioners, LMFPFA's main objectives are advocacy and lobbying, creating a conducive environment for microfinance, capacity building, information sharing and international relations. The year 2018/2019 was far by the most challenging year for the industry and LMFPFA, yet thanks to the strength and support of its members, the association was able to continue to build its reputation as a recognizable force in the industry.

### ***Lobbying & Advocacy***

#### **Licensing of Microfinance Companies by Central Bank**

Since the formalization of the Central Bank's regulatory guidelines for the licensing of microfinance companies, the LMFPFA worked closely with the members who applied for their respective license and lobbied with the Central Bank for same. As a result, 3 microfinance companies namely Berendina Micro Investment Company, Lak Jaya Microfinance Ltd and Dumbara Micro Credit Ltd received their license from the Central Bank in the year 2019. LMFPFA would like to thank the Central Bank for its support and dedication from the evaluation process of the companies up to the awarding of their licenses.

#### **Provision of Feedback for Human Rights Report**

A very adverse critical report compiled by Mr. Juan Pablo Bohoslavsky, an Independent expert who visited Sri Lanka in 2018 representing the UN was made public in September 2018 for which LMFPFA provided its initial feedback for many adverse comments in the report and included LMFPFA responsive actions such as introduction of code of conduct and misinterpretation of interest rates charged by LMFPFA members. In December 2018, the Ministry of Finance sent the revised report sent by Mr Pablo to the Government of Sri Lanka for its response. Ministry of Finance invited LMFPFA to provide feedback to the Ministry's report compiled to be sent to the UN, in response to the report on the Effects of foreign debt and other related international financial obligations of the state on the full enjoyment of all human rights, particularly economic, social and cultural rights. The LMFPFA in its feedback was able to highlight the importance of introducing a Code of Conduct and Recommended Maximum Interest Rate (RMIR) for its members which was later commended by the UN expert.

#### **Provision of Feedback for National Financial Inclusion Strategy**

The Central Bank of Sri Lanka in partnership with the International Finance Corporation was in the process of developing Sri Lanka's first ever National Financial Inclusion Strategy (NFIS). Accordingly LMFPFA was also invited to provide feedback for the draft of the NFIS document being a key stakeholder in the microfinance industry. LMFPFA compiled and submitted its response highlighting the importance on full range of microfinance services such as savings, credit and micro insurance in the national financial inclusion strategy.

#### **Lobbying for issues on Income Tax**

Earlier the specific provisions made for non performing loans by MFIs were allowed as a deduction under the former Inland Revenue Act, No. 10 of 2006 on the basis, if the debt is recovered subsequently, the consequential reversal of the provision is subjected to the corporate income taxation. With the introduction of the new Inland Revenue Act, No. 24 of 2017, the provisions made for non performing loans are prohibited from claiming as a deduction.

The LMFPFA tried several times to bring this issue to the attention of the Ministry of Finance and was finally successful in having a discussion with the Tax Advisor of the Fiscal Policy Department during early September 2019. The LMFPFA requested to allow unregulated member MFIs to be eligible to treat the specific provisions for loan losses as a tax allowable expense same as a bank or a finance company until the proposed Credit Regulation Act is enforced and issue a required gazette to effect the same.

### **Lobbying for CRIB access**

The lack of regulation has been one of the main reasons for MFIs not having direct access to the national CRIB. The LMFPFA corresponded with the Credit Information Bureau regarding this and even discussed with CRIB officials from time to time with the hope of getting accessibility for MFIs licensed under the Microfinance Act No 6 of 2016. However, according to the Credit Information Bureau, even MFIs licensed by the Central Bank under the Microfinance Act are not eligible for CRIB access, under the present legal provisions. Therefore the Bureau has proposed in its feedback for the upcoming Credit Regulatory Authority Act, that all MFIs licensed under the new Act be deemed as lending institutions for the purpose of the CRIB Act.

### **Meeting with Hon. Speaker of Parliament**



On 22nd of October 2018, LMFPFA had the opportunity to meet with the Hon. Speaker of Parliament Karu Jayasuriya to discuss the current microfinance landscape and its issues. LMFPFA was deeply concerned over the ineffective communication that transpired to the grassroots level regarding the Government's Debt Relief Programme which caused a lot of microfinance clients to refrain from honoring their loan obligations thinking that all their loans will be written off by the government. The Hon. Speaker agreed that it is a grave situation and assured that he will communicate to the President and Prime Minister to take rectifying measures for same.

### **Meeting with other political parties**

During 2018/2019, LMFPFA also had the opportunity of meeting political parties of the opposition, such as the People's Liberation Front (JVP) and Sri Lanka Podujana Peramuna (SLPP). The objective of these meetings was to create awareness among the parties' leadership on the issues faced by the microfinance industry and suggestions to overcome them.

### Discussion on Micro Insurance

During the first quarter of 2019, the Insurance Regulatory Commission of Sri Lanka informed LMFPA that it was in the process of drafting amendments to the Regulation of Insurance Industry Act and asked the LMFPA to provide suggestions for micro insurance. Therefore, LMFPA organized a forum for its members on 13th of June 2019 seeking their opinions and suggestions.



All members agreed that there should be an insurance product for MFIs to operate through internal funds

- ★ Credit Insurance that insures the loan amount (capital + interest)  
Coverage of this scheme should be upon death, permanent disability/partial disability of borrower and spouse
- ★ A simple health insurance policy for hospitalization only

The following insurance schemes were identified as other insurance needs of MFI clients and MFIs. Therefore, it was proposed to have specific regulations for MFIs to operate together in partnership with a Regulated Insurance Provider or by establishing a subsidiary company dedicated to providing Micro insurance only.

- ★ Project Insurance – Based on the nature of business (agriculture, cattle, poultry)  
Similar to General insurance, this scheme is to cover for damages to project assets, theft, fire and natural disasters. The coverage of this scheme would extend either up to the loan amount or to the assets value
- ★ A life insurance policy regardless of taking any credit from the MFI.
- ★ A policy for Cash in hand or cash in transit of the MFI or its subsidiary organization.

It was also suggested to have certain incentives for micro insurance promotion among low income people such as special tax provisions.

## Provision of inputs for Micro Credit Regulatory Authority

### ***Feedback on Concept paper for proposed regulatory framework***

During the first quarter of 2019, the Central Bank contacted the LMFPFA inviting the association to provide feedback on the concept paper that was developed under the Ministry of Finance for a proposed regulatory framework for money lending and microfinance business.

In its response the LMFPFA showed that:

- ★ The business of micro credit and leasing needed to be separated unlike mentioned in the concept paper.
- ★ It is better to set separate tiers of licensed MFIs in accepting deposits i.e. large scale MFIs to be allowed limited public savings mobilization, another tier of MFIs for collateral deposits and a third tier of MFIs for lending credit without any savings mobilization.
- ★ The definition of money lending to be more specific (i.e. restricted to only providing cash loans)
- ★ Inclusion of other microfinance providers (NBFIs, Banks, Cooperatives, Samurdhi and farmer organizations) to follow a common framework.

### ***Discussions on Credit Authority Regulation***

Following LMFPFA's feedback to the concept paper on Micro Credit regulation by the Ministry of Finance, The Central Bank of Sri Lanka published a draft Act on Credit Regulation and invited LMFPFA to provide feedback for same. Therefore, on 2nd August 2019, members of LMFPFA were invited to a joint discussion. Central Bank, NGO Secretariat and CRIB participated in the discussion at the invitation of LMFPFA.



Some of the key points highlighted by members are as follows:

- ★ Name the authority as Microfinance Regulatory Authority instead of Credit Regulatory Authority.
- ★ Define Microfinance as a service which should have financial sustainability in it (marginal or reasonable profits)
- ★ Inclusion of wholesale lenders also as a credit institution.
- ★ License should be valid for more than one year for MFIs.



- ★ Not to limit MFI deposit taking capacity to collateral deposits only by the Act itself but keeping that power with the regulator as given in the current microfinance act.
- ★ Members proposed a special provision in the Act or directions implemented to credit institutions who engage in hire purchase.
- ★ Section 9 in the proposed act where the authority delegates its powers in the district secretariat and divisional secretariat level should be elaborated.
- ★ Allow the calculation of interest to be both flat and reducing balance method and a mechanism or formula to be introduced to control the interest rate rather than imposing an interest cap.
- ★ Members also of the view that whatever directions implemented to the MFIs licensed under the proposed Act should also be directed to those institutions exempted from it but conducting microfinance/micro credit business through their own respective authority directions/guidelines.
- ★ Include facilitation of low cost funding opportunities for money lenders and MFI as the proposed Authority
- ★ A better legal position for MFIs and money lenders during Credit Recovery Enforcement that is similarly applicable to Cooperatives,
- ★ Representation of Microfinance Practitioners on the Credit Authority board or its advisory council.

Following this discussion, the LMFPFA forwarded its members' comments to the Central Bank. Thereafter the association was invited to the Central Bank in early September 2019, and was informed that most of the feedback was incorporated into the draft Act and will be sent to approval of the Monetary Board and the Cabinet.

## Creating a conducive environment

### Meeting with Regional Managers in Habarana - December 2018

On the 7th of December 2018, the LMFPFA called for a meeting in Habarana and met with the regional Managers of Member MFIs operating in Anurdhapura and Polonnaruwa district. The objective of this discussion was to ascertain information regarding the issues that member organizations faced since the Debt Relief Programme that was introduced by the government. Some of the key issues that were discussed are as follows:



- ★ PAR ratios of many MFIs have increased significantly as a result of the government debt relief programme not being communicated properly in the grassroots level.
- ★ There had been heavy influence encouraging people not to repay their loans by political figures in village level.
- ★ Regional Managers and Branch Managers visited clients door to door explaining the proper procedures of the debt relief programme. The government circular together with the MFI letter were distributed to clients. This action helped to mitigate the damage slightly. About 3 to 5% clients started repaying back.
- ★ Some GN officials blame MFIs for not enlightening them when providing loans to the people.
- ★ Some clients refrain from paying their loan installments because their peers are not paying.

Following this meeting the LMFPFA gathered data from its members on their Non performing loans, Loans in arrears and PAR ratios in the 12 working districts and this information was used during lobbying efforts with the Ministry of Finance and Central Bank.

## Meeting with members who signed MoU with Ministry of Finance



On 7th February 2019, the LMFPFA called for an emergency meeting for member organizations who signed MoUs with the Ministry of Finance for the government Debt Relief Programme. The objective was to address the request made by the Ministry of Finance to mobilize loan write off beneficiaries to attend a public event in Jaffna where certificates of loan write offs were supposed to be presented to them. All members were not in favour of this request as it tends to give a wrong message to the public if too much media attention was given to it.

### Setting a Recommended Maximum Interest Rate (RMIR)

The board of LMFPFA appointed a sub committee to study the various aspects related to MFI interest rates and make recommendations for the LMFPFA Board on the suitable policy guideline for a 'Recommended Maximum Interest Rate' (RMIR) for LMFPFA members. This decision was taken following the events and media reports regarding the high interest rates charged by MFIs. The subcommittee studied cost of funds, operational costs of member MFIs and other related aspects with regard to MFI sustainability. The interest rates charged by MFIs in the South Asian countries were also studied. Finally the following decisions were made.

- ★ To define a 'recommended maximum interest rate' that is related to the cost of funds. The cost of funds to be related to the "Average Weighted Prime Lending Rate (AWPLR for 6months) as defined by the Central Bank of Sri Lanka.
- ★ Formula to be used is  $RMIR = \text{Average Weighted Prime Lending Rate (AWPLR for 6months)} * 3.5$ . The RMIR is the effective interest rate and not the flat interest rate. Declining balance rate can also be considered as the effective rate at the beginning.
- ★ To announce this rate in 6 monthly intervals by the board of management of LMFPFA.
- ★ Request LMFPFA members who are charging above the RMIR to improve their approach and methodology to meet the RMIR sooner possible for them.

LMFPFA also conducted a survey on the interest rates charged by its members to study their compliance to the RMIR. 25 members responded to this survey and it showed that only less than 5 MFIs did not have their interest rates in line with the RMIR. The members have written to LMFPFA that they have taken measures to lower the interest rates in future.

### Database on Fraudulent Employees

Following the establishment of the LMFPFA Code of Conduct, LMFPFA introduced to its membership a Database of Fraudulent employee information. This database will store information of former employees of LMFPFA member MFIs whose services were terminated due to fraudulent and/or disciplinary grounds. The information that members provide in this regard is stored in a database and kept at the LMFPFA in strict confidence. Whenever an inquiry from the members matches with a name that is in the database:

1. The LMFPFA Manager will note down the name & NIC of the ex-employee and the name of the MFI that provided the data.
2. The LMFPFA Manager will then contact the inquiring member MFI by telephone/email and confirm that the name they inquired match with the LMFPFA Database.
3. The LMFPFA Manager will then provide either by telephone/email, only the contact information of the HR manager/Key contact person of the MFI who provided the ex employee information to the inquiring MFI.
4. The inquiring MFI will then have the responsibility thereafter to further investigate with the other MFI regarding the person whom they intend to employ.

This initiative by LMFPFA proved successful as a couple of inquiries did match with the information in the database. LMFPFA trusts that this initiative will prove further successful in future as more members share information regarding their former employees.

### Facilitating a Digital Service Market Place for MFIs

In 2018, the Banking with Poor Network (BWTP) and Foundation for Development Corporation (FDC) had discussions with the LMFPFA on the introduction of an innovative Digital Platform that could benefit MFIs in Sri Lanka. This initiative was expected to benefit the MFIs in Asia to validate themselves in the growing digitalization space. LMFPFA facilitated the discussions with members in October and December 2018 in Colombo.



### Addressing issues of Microfinance in the Media

The microfinance industry has gone through a lot of turmoil since the recent past where there had been many media reports highlighting the microfinance industry in a very negative light. However, as the representative body, the LMFPFA intended to counter these negative perceptions to convey an accurate image of the industry. LMFPFA had the opportunity to appear on a live Radio talk show on 18th March 2019 in this regard and also an article was published in one of the leading newspapers in Sinhala.



Dinamina 11th March 2019



FCCISL BIZ News Magazine - August 2019

The LMFPFA has also set its sights on running a Public Relations Campaign and educate the public on the positive side of microfinance that had benefitted many households for several decades as well as promote financial literacy through mass media.

### Data Collection for Microfinance Review 2018

As in the past the LMFPFA continued its annual data profiling with the view of publishing the Microfinance Review 2018 – Performance and Analysis Report. 37 member organizations have taken part in providing statistical information on their financial performance. The LMFPFA intends to complete the publication by October 2019.

### Compliance of LMFPFA Code of Conduct

Following the launch of the LMFPFA Code of Conduct in June 2018, it was important to evaluate how effectively the members have complied with the Code of Conduct that the LMFPFA introduced. Therefore survey was compiled to that effect and was shared with the membership. 47 members responded to this survey in 2019 and the findings are being tabulated at the time of this report. LMFPFA intends to publish the findings of this survey during the last quarter of 2019.

### Meeting with the National Economic Council of Sri Lanka

In February 2019, the LMFPFA was invited by the National Economic Council of Sri Lanka for a discussion on the current situation of the Microfinance Industry. This discussion was jointly attended by other stakeholders such as the Central Bank, Ministry of Finance, National Secretariat for NGOs and the Credit Information Bureau. During the meeting the NEC stressed that the establishment of a proper regulatory authority is necessary to address the regulatory gaps in the present system.

### Meeting with Asian Development Bank

In March 2018, LMFPFA met with Mr. Takuya Hoshino, representative of the Asian Development Bank (ADB) regarding current microfinance industry issues specially focusing on Over-indebtedness and related issues during his mission to Sri Lanka. The Asian Development Bank (ADB) is implementing a Women Entrepreneurs Finance Initiative (We-Fi) grant project for women entrepreneurship development in Sri Lanka. The Ministry of Finance is the Implementing agency of the project and 10 Banks (involving SME finance including microfinance), 3 government institutions and two business chambers are partner institutions of the project.



## Capacity Building

### **International Workshop on Responsible Financial Inclusion**

The International Workshop on Responsible Financial Inclusion held on 23rd and 24th of July 2019 was organized by the Lanka Microfinance Practitioners' Association (LMFPA) in collaboration with the Centre for Banking Studies, Central Bank of Sri Lanka. The workshop focused on raising awareness about the Client Protection Principles developed by the Smart Campaign, an organization that works globally to create an environment in which financial services are delivered responsibly by raising awareness, setting standards for consumer protection, providing tools and trainings, and offering a client protection certification program. Through this programme, led in partnership with the Smart Campaign, the LMFPA intended to elucidate the importance of responsible financial practice to microfinance service providers and for policy makers to create a regulatory framework that protects the best interest of low income borrowers. The entire program was held in two stages.

The first program focused on creating awareness and dialogue amongst CEOs (Senior Management) of MFIs and senior officials of Government Regulatory bodies such as the Central Bank, National Secretariat for Non-Government Organizations, Ministry of Finance, Credit Information Bureau and the Insurance Regulatory Commission of Sri Lanka. It was a 2-hour market convening session in the evening on the day before the International Workshop day. In this programme a technical session was conducted by the Smart Campaign to introduce the key stakeholders to the internationally recognized Client Protection Principles. A panel discussion followed thereafter and it was represented by the LMFPA, Central Bank of Sri Lanka, Smart Campaign and Grameen Credit Agricole. The panel discussion drew the participants attention on the prevailing issues related to the violation of the Client Protection Principles and the importance of its knowledge and implementation for the future sustainability of the microfinance industry.

The second stage was the two days engagement in the form of a workshop targeting senior managers of MFIs and senior staff of Regulatory bodies. The workshop was a grand success as it was participated by 109 officials representing a wide range of stakeholders, from regulators, NGOs, MFIs, bankers and Non Bank Financial Institutions. There was much enthusiasm for the participation from the government sector stakeholders as well. The Central Bank, NGO secretariat, Credit Information Bureau, Ministry of Finance and Insurance Regulatory Commission all sent their representatives to this workshop. The workshop was moderated by Dr. Hema Bansal (Senior Director, South Asia and South East Asia) and Ms. Tanwi Kumari (Manager, South Asia and South East Asia) of Smart Campaign. During the 02 days, the 07 principles of Client Protection were elaborated and participants were able to suggest suitable strategies and methods to incorporate the principles in local context.

The success of the programme was possible thanks to the generosity of several partners both local and international. The LMFPA acknowledges the main partner Proparco of France, and other International partners such as Grameen Credit Agricole and Symbiotics for their support. The LMFPA would also like to thank its local partners Sejaya Micro Credit and Stromme Micro Credit for their valuable contributions. A special appreciation also goes to the Central Bank and the Centre for Banking Studies for their willingness to partner with LMFPA for this venture and for the significant contribution made to make the event a success.



## One Day workshop on Microfinance Principles



On 22nd February 2019, LMFPFA organized a One Day workshop on Microfinance Principles for its members. The objectives of the workshop was to educate social responsibility aspects in microfinance as against commercialization and profit driven nature of the industry.

24 LMFPFA member representatives participated in this workshop and it was moderated by Dr. Wimal Dissanayake, director of LMFPFA as well as a senior university lecturer, trainer and social activist.

The workshop gave the participants a fresh perspective of microfinance from a social viewpoint as most practitioners have been influenced by the commercialization trend in the industry. Through this workshop LMFPFA was able to re-address the true essence of microfinance and it was the impetus for LMFPFA to organize another grand event in July on Responsible Financial Inclusion.



## International Relations

### Centre for Self-help Development (CSD) Nepal visit to Sri Lanka in April 2019

Continuing its strong relations with the LMFPFA, The Centre for Self-help Development (CSD) of Nepal conducted another exposure visit in Sri Lanka from 21st to 26th April 2019. The team of 09 representatives had the opportunity of visiting MFIs in Colombo, Kegalle, Nuwara Eliya and Kandy. The team arrived in the country just hours before the Easter Sunday bomb attacks and therefore the safety of the delegates became the topmost priority for LMFPFA. Apart from the cancellation of just one meeting with an MFI, LMFPFA was still able to continue with the programme successfully. LMFPFA would like to express its appreciation to the following member organizations whose support was instrumental to the success of the exposure visit:

- ★ Sarvodaya Development Finance Ltd
- ★ Sanasa Campus Kegalle
- ★ Lak Jaya Microfinance Ltd



## Draft Accounts as at 31st August 2019

<b>Income &amp; Expenses Statement as at 31 August 2019</b>		
Membership Fees	1,607,500	
Membership Registration	110,000	
Interest Income	120,134	
Other income of LMFPA	2,239,138	
SAMN Income (Sponsorships)	1,875,249	
SAMN Income (SAMN membership)	1,046,592	
<b>Total Income</b>		<b>6,998,613</b>
<i>Less Admin Expenses (LMFPA)</i>	1,404,392	
<i>Less Admin Expenses (SAMN)</i>	198,400	
<i>Less Activity Related Expenses (LMFPA)</i>	1,708,882	
<b>Total Expenses</b>		<b>3,311,674</b>
<b>Net Income</b>		<b>3,686,939</b>



# Auditor's Report & Financial Statements



**Edirisinghe & Co.**  
**Chartered Accountants**

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## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDERS OF LANKA MICROFINANCE PRACTITIONERS' ASSOCIATION

#### Report on the Audit of the Financial Statements

##### Opinion

We have audited the accompanying financial statements of Lanka Microfinance Practitioners' Association (the Company), which comprise the Statement of financial position as at December 31, 2018, and the Statement of profit or loss and accumulated fund, and Statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2018 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2018 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standard for Smaller Entities (SLFRS for Smaller Entities).

##### Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements of the Code of Ethics issued by CA Sri Lanka (Code of Ethics) that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with SLFRS for Smaller Entities and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

##### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Partners: P.P. Edirisinghe FCA ACIM MBA Ms. M.K.K. Karunaratne FCA ACMA P.K.A.M. Atahakoon ACA MAAT  
S.A. Harischandra ACA ACMA CGMA MBA Bcom (Sp.)  
Consultants: A.T.P. Edirisinghe FCA FCMA (UK) A.D. Jayasena FCA

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**EDIRISINGHE & CO.**  
Chartered Accountants

**INDEPENDENT AUDITOR'S REPORT (CONTINUED.)**

**Auditor's Responsibilities for the Audit of the Financial Statements (Continued.)**

A further description of the auditor's responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing website at: <http://slaasc.com/auditing/auditorsresponsibility.php>. This description forms part of our auditor's report.

**Report on Other Legal and Regulatory Requirements**

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

  
Edirisinghe & Co.  
Chartered Accountants

Colombo  
10-Sep-19



## STATEMENT OF PROFIT OR LOSS AND ACCUMULATED FUND

For the year ended 31 December 2018	Note	2018 Rs.	2017 Rs.
General income	04	1,615,000	1,553,750
Interest income	05	291,679	161,997
Other income	06	20,840,695	8,310,405
<b>Total income</b>		<b>22,747,374</b>	<b>10,026,152</b>
Activity related expenses	07	(16,994,739)	(6,966,782)
<b>Net income</b>		<b>5,752,635</b>	<b>3,059,370</b>
Administrative expenses	08	(4,011,162)	(2,512,204)
<b>Surplus before taxation</b>	09	<b>1,741,473</b>	<b>547,166</b>
Income tax expense	10	(77,826)	-
<b>Surplus for the year</b>		<b>1,663,647</b>	<b>547,166</b>
Accumulated fund B/F		2,559,070	2,011,904
<b>Accumulated fund C/F</b>		<b>4,222,717</b>	<b>2,559,070</b>

Figures in brackets indicate deductions.

The accounting policies and notes to the accounts form an integral part of these financial statements.



## STATEMENT OF FINANCIAL POSITION

As at 31 December 2018	Note	2018 Rs.	2017 Rs.
<b>Assets</b>			
<b>Non current assets</b>			
Property, plant and equipment	11	88,953	243,402
Investment in fixed deposits	12	1,301,716	1,186,842
		1,390,669	1,430,244
<b>Current assets</b>			
Receivables	13	322,500	180,000
Deposits and prepayments	14	420,000	420,000
Income tax receivable	15	52,541	52,541
Cash and cash equivalents	16	2,416,315	740,069
		3,211,356	1,392,610
<b>Total assets</b>		<b>4,602,025</b>	<b>2,822,854</b>
<b>Funds and liabilities</b>			
<b>Funds</b>			
Accumulated fund		4,222,717	2,559,070
		4,222,717	2,559,070
<b>Non current liabilities</b>			
Retirement benefit obligation	17	268,400	234,850
		268,400	234,850
<b>Current liabilities</b>			
Income tax payable	15	61,283	-
Accounts payable	18	49,625	28,934
		110,908	28,934
<b>Total funds and liabilities</b>		<b>4,602,025</b>	<b>2,822,854</b>

The committee is responsible for the preparation and presentation of these financial statements.

Signed for and on behalf of the Board of Management.

  
.....  
President

  
.....  
Treasurer

The accounting policies and notes to the accounts form an integral part of these financial statements.



## STATEMENT OF CASH FLOWS

For the year ended 31 December 2018	2018 Rs.	2017 Rs.
Surplus before taxation	1,741,473	547,166
Adjustment for :		
Depreciation	269,031	84,077
Interest income	(291,679)	(161,997)
Gratuity provision for the year	33,550	51,850
Operating profit before working capital changes	1,752,375	521,096
Increase in receivables, deposits and prepayments	(142,500)	(48,750)
Decrease in accounts payable	20,692	(339,066)
<b>Cash generated from operations</b>	<b>1,630,567</b>	<b>133,280</b>
WHT paid	(16,543)	(12,960)
<b>Cash generated from operating activities</b>	<b>1,614,024</b>	<b>120,320</b>
<b>Cash flow from investing activities</b>		
Purchase of property, plant & equipment	(114,583)	(127,946)
Interest income	291,679	161,997
Investment in fixed deposits	(114,874)	(585,339)
<b>Net cash generated from / (used in) investing activities</b>	<b>62,222</b>	<b>(551,288)</b>
Net increase / (decrease) in cash and cash equivalents	1,676,246	(430,968)
Cash & cash equivalents at the beginning of the year	740,069	1,171,037
<b>Cash &amp; cash equivalents at the end of the year</b>	<b>(Note A) 2,416,315</b>	<b>740,069</b>

## Note A - Cash and cash equivalents

Cash and cash equivalents	2,416,315	740,069
	<b>2,416,315</b>	<b>740,069</b>

Figures in brackets indicate deductions.

The accounting policies and notes to the accounts form an integral part of these financial statements.





## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2018

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#### 1 - Corporate information

##### 1.1 General

Lanka Microfinance Practitioners' Association (previously known as Lanka Microfinance Network) is a Non Profit Organization.

Lanka Microfinance Practitioners' Association has been registered under the Companies Act, No. 7 of 2007 on 13 October 2008 as a Company limited by guarantee and incorporated in and domiciled in Sri Lanka. The registered office is located at 371, Colombo Road, Pepiliyana, Sri Lanka.

##### 1.2 Principal activities and nature of operations

The principal activities of the organization during the period were to promote membership among Micro Finance Institutions (MFIs) locally, advocate for a policy Environment for collective action by MFIs, promote the adoption and installation of internationally accepted performance standard for the MFIs, develop and strengthen system for information collection, promote the expansion of the formal financial market as Micro Finance Service, protect and strengthen the capacity of the MFIs, develop an operational an independent performance monitoring system for MFIs and mobilize resources and network with Government, donors, funding agencies, investors and commercial loan providers.

#### 2 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### 2.1 - Basis of preparation

The annual financial statements have been prepared in accordance with Sri Lanka Accounting Standard for Smaller Entities (SLFRS for Smaller Entities) with effect from 1 December 2017. These are the Company's first set of financial statements prepared in accordance with SLFRS for Smaller Entities as laid down by the Institute of Chartered Accountants of Sri Lanka. These Financial Statements are presented in Sri Lankan Rupees (Rs.) and all financial information presented in Sri Lankan Rupees has been rounded to the nearest rupee.

The transition to SLFRS for Smaller Entities has not affected the reported financial position and financial performance of the Company.

##### 2.2 - Statement of compliance

The statement of financial position, statement of comprehensive income and statement of cash flows together with summary of significant accounting policies and notes to the financial statements of the Lanka Microfinance Practitioners' Association., as at 31st December 2018 and for the year then ended comply with the SLFRS for Smaller Entities laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the Companies Act No. 07 of 2007.

These financial statements were authorised for issue by the Board of Management on 10 September 2019.



## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2018

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#### 2.3 - Going concern

The Board of Management has made an assessment of the Organization's ability to continue as a going concern and they do not intend either to liquidate or to cease operations.

#### 2.4 - Comparative information

The accounting policies have been consistently applied by the organisation and are consistent with those of the previous year. The previous year's figures and phases have been rearranged wherever necessary to conform current year's presentation.

#### 2.5 - Assets and bases of their valuation

##### 2.5.1 - Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The following annual rates are used for the depreciation of property, plant and equipment:

Depreciation of assets begin when it is available for use and the principle annual rates used are as follows.

<u>Assets Category</u>	<u>Rate</u>
Furniture & Fittings	10%
Office Equipment	20%
Computer Equipment	20%
Office Partition	20%

##### 2.5.2 - Impairment of assets

At each reporting date, property, plant and equipment is reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

##### 2.5.3 - Financial assets

Financial assets that are investments in fixed deposit and carried at amortised cost. These investments are normally held as long-term since the entity does not expect to dispose them in the near future.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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### 2.5.4 - Receivables

Receivables are measured at amortized cost using effective interest method. At the end of each reporting period, the carrying amounts of receivables are reviewed to determine whether there is an objective evidence that the amounts are not recoverable. If so an impairment loss is recognized immediately in the statement of comprehensive income.

### 2.5.5 - Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash & cash equivalents consists of cash in hand and deposits in banks net of outstanding bank overdrafts. Investment with short term maturities i.e. three months or less from the date of acquisitions are also treated as cash equivalents.

## 2.6 - Liabilities and provisions

### 2.6.1 - Liabilities

Liabilities stated under current liabilities in the balance sheet are those expected to fall due within one year from the balance sheet date. Items stated as long term liabilities are those expected to fall due at point of time after one year from the date of the financial position.

### 2.6.2 - Provisions

Provisions are recognized when the Organisation has a present obligation (legal and constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount can be estimated reliably. The expenses relating to any provision is presented in profit or loss. Provisions are not recognised for future operating losses. If the effect of the time value of money is material, provision are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### 2.6.3 - Retirement benefit obligation

#### a) - Defined benefit plan - Gratuity

Provision has been made for retirement gratuities in conformity with Gratuity Act No. 12 of 1983 in accordance with the Sec 28 of SLFRS for SMES . The liability is not externally funded nor it is actuarially funded.

Gratuity provision has been valued in conformity with sec 28 of the Sri Lanka accounting standard for small and medium size entities, by multiplying half months salary by the number of years of service .



## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2018

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#### 2.6.3 - Retirement benefit obligation (Continued..)

##### b) - Defined contribution plans - EPF & ETF

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The Organisation contributes 12% and 3% of gross emoluments of employees to the Employees' Provident Fund and to the Employees' Trust Fund respectively.

#### 2.6.4 - Taxation

##### a) - Current taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue.

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act No. 24 of 2017.

#### 2.7 - Funds

##### 2.7.1 - Unrestricted funds

Unrestricted funds are those that are available for use by the Organisation at the discretion of the Board, in furtherance of the general objectives of the Organisation and which are not designated for any specific purpose.

##### 2.7.2 - Restricted funds

Restricted funds are the funds where grants are received for use in an identified project or activity, such funds are held in a fund account and transferred to the statement of comprehensive income to match with expenses incurred in respect of that identified project. Unutilized funds are held in their respective fund accounts and included under accumulated fund in the statement of financial position until such time as they are required. Funds collected through a fund raising activity for any specific or defined purpose are also included under this category. The activities for which these restricted funds may be and are being used are identified in the notes to the financial statements.

##### 2.7.2 - Designated funds

Unrestricted funds are designated by the board to a specific purpose identified as designated funds. The activities for which these funds may be used are identified based on the life of the assets.

#### 2.8- Grants and subsidies

Grants and subsidies related to assets are generally deferred in the statement of financial position and credited to the statement of comprehensive income over the useful life of the assets.



## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 December 2018

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#### 2.9 - Income statement

##### 2.9.1 - Revenue recognition

###### Income

Income realised from restricted funds is recognised in the statement of comprehensive income only when there is certainty that all of the conditions for receipt of the funds have been complied with and the relevant expenditure that it is expected to compensate has been incurred and charged to the statement of comprehensive income. Unutilised funds are carried forward as such in the statement of financial position. All other income is recognised when the Organisation is legally entitled to use of such funds and the amount can be quantified. This would include income receivable through fund raising activities.

###### Others

Other income is recognized on the accrual basis.

Gains and losses arising from incidental activities to main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

##### 2.9.2 - Expenditure recognition

Expenses in carrying out the projects and other activities of the Organisation are recognised in the statement of comprehensive income during the period in which they are incurred. Other expenses incurred in the administration and running the Organisation and in restoring and maintaining the property, plant and equipment to perform at expected levels are accounted for on an accrual basis and charged to the statement of comprehensive income.

For the purpose of presentation of the income statement the Board of Management is of the opinion that function of expenses method presents fairly the elements of the Organisation's performance and hence such presentation method is adopted.

#### 3 - Events after the reporting period

##### 3.1 - Events occurring after the reporting period

All material events occurring after the reporting date have been considered and where necessary adjustments to or disclosures have been made in the respective notes to the accounts.

##### 3.2 - Contingencies and unrecognized contractual commitments

Contingencies are possible assets or obligations that arise from past event and would be confirmed only the occurrence or non occurrence of uncertain future events, which are beyond the Organisation's control.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

	2018 Rs.	2017 Rs.
<b>04. General income</b>		
Membership fees	1,605,000	1,533,750
Membership registration	10,000	20,000
	<u>1,615,000</u>	<u>1,553,750</u>
<b>05. Interest income</b>		
Interest on fixed deposits and money market a/c	291,679	161,997
	<u>291,679</u>	<u>161,997</u>
<b>06. Other income</b>		
Book sales	22,500	17,500
Training income	-	1,344,000
Website advertising	15,000	7,000
Membership fees (SAMN)	469,642	-
Miscellaneous income	1,642,298	240,440
SAMN conference income	11,537,107	688,450
Sponsorship income	260,000	1,135,000
Exposure programme income	6,894,148	4,878,015
	<u>20,840,695</u>	<u>8,310,405</u>
<b>07. Activity related expenses</b>		
AGM expenses	141,613	144,273
Exposure programme expenses	5,655,157	4,074,550
Workshop expenses	84,000	1,225,117
10th Anniversary expenses	-	1,125,050
Miscellaneous expenses	945,418	144,972
Conference expenses (SAMN)	10,168,551	252,820
	<u>16,994,739</u>	<u>6,966,782</u>
<b>08. Administrative expenses</b>		
Secretary fees for conference (SAMN)	197,750	-
Salaries and allowances - conference (SAMN)	945,000	246,750
Salaries	805,200	804,700
SAMN expenses	293,020	-
Employees Provident Fund	96,624	96,624
Employees Trust Fund	24,156	24,156
Gratuity	33,550	51,850
Travelling and others	105,340	120,210
Auditors' remuneration	31,625	28,750
Secretarial fee	17,950	49,154
Rent	473,550	430,500
Office maintenance	26,250	23,365
Postage and courier	23,430	21,040
Printing and stationery	106,111	34,115
Depreciation	269,031	84,077
Internet charges	31,330	41,284
Sundry expenses	85,273	92,810
Computer maintenance	10,600	17,550
Website maintenance	64,250	11,750
Balance c/f	<u>3,640,040</u>	<u>2,178,685</u>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

	2018 Rs.	2017 Rs.
<b>Administrative expenses (Continued.)</b>		
Balance b/f	3,640,040	2,178,685
Mobile allowance	18,000	18,000
Membership fee	80,500	154,800
Electricity	2,239	2,269
Telephone	29,123	26,730
Bank charge - conference (SAMN)	39,930	-
Bank charge	7,830	9,470
Membership fee receivable - written off	157,500	86,250
Travelling allowances	36,000	36,000
	<u>4,011,162</u>	<u>2,512,204</u>

**9. Surplus before taxation**

Surplus before taxation is stated after charging all the expenses including the following:

Salaries	805,200	804,700
Employees Provident Fund	96,624	96,624
Employees Trust Fund	24,156	24,156
Gratuity	33,550	51,850
Auditors' remuneration	31,625	28,750
Depreciation	<u>269,031</u>	<u>84,077</u>

**10. Income tax expense**

Current income tax provision	77,826	-
	<u>77,826</u>	<u>-</u>

**Reconciliation of accounting profits with tax profits**

Profit before tax	1,741,473	547,166
Disallowable expenses	861,403	(547,166)
Tax deductible expenses	(383,266)	
Exempt income	<u>(1,974,879)</u>	<u>-</u>
Taxable income	244,731	-
Interest income	<u>291,679</u>	<u>-</u>
	<u>536,410</u>	<u>-</u>

Business income - tax at 28%	5,457	
Business income - tax at 14%	<u>72,369</u>	
	<u>77,826</u>	



## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2018

## 11. Property, plant and equipment

	Computer equipment Rs.	Office equipment Rs.	Furniture and fittings Rs.	Office partition Rs.	Total Rs.
<b>Cost</b>					
Balance at the beginning of the year	599,211	569,981	171,824	107,425	1,448,441
Additions during the year	-	114,582	-	-	114,582
Balance at the end of the year	599,211	684,563	171,824	107,425	1,563,023
<b>Accumulated depreciation</b>					
Balance at the beginning of the year	451,291	567,248	161,434	25,066	1,205,039
Depreciation during the year	119,841	117,315	10,390	21,485	269,031
Balance at the end of the year	571,132	684,563	171,824	46,551	1,474,070
<b>Written down value</b>					
Balance at the end of the year	28,079	-	-	60,874	88,953
Balance at the beginning of the year	147,920	2,733	10,390	82,359	243,402

As at 31 December 2018

	2018 Rs.	2017 Rs.
<b>12. Investment in fixed deposits</b>		
Deposits with Banks	1,301,716	1,186,842
	1,301,716	1,186,842
<b>13. Receivables</b>		
Membership subscription	322,500	180,000
	322,500	180,000
<b>14. Deposits and prepayments</b>		
Rent deposits	420,000	420,000
	420,000	420,000
<b>15. Income tax refund / (liability)</b>		
Balance at the beginning of the year	52,541	52,541
Tax paid for previous year	-	-
	52,541	52,541
Balance at the beginning of the year	-	-
WHT receivable for the current year	16,543	-
Tax provision for the year	(77,826)	-
<b>Balance at the end of the year</b>	<b>(61,283)</b>	<b>-</b>





## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2018	2018 Rs.	2017 Rs.
<b>16. Cash and cash equivalents</b>		
Commercial Bank - money market a/c	1,717,730	657,740
Commercial Bank - current a/c	9,417	1,338
Sampath Bank - current a/c (SAMN)	687,498	69,480
Cash in hand	1,670	11,511
	<u>2,416,315</u>	<u>740,069</u>
<b>17. Retirement benefit obligation</b>		
Balance as at the beginning of the year	268,400	183,000
Provision for the year	-	51,850
Balance as at the end of the year	<u>268,400</u>	<u>234,850</u>
<b>18. Accounts payable</b>		
Audit fee payable	31,625	28,750
Website maintenance payable	18,000	-
PAYE tax payable	-	184
	<u>49,625</u>	<u>28,934</u>
<b>19. Commitments and contingencies</b>		
There were no commitments and contingencies existing as at the reporting date.		
<b>20. Events after the reporting date</b>		
No circumstances have arisen, since the balance sheet date, which would require adjustments to, or disclosure, in the financial statements.		
<b>21. Members interest in contracts</b>		
None of the members are either directly or indirectly interested in any existing or proposed contracts with the Organization.		
<b>22. Related party transactions</b>		
There have been no related party transactions to be disclosed to the financial statements.		
<b>Assets pledged</b>		
<b>23. Bank</b>	<b>Nature of facility</b>	<b>Nature of asset pledged</b>
Commercial Bank	Overdraft facility of Rs. 450,000	-Lien over fixed deposits for Rs. 661,749.45 -Letter of authority and set-off







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