

# Sri Lanka Microfinance Forum

Special issue

**Special Edition**  
**With new look.....**

## **SPECIAL FEATURES IN THIS EDITION**

- Promoting Industry Innovations through Microfinance Associations
- Liquidity Risk Management for MFI
- Social Performance Management among Asian Microfinance Networks

Published by:



**Lanka Microfinance  
Practitioners' Association**

Address:

112 A Maddumagewatte, Nugegoda

Tel: +94 11 4367612

Fax: +94 11 2827109

Email: [coordinator@lankamicrofinance.com](mailto:coordinator@lankamicrofinance.com)

Web: [www.lankamicrofinance.com](http://www.lankamicrofinance.com)

## WORD OF THE EDITORS

DEAR READER

It is with great sincerity that we apologize for the delay in providing you with our newsletter for the last two quarters. However, we also take a great pleasure in publishing this issue for the current quarter.

The main objectives of our newsletter were to educate people, share knowledge, discuss current topics, present case studies of MFIs, introduce best practices, highlight international standards, create awareness about new trends in the industry, highlight strengths and weaknesses of the sector and most importantly create a communication platform for all stakeholders in the sector. We believe that during the

last year we were able to bridge the gap between you, our respected reader, and the information. SLMF created a platform for everyone to share their experiences, views and priceless ideas.

For this untiring efforts we would also like to thank Mr. David Bartorcha for his valuable contributions for the success of this newsletter.

As two individuals we took the initiative to produce a newsletter to fill the gap of a platform. With pride we now believe that this is the right time to handover the authority of the newsletter to Lanka Microfinance Practitioners' Association (LMFPA) which is the collective body of Microfinance practitioners and stakeholders in Sri Lanka.

We will continue our service as editors and we warmly welcome Yasitha Munasinghe (Coordinator of LMFPFA) to the editorial committee.

It is noteworthy that the guidance of the advisory board is very much a crucial factor in continuing of the newsletter for a better Microfinance sector in Sri Lanka. We also warmly welcome the presence of Mr. Palitha Perera and Mr. Zinnur Rahaman to the advisory board.

We hope with these new changes and responsibilities, SLMF will create the much needed platform to everyone in the Sri Lankan microfinance sector.

Yours Sincerely



**Niroshani Sawanawadu**

ICT / Microfinance  
Consultant



**Imran Nafeer**

Microfinance Consultant

## MESSAGE FROM LMPFA PRESIDENT

It is with great pleasure that I write a few words on the first issue of the Sri Lanka Microfinance Forum, now managed by the LMFPFA. This newsletter was created by two young active microfinance experts, Mr. Imran Nafeer and Ms. Niroshani Sawanawadu in order to voice out the current microfinance

trends in Sri Lanka and to discuss the various issues and challenges with the opinions and ideas of the experts in the industry. The journey that they started shall now be continued by LMFPFA and I have every reason to believe that this newsletter will not only produce educative literature but also be a platform for

discussion of hot topics in the microfinance sector not only in English but in the local languages as well. I wish the editorial team all the best for the success of the Sri Lanka Microfinance Forum.

S.W. Kiriarachchi  
President

## THE WAY FORWARD

Dear Readers.

With the new liaison of LMFPFA, SLMF newsletter intends bring a significant change in the future. This issue we consider as a special introductory one but from the next issues we intends to publish usual theme based newsletters; where industry viewpoints of a specific subject would be addressed. The number of articles will also be higher where the editors intend to extend it to around 12 pages. The layout of the SLMF will also slightly change to include network news and member updates.

Though the LMFPFA network coordinates and facilitates the publica-

tion the editorial committee thoroughly emphasis that the newsletter would be maintained as an independent information sharing mechanism. The views, and opinions expressed by the newsletter would be those of the authors and not of the LMFPFA and the content would include objective information. The intentions of this liaison, as mentioned in the editorial note are to institutionalize the Newsletter, and act as a catalyst for new thinking, idea generation and reach out to a larger audience.

The initial volumes would be published as web based e newsletters with all three languages, which

would be shared with the LMFPFA website. The LMFPFA website is also under re-construction where there will be a special place for the newsletter subscriptions. However, the editorial committee also invites sponsorships and advertisements in order to translate to local languages and print a hard copy for convenient usage for the regionally based MFIs.

The newsletter would be published quarterly, where the next issue would reach the audience in July end, 2011. Your comments and suggestions are always welcome to improve the Newsletter. Enjoy reading our next issue

## IN THE NEXT SLMF ISSUE: MICROFINANCE TRANSPARENCY

In the next issue we would like to discuss about Microfinance Transparency. We therefore encourage all microfinance practitioners, regulators, promoters or other stakeholders to send us their views, opinion and experiences.

With the initiatives taken by Smart Campaign and MF Transparency,

client protection and transparency have drawn the attention of lots of stakeholders in the industry.

Many discussions on fair and transparent pricing in the Microfinance industry has emerged due to too much commercialization of MFIs and the events happened in countries due to this commercialization.

SLMF thinks this is the high time to discuss about microfinance transparency in Sri Lanka.

Therefore we would like to provide a space for you in the next issue to express your views on this regards. Please send your comments, suggestions and experience to [microfinance.forum@gmail.com](mailto:microfinance.forum@gmail.com)

## NEWS ROUND

### LMFPA NEWS

#### *Felicitatation of Mr. Bisowela Gunasekara*

On 18<sup>th</sup> of January 2011, a felicitation was held in appreciation of Mr. Bisowela Gunasekara who served in the capacity of Manager of LMFPFA for three years since 2008. Previously a member of the board of LMFPFA, serving as the Secretary and Treasurer, Mr. Gunasekara stepped down from his office bearer role in 2008 at a crucial time for such a need in the LMFPFA and started to serve as the Manager of LMFPFA until 31<sup>st</sup> December 2010. In his capacity as the Manager, he diligently carried out all the operational functions of the association and had won the hearts of many for his sheer dedication and devotion for the continuation and sustenance of the network.

#### *LMFPFA Participation at the SPTF Asia Working Group in Bangkok*

The first meeting of the Social Performance Task Force Asia Working Group (SPTF-AWG) was held in Bangkok from 28<sup>th</sup> February to 2<sup>nd</sup> March 2011. LMFPFA Coordinator Mr. Yasitha Munasinghe and Secretary to the board Mr. Palitha Perera represented the network at this meeting. The meeting was participated by all the microfinance networks in the Asian region that shared their experiences of promoting Social Performance Management in their member institutes. In his presentation, Mr. Yasitha shared how Sri Lanka's experience in Social performance is still at its primitive stages but through the experience sharing of the other networks is looking forward to implement many SPM initiatives in Sri Lanka.

#### *Training of Trainers Programme (TOT) on Progress Out of Poverty Index (PPI)*

Plan Sri Lanka together with LMFPFA and SEEDS conducted the PPI (Progress out of Poverty Index) TOT

(Training Of Trainers) program in Sri Lanka from 21<sup>st</sup> to 25<sup>th</sup> March 2011 at the Kandyan Arts Residency Hotel in Kandy. The training program was conducted by Mr. Muhammad Awais from Plan Asia along with Subhodini Dissanayake & Upali Wijethunga from Plan Sri Lanka. 34 participants attended the training, representing Plan Sri Lanka, SEEDS, Vision Fund, BRAC Sri Lanka, LMFPFA, Muslim Aid, Berendina Microfinance Institute, Uva Govijana Kendraya and GIZ - ProMiS. In this programme the participants had the opportunity to learn about social performance, the PPI index, PPI scorecard, how to use the PPI data tool and how to conduct the PPI survey during field visits

A peer learning group was formed at the end of the programme where participants pledged to share their experience in mainstreaming PPI in their respective organizations and an action plan was drafted. The action plan was revised during the learning group's first meeting after the training programme held on the 6<sup>th</sup> of April 2011 at the Plan Sri Lanka office in Colombo and it was decided here to construct a common set of guidelines for the use of the Sri Lankan PPI scorecard and be made available to every MFI who is keen on mainstreaming PPI into their operations.

#### *Meeting with the National Development Trust Fund*

The Board of LMFPFA had a meeting with key officials from the NDTF in January this year, to discuss on the interest rate caps on MFIs and the strategies that lay ahead for both organizations. The LMFPFA agreed to forward a concept note to the NDTF proposing a revision of the interest rate caps and future joint discussions with the NDTF and Ministry of Finance and Central Bank are to be taken place.

#### *Call for Membership Application*

The LMFPFA has revised its membership admission criteria since the be-

ginning of 2011. The membership comprises of Ordinary and Associate membership. The fee structure for Ordinary members will be based on their outstanding loan portfolio whereas the Associate membership fee is based on a flat rate as stated below:

#### *Ordinary Member*

Up to LKR 50M	LKR 5,000
Between LKR 5M to 100M	LKR 7,500
Between LKR 100M to 200M	LKR 10,000
Between LKR 200M to 500M	LKR 15,000
Between LKR 500M to 1Bn	LKR 20,000
Above LKR 1Bn	LKR 25,000

#### *Associate Member*

Individual – LKR 5,000

Organizational service providers – LKR 10,000

Banks, Financial Institutions, Funding Agencies and Donors - LKR 25,000

The services of LMFPFA to its members:

- Technical Assistance such as Trainings, workshops, Exposure visits, scholarships etc (depending on the need and availability of resources)
- Lobbying for the common interests of the members and policy changes in the sector
- Information sharing & transparency
- Infrastructure Development for Meso Level (Eg: Accounting standards, MIS etc)
- Liaison with local and foreign stakeholders in the sector, international networks and organizations for local sector development
- Publication and visibility for members through electronic and print media
- Facilitation for financial intermediation



Felicitatation of Mr. Bisowela Gunasekara



LMFPFA participation at the SPTF Asia Working Group in Bangkok

### LOCAL AND INTERNATIONAL TRAINING COURSES AND EVENTS

Training on "Developing inclusive finance systems" - CGAP  
06 Jun 2011 - 10 Jun 2011, Senegal

Training on "Delinquency Management"  
06 Jun 2011 - 08 Jun 2011, Philippines

Sanabel Eighth Annual Conference  
07 Jun 2011 - 09 Jun 2011, Jordan

AITEC Banking & Mobile Money West Africa 2011, conference  
08 Jun 2011 - 09 Jun 2011, Ghana

International Conference on Islamic Microfinance  
13 Jun 2011 - 15 Jun 2011, Pakistan

Second European Research Conference on Microfinance  
16 Jun 2011 - 18 Jun 2011, Netherlands

## DISCUSSION FORUM

### PROMOTING INDUSTRY INNOVATIONS THROUGH MICROFINANCE ASSOCIATIONS



**Nadeera Ranabahu**  
Country Manager Sri Lanka  
South Asia Microfinance  
Network

*"The MFAs are exposed to broader range of experience due to the interactions with their peers, other regional and global networks, technical service providers and they are better positioned to support in evaluating results and sharing experiences."*

*(Summary of the Technical Note "How to Promote Industry Innovation" published by SEEP network and Citi Foundation)*

"Innovations" in the microfinance industry are essential in order to keep pace with the changing needs of clients and service providers. Usually the Microfinance Institutions (MFIs) are the ones who play a pioneer role in promoting innovations. However, in addition to the MFIs, Microfinance Networks/Associations (MFAs) also have a vital role to play which has been overlooked.

When promoting Innovations, compared with the MFIs, associations can better address the challenges such as insufficient market information, the high cost of product design and testing, inefficiencies associated with slow trial and error approaches of Individual MFIs, due to the strategic position of MFAs. In addition, due to the broader viewpoint of the sector, the associations can find the best means to promote innovations and are able to support the capacity building needs. The MFAs are exposed to broader range of experience due to the interactions with their peers, other regional and global networks, technical service providers and they are better positioned to support in evaluating results and sharing experiences.

#### The Innovation cycle and Role of Associations

The role associations have to play in each stage of the product innovation cycle varies. In some stages, the role of the MFAs is significant, while in others it is negligible. The diagram 1 illustrates the various stages of product innovation cycle, which includes 6 steps.

#### **Product Identification**

Associations have a major role to play in this stage by identifying gaps/opportunities in the market, anticipating industry changes and sharing lessons from the other countries. MFAs can use the industry assessments, communications with peers, members and other stakeholders to analyze the market, derive trends and identify gaps. In

addition, the associations can support MFIs in building awareness through conferences, workshops, conducting researches and by disseminating information.

#### **Market Research**

MFAs can provide substantial value to members in this stage too. When an individual MFI conducts a market research, it is usually limited with scope and scale. However, the associations can pool resources, attract outside funding and can conduct broader, in-depth studies.

#### **Product Design**

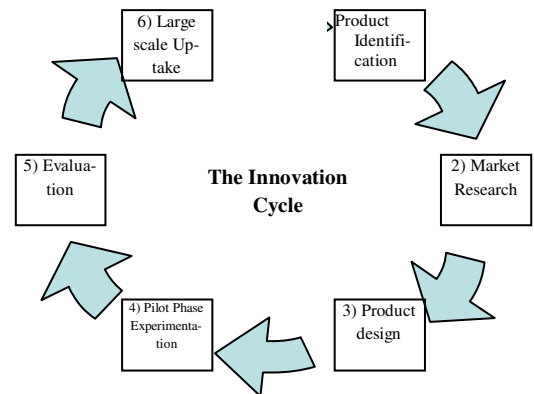
In this stage, product ideas are transformed to more tangible services/products with specifications, using the systematic evaluations of alternative products and services. In many instants, MFIs directly do the product designing. However, the MFAs can play a useful role by sharing information on various product designs, costs/benefits and can contribute by systematically recording the experience of MFIs.

#### **Pilot Phase Experimentation**

At the pilot phase the institutions check the critical assumptions associated with the new product or services such as terms and conditions, pricing, client demand, etc. Associations can contribute to this pilot phase experimentation by providing technical support and financial incentives to for selected MFIs. Some MFAs have been able to attract donor funding to support MFIs to test new products, while ensuring the lessons learned are shared with broader industry.

#### **Evaluation**

One of the most important value added activities which association can perform are in the area of evaluation. MFAs can effectively contribute to the areas such as the potential scale of new products,



realization of intended benefits to clients and the institution, the impact, etc. In addition, the associations can promote continual improvement.

#### **Large-scale Uptake**

Unlike an individual MFI, association has implication that go beyond the introduction of new products or services. Once a product has been tested, the MFAs support its uptake in a sector wide scale. For this kind of large scale-up interest of number of institutions is required and the role of the association in this stage would be to disseminate information for interested members.

#### Examples

Some of such examples of MFAs contribution to product innovation are; 1) "Branchless Banking" as a potential solution to access financial services to the rural population of Russia by Russian Microfinance Center 2) In-depth analysis of micro-pension program in testing the feasibility of financial product designed to allow people working in the informal sector for retirement by REDCAMIF; Central American Microfinance Network 3) Micro-insurance product for micro entrepreneurs to provide financial support in the case of death or permanent disability by Red Financiera Rural (RER) in Ecuador

*For further details refer the full article "How to Promote Industry Innovation: A technical Note for Microfinance Associations" published by the SEEP Network and Citi Foundation.*

### SOME USEFUL LINKS OF NETWORKS

- [www.mfnetwork.org](http://www.mfnetwork.org) - Micro-finance network
- [www.afminetwork.org](http://www.afminetwork.org) - African Microfinance Network
- [www.bwtp.org](http://www.bwtp.org) - Banking with the Poor Network
- [www.seepnetwork.org](http://www.seepnetwork.org) - Seep Network
- [www.microfinancepakistan.com](http://www.microfinancepakistan.com) - Pakistan Microfinance Network

## SOCIAL PERFORMANCE MANAGEMENT AMONG ASIAN MICROFINANCE NETWORKS

The microfinance industry, born primarily out of a desire to help the world's vulnerable and poor has grown from a concept that the poor could be bankable to an integral part of the formal financial sector in many countries around the world. As social enterprises, MFIs have a dual role of applying commercial principles to achieve social ends. However, according to worldwide experience, many MFIs pursue their financial objectives and tend to neglect their social objectives. This struggle by MFIs to balance social and financial objectives has created tension in the industry that has now become an inherent property. The practical steps the MFIs need to take that are to develop their organizational strategy; to set objectives; and to align all of their systems to achieve these dual goals are the essence of Social Performance Management. Social Performance Management can be defined as the measurement of how well an institution has translated its social goals into practice.

Many Microfinance networks particularly in the Asian region are keen on spreading Social Performance principles among their respective member organizations. Below are some of the SPM initiatives of several Asian microfinance networks as gathered from the Social Performance Task Force Asia Working Group Meeting held in Bangkok from 28<sup>th</sup> February to 2<sup>nd</sup> March 2011.

The focus of Sa-Dhan from India on Social Performance among its members is through the promotion of Responsible Financing. This means, while encouraging its members to engage the poor in financial inclusion through credit, savings, insurance and other financial performance activities it also advocates for Code of Conduct among its members. This is done through promoting principles on ethical behaviour, transparency, client protection, governance, client education etc. One of the key things that Sa-Dhan did in its membership was to refine its membership admission procedure and accept members who govern a good code of conduct in their financial services. It had carried out a data collection on Code of Conduct in 2010 from 105 members to highlight this initiative. This is in addition to the SPM data collection which was done during the same year with a response from 63 member organizations. Sa-Dhan has also organized a workshop on SPM and Code of Conduct in 2010 to educate their member organizations on the importance of these two elements.

The Vietnam Microfinance Working Group reaches out to its members mostly through its website. Many of its members are in a transformation process from being pure financially driven institutes to becoming socially oriented organizations. They have conducted awareness creation on

Client Protection Principles in their news bulletin and website and also have developed tools for SPM Data collection. Capacity building programmes on SPM is also another activity that they have done.

The strategy of The Chinese Association for Microfinance (CAM) in promoting SPM takes several ways. One key feature is that they have translated SPM into Chinese philosophy. Client Protection is used as a starting point and bottom line for SPM practice. In their SPM initiatives they involve clients to protect themselves and they use Information Communication Technology for client protection. They too have conducted workshops on Social Performance and Client Protection. Recently a Social Performance assessment was conducted in Haerbin Bank China.

The Pakistan Microfinance Network's used its Data Collection on its members through the MIX reporting to publish the first Social Performance report for the sector. During the past year the PMN had developed a brief Training of Trainers (TOT) module on Client Protection and these principles were disseminated among its members after translating them into local languages. There had also been representation by the member organizations at the Social Performance Task Force Meeting in Bern.



**Yasitha Munasinghe**  
Coordinator  
Lanka Microfinance Practitioners' Association

## BEST PRACTICES

### LIQUIDITY RISK MANAGEMENT (PART 3 & 4)

Dear reader, this article is part of a series of articles on liquidity risk management. The article consists of 4 sections:

1. Definition and Rationale
2. Liquidity Risk Management Policy
3. Measuring and Monitoring Liquidity Risks
4. Managing Liquidity.

The current edition of the SLMFF will show you the last parts of the article: Measuring and Monitoring Liquidity Risks and Managing Liquidity. We are very thankful to Mr. Niraj Kumar, who is an expert in the field of risk management, that he has agreed to contribute these articles to the Sri Lanka Microfinance Forum.

#### Measuring and Monitoring Liquidity Risks

Pre-determined limits and triggers help management quickly identify threats to adequate liquidity. Triggers can arise from (a) changes in market conditions, (b) changes in

funding sources, and (c) changes in the client portfolio. Broadly speaking, there are two ways of measuring and analyzing liquidity risk:

1. Analysis financial statement through ratio analysis: This is a backward looking or stock approach, as it is valid for a point of time only since balance sheet profile constantly changes. However, it is easy to calculate and facilitate comparison. External analysts, regulatory agencies and investors find them practical, because a ratio can give a quick indication of the overall liquidity position. The ratios can be broadly divided into three groups: (i) Asset-Liquidity Ratio, (ii) Liability-Liquidity Ratio, and (iii) Asset-Liability Ratio. Some commonly used liquidity ratios are given below:

- **"Quick ratio"** –  $(\text{Cash} + \text{Market-able securities} + \text{Current accounts receivable}) / \text{Current liabilities}$   
Traditional measure of liquidity using only the most liquid current

assets.

- **Liquid assets/Deposits**  
Indicates percentage of total deposits that are supported by liquid assets.
- **Liquidity reserve / Withdrawable deposits**  
Regulatory requirement for cash to be held at local central bank as a percentage of highly liquid deposits.
- **Liquid assets / Total assets**  
Indicates percentage of total assets that are supported by liquid assets.
- **Broader planning liquidity:**  
 $(\text{Current assets} + \text{Availability credit lines}) / (\text{Current liabilities} + 1 \text{ month's opr. exp.} + 1 \text{ month's portfolio growth})$   
Forward looking measure that determines whether there is sufficient liquidity for disbursements, where liquidity also includes committed funding sources.



**Niraj Kumar**  
Freelance Consultant  
India

*„pre-determined limits and triggers help management quickly identify threats to adequate liquidity“*

(Continued on page 6)



You can participate

Send your comments,  
news, articles, and  
opinions to

microfinance.forum@gmail.com

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2. **Cash flow projection and maturity bucket analysis:** This is a forward looking or flow approach, which is detailed, precise, measures the most current risk. The disadvantage of using such approach is that is relatively complicated and also as the length of period increases, its accuracy reduces due to higher uncertainty.

In *Maturity Bucket Analysis*, cash flows are segregated into different time buckets and a net funding requirement is estimated for a given time horizon that gives a fair idea of liquidity risk faced by an institution.

Another method under this approach is '*Cash Flow Forecasting*'. Projection of an MFI's cash flow requirements is integral part of liquidity management. The process of cash-flow projection must start from the branch level. At branch level every Credit Officer must prepare a weekly/monthly cash flow statement. The Branch Manager can consolidate this statement and send it to the Head Office (HO). The Finance Manager at HO can consolidate this report and estimate the cash requirement at the branches for

a given period that will help him/her to take a decision on whether to draw down upon the existing cash resources or convert the excess cash short term investments. The following may be kept in mind while doing cash flow planning:

- The cash flow forecasts should be as detailed as possible.
- Forecasts should capture all sources of liquidity available (such as cash on hand, cash flows from operations, and unused funding/credit resources).
- Forecast should capture all uses and potential uses of liquidity.
- Forecasts should be conservative and factor in any uncertainty/seasonality in the cash flows.
- Cash flow forecasts are only as good as the cash collection and disbursement systems, balance reporting, and information systems.
- For MFIs that mobilize deposits, reserve requirements should also be forecasted.

#### Managing Liquidity

Liquidity triggers are the signals to move to increase (or decrease) the

liquidity position. It also helps in determining appropriate steps for both assets and liabilities side of liquidity management.

Assets side liquidity management includes:

- Demand deposits at commercial banks
- Time deposits
- Money market deposits
- Invest in short-term securities
- Raise cash from non-liquid assets (Selling of fixed assets or portfolio securitization)

If an MFI doesn't have the liquidity in its assets then it has to depend on borrowings (liabilities). Liability side liquidity management includes:

- Equity, which is stable but expensive
- Long-term debt or lengthening tenor of bank loans
- Securing back-up credit lines (overdraft facilities)
- Special drive to mobilize customer deposits

Among other steps of liquidity management include delaying capital expenditure, slow down growth plan, etc.

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Contact:  
microfinance.forum@gmail.com

The Sri Lanka Microfinance Team wants to express its thanks to the Advisory Board Members:

Chandula Abewickrama  
Charitha Ratwatte  
Dr. Dagmar Lumm  
Dulan de Silva  
Dr. Nimal Fernando  
Nimal Martinus  
Mr. Palitha Perera  
Mr. Zinnur Rahaman

The Advisory Board is not responsible for the content of the Sri Lanka Microfinance Forum. The role of the advisory Board is to provide comments and suggestions to the editors.

## LMFPA MEMBER UPDATE

### BMI IS HEADING TOWARDS THE INSTITUTIONALIZATION OF PPI

Micro Finance Institutes in Sri Lanka and the majority of MFIs all over the world primarily measure loan quality, efficiency and financial performance and do not measure the most important outcome, which is, how many clients lifted themselves above the poverty line due to the impact of the loan. Thanks to Mark Schreiner, the statistician who developed Progress out of Poverty Index (PPI) for Sri Lanka, we now have a universal system to measure how many people moved out of poverty over time.

Berendina Microfinance Institute (BMI), a role model MFI for MF best practices in Sri Lanka, is one of first MFIs in the island to incorporate PPI in to its MF operation.

BMI has started a PPI pilot study covering its all 11 branches and currently the PPI scorecard data of randomly selected samples of clients are being collected by Microfinance Officers.

BMI has developed a guideline for the PPI scorecard, addressing all possible issues. An extensive training was given to all credit officers who are actively involved in the data collection process. In parallel to the data collection, a data verification study is also going on by an external observer with the aim of assuring the quality and accuracy of the collected data.

Once the data collection part is over, BMI aims to start the data analyzing. Identification of specific cut-off

points to determine different poverty levels is also expected to be achieved through this pilot study. With the findings of this pilot BMI's plan is to mainstream PPI from August 2011.

BMI is a member of PPI peer learning group and inputs from this expert group in also embedded in this pilot work.

BMI wishes to thank Plan International for providing technical assistance for developing the PPI guidelines, funding support and LMFPFA for facilitating this support. The technical assistance provided by SAMN during the staff trainings is also acknowledged with appreciation.