Enabling Dialogue...
A series of workshops organized by GTZ PROMIS

Workshop documentation: Funding for MFIs – Supply and Demand side perspectives

Participants: Microfinance practitioners, commercial banks, regulators, policy makers, donors, Technical Service Providers
Date: 10th of September 2009
Presentations: Funding for Microfinance Institutions (MFIs) – from the perspective of Apex – financier by Prof. J W Wickramasinghe, Chairman, National Development Trust Fund (NDTF)

Funding for Microfinance Institutions (MFIs) – from the perspective of Licensed Commercial Banks.
by Mr. Chandula Abeywickrema, Deputy General Manager, Hatton National Bank.

Discussion Outcomes:
- As a government organization NDTF has to fulfil government policies
- Practitioners are concerned about the current interest rate cap imposed by NDTF
- NDTF agreed to further discuss the issue of the interest caps with the practitioners and invited them to bring forward arguments to explain why an interest cap would hurt MFIs sustainability
- A meeting between NDTF and LMFPA was tentatively agreed
- It is difficult for Commercial Banks to lend at low interest rates to MFIs
- On the other hand, it would be difficult for MFIs to be sustainable if they had to borrow at prevailing market rates, since high operations cost, cost on Financial VAT & other taxes are squeezing the profit margins of most MFIs
- The next Banking with Poor Network (BWTP) summit might take place in Colombo by 2010, which could be a good opportunity for the sector as most of the international players are to participate for this event
- Mr. Abeywickrama agreed to facilitate a link between Professional Bankers Association and LMFPA for possible collaboration
ANNEX

Abstract:

With the recent developments in the Microfinance sector in Sri Lanka; funding for Microfinance Institutions (MFIs) has become a major point of attention and discussion. Rigours monitoring and supervision enforcement and the awareness campaigns carried out by the regulator, namely the Central bank of Sri Lanka, due to the recent oscillations in the financial system, have made lot of local level MFIs to refrain from obtaining deposits, even from their members. Notwithstanding to this, with the donors moving out of the sector, funding possibilities became even further constrained with the restrictions applicable for the foreign investment in the Microfinance sector. These are appearing in terms of foreign direct investment in the shares of such MFIs and in the general exchange control restriction on borrowing in foreign currency and making capital payments to non residents.

As a result, the liquidity and going concern of vast majority of small MFIs have been threatened. In such context, it is faire to believe that if these constrains further allow continue, there will be a major breakdown of the system at large. One way out of this dilemma is to promote internal supply of finance by the suppliers such as NDTF and Commercial Banks. However due to numerous well-justified reasons, this option too has not shown an optimal progress.

With above such background the Enabling Dialogue... workshop is hosted and conducted by GTZ ProMis to discuss this issue in detail by allowing major stakeholders to represent their point of views.