



Lanka Microfinance Practitioners' Association

ANNUAL REPORT
2020/2021

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”.

Contents

Message from the LMFPA President	02
Corporate Information	04
The Board of Directors	09
Our Members	12
Review of Activities in 2020/2021	13
Creating a Conducive Environment	13
Capacity Building	22
Information Dissemination	26
International Relations	27
Auditor's Report & Financial Statements	28

Message from the LMFPA President



I am very pleased to present the 15th Annual Report of the LMFPA to the members and all the stakeholders of the microfinance industry.

The year 2020/2021 just as much as the preceding year was yet another challenging period not only for the Sri Lankan microfinance industry but the whole economy as well. The Covid-19 pandemic triggered 3 lockdowns during the past year and a half. The self-employment and livelihoods of microfinance clients were seriously affected due to these lockdowns. So were the many MFIs including LMFPA members whose cash flows and operations were intermittently halted throughout this year.

Last year the government's decision to provide loan moratorium to customers were technically applicable only to regulated financial institutions according to the Central Bank circulars. This year that changed with applicability only to Licensed Banks and Specialized Banks. However, many MFIs continued to provide loan moratoriums to their clients although unlike in 2020, the demand for moratoriums from clients declined. Instead many MFI clients sought to seek alternative loan repayment methods and rescheduling.

Funding opportunities for the microfinance industry remained bleak during the past year. Two NGO initiatives for bulk funding for MFIs ETIMOS and SMCGI became non available during last few years. On top of that SLSB which was managing NDTF fund for MFIs became nonfunctional since January 2021. LMFPA took serious lobbying efforts for reestablishing ETIMOS and SLSB operations back with no success at the time of release of this message. Nevertheless LMFPA made several efforts at discussions with various stakeholders for funding channel opportunities for our members. Some Institutions such as Sanasa Development Bank agreed for bulk lending facilities that benefitted several member MFIs. When LMFPA got to know about a revolving fund to the District Secretaries of the Northern Province and Anuradhapura district to assist over indebted micro borrowers to settle their loans, we convened several online discussions initially between the Director Planning of the Anuradhapura District Secretariat and members operating in the Anuradhapura district to discuss the procedure regarding the utilization of this revolving fund, by interested member organizations operating in the area.

LMFPA's work on lobbying for better microfinance regulation continued this year with the State Minister of Microfinance and other key political figures that are knowledgeable of the industry. The draft Microfinance and Credit Regulatory Authority Act received Cabinet approval. The LMFPA has already forwarded its observations on the 2019 draft and proposed a sustainable mechanism to several key parties regarding the implementation of the proposed regulation. The Association will be closely monitoring the developments on the latest draft which is expected to be finalized in the near future.

One of the novelties that LMFPA introduced this year was the launch of a 'Microfinance Helpline' to the general public and to persuade and encourage the stakeholders to take timely corrective measures for customer grievances. The objective of this helpline is to curb incidents of malpractices portrayed at the microfinance industry and address the grievances of the affected parties in a transparent manner. LMFPA hopes this initiative will lead to finding solutions to genuine grievances of microfinance clients, minimize the criticism on the industry and ensure the important role played by MFIs in the national economic devel-

opment and reduce the disparities in the distribution of benefits of development to rural, plantation and other under privileged communities in the country.

The new normal environment meant that most events were to be held online and therefore LMFPFA conducted several webinars and training programmes under this new environment. It is encouraging to note that despite the difficult times, our members continued to show their support in nominating their staff for these programmes.

I would like to thank our members who have continued in their commitment and support to the association during troubled times in the industry. I appreciate the support extended by the Key officials, the board of Directors and the staff of LMFPFA during the year under review. I also wish to extend our gratitude and appreciation all the stakeholders in the industry including the State Ministry of Microfinance, Central Bank of Sri Lanka and the Ministry of Finance.

Anura Atapattu

Hony President – 2020/2021

Corporate Information

Corporate Information

Address: 32, Suriyamal Mawatha, Divulapitiya, Boralesgamuwa

Tel: + 94 11 4369612

Fax: +94 11 2099511

Email: info.lmfpa@microfinance.lk

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

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 LMFPFA 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 LMFPFA.



Mr. Imran Nafeer
Hony. Secretary

Mr. Imran Nafeer is a Director of Muslim Aid Micro Credit Company and has experience and exposure both local and international level as a Microfinance consultant in various aspects including Social Performance Management, Research & Product Development, Islamic Microfinance and Micro Insurance. He is an accredited trainer of CGAP and Frankfurt School of Finance & Management. Recently he was awarded as a certified Social Auditor from CERISE France on behalf of LMFPFA. He holds an Honours Degree in B. Com. (Marketing) Special from the University of Sri Jayawardenapura. He obtained Post Graduate Qualifications in Marketing from Chartered Institute of Marketing (UK) and in International Relations from Bandaranaike Centre for International Studies (BCIS). He also serves as a lecturer in the Microfinance Diploma course by the Institute of Bankers of Sri Lanka (IBSL). Mr. Imran has served as LMFPFA Secretary from 2011 to 2013 and from 2015 to 2016. He has also served as LMFPFA president during 2017/2018.



**Mr. Wasantha
Gunawardhane**
Hony. Treasurer

Mr. Wasantha Gunawardhane is the Senior Manager of People's Micro-Commerce 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 four 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 and developed his career growth by being the resident project Manager in the same company. Thereafter he acted as Head of Field Operations in Lak Jaya Microfinance. Previously Mr. Wasantha served as the Hony. Vice President of LMFPFA in 2013/2014 and also as a Director in 2014/2015 and 2016/2017.



**Mr. Priyantha
Dematagoda**
Hony. Vice President

Mr. Priyantha Dematagoda is the General Manager/Chief Executive Officer of Sewa Community Credit Limited, is a Professional Banker with 23 years of Commercial Banking experience. He was a Faculty member of the Institute of Bankers of Sri Lanka (IBSL), Center for Banking Studies CBSL, and also serves as Trainer in various disciplines in banking at many Private and Government Commercial Banks in Sri Lanka. He is also a Certified Trainer in Microfinance by Frankfurt School for Finance and Management. He holds a Masters Degree in Business Studies and a Post Graduate Diploma in Business Administration from the University of Colombo. He also holds a Diploma in Human Rights (Institute of Human Rights Sri Lanka). He has also undergone professional training at National University of Singapore (NUS), and with the Association for Development Financing in Asia and Pacific (ADFIAP) and University of Sri Jayawardhanapura. Mr. Dematagoda has previously served as LMFPFA Treasurer during 2017/2018.



**Mrs. Shriyani
Mangalika**
Hony. Asst. Secretary

Mrs. Shriyani Mangalika currently serves as the Managing Director of the Hambantota Women's Development Federation (WDF). She has previously also served as Assistant Manager, Audit Executive, Special Projects Manager and General Manager of WDF.



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. 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. Chamika
Weerasinghe**
Director

Mr. Chamika Weerasinghe has over 20 years of experience in the field of banking and finance with regard to Micro Financing, SME Financing, Corporate Banking, Retail/Branch Banking, Trade Finance, Project Finance, and Credit Risk Management in the most respected banks in Sri Lanka including NDB Bank PLC, DFCC Bank PLC and Seylan Bank PLC. He has also held some Senior Management position in Finance and Micro Finance industry in local and South East Asian Region.

His relevant work experience also includes years of service as a veteran investment adviser in local and Asian region and provide advisory service on fund and liquidity management in finance and other versatile sectors as a key intermediate.

He earned his Bachelor of Commerce (Special) Degree from the University of Sri Jayawardenapura and Masters in Business Administration as well. He is also an Associate Member of Institute of Bankers of Sri Lanka.



Mr. Saman Ranaweera
Director

Mr. Saman Ranaweera is the Senior Manager – Operations at Ventura Crystal Investments Ltd. He has over 27 years' of experience in the Microfinance sector with more than 22 years in the management and top management in leading Microfinance Institutions in the Industry.

He started his career as a Divisional Project Manager at Seeds Guarantee Ltd in 1993 where he served for 9 years prior to joining Agro Microfinance (GTE) Ltd as a Credit Manager. Prior to joining Ventura Crystal Investments Ltd, he also served as the Senior Manager – Field Operations at Lakjaya Microfinance Ltd and as the Senior Manager – Operations at Agro Microfinance (GTE) Ltd.

Mr. Ranaweera is a fully Certified Trainer of the Microfinance Distance Course by the Asian Development Bank Institute (ADBI) and Tokyo Development Learning Centre (TDLC). He is also a Certified Trainer of GCAP. He has also attended various "Training of Trainers" programs conducted by Frankfurt School of Finance & Management and LMFPA & Plan Sri Lanka.



Mr. Victor Rathnayake
Director

Mr. Victor Rathnayake is the Director of the MFI Nomic International Ltd. He is also the founder CEO of Grameen Micro Credit Co Ltd that introduced the Grameen concept to Sri Lanka back in 2000. He received comprehensive training in microfinance under Prof. Mohamed Yunus, Nobel prize winner for introducing Grameen concept to the world. Mr. Rathnayake was able to extend the microfinance business throughout Sri Lanka with 78 strong branch network with 2,498 staff and 364,000 borrowers during the period 2000-2008. He was also able to build up to 8,400 clientele with over Rs. 9 billion deposit base in 2008.

He later joined Bimpu Finance PLC in 2012 and commenced microfinance operations there. Under his leadership, the microfinance portfolio increased from zero to 1.5 billion. The customer base exceeded 67,000 with a net profit of Rs. 252 million within a short period of 22 months.

Having over 30 years of experience in the field of marketing and working with leading multinational organizations locally and internationally, he has trained over 8,000 youth in the field of microfinance.

Mr. Rathnayake is Bsc Graduate from the University of Peradeniya and a Post Graduate Diploma holder of Marketing Management at Sri Jayawardenapura University. He is also a fellow member the Chartered Institute of Marketing UK and certificate holder of Retail merchandising in Toronto Canada and Singapore.



Mr. Charith Jagoda
Director

Mr. Charith Jagoda is the Deputy General Manager – Microfinance at LOLC Finance Plc. He counts close to 25 years of experience in the financial services industry with hands on experience in commercial banking and microfinance.

Charith started his career in financial services at Hatton National Bank, where he served for 10 years prior to joining LOLC.

He has had extensive training and exposure in microfinance internationally and has undergone training on Strategic Leadership and Inclusive Finance at the Harvard Business School.



Mr. Ransith de Mel
Director

Mr. Ransith de Mel heads the operations of ECLOF LANKA (GTE) LTD a pioneering MNGO in Sri Lanka serving the Nation with a very strong program in “Fair Credit to Promote Human Development and Dignity”. He commenced his career at The Central Finance Company and has served many Commercial Organizations. He has a strong financial background during his employment career for more than 30 years and possess strong work experience on Financial Management, Supply Chain Management, General Administration, Human Resources Management, Implementations of Systems, Processors and Process Controls etc. He has training in India on Group-based microfinance for collective empowerment.

Former Board members of 2020/2021



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 Sri Lanka 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.

He has completed the Credit Management Diploma (IBSL), Diploma in International Factoring – UAE, Diploma in Computer Studies. He has a BSc in Business Administration from University of Sri Jayawardenapura, MBA (USA). as well as AIB (inter) SL Felician is a Fellow in Certified Managers at Cambridge Association of Managers (UK) and a Fellow of the Certified Professional Managers (Sri Lanka).



**Mr. Lasantha
Fernando**
Director

Mr. Lasantha Fernando is a Fellow of the Institute of Bankers, Sri Lanka (FIB SL) and holds a Master's in Business Administration from the University of Colombo (MBA Colombo)

He commenced his career with Hatton National Bank PLC in 1979 at the bottom of the ladder and progressed to the position in the Corporate Management.

When retiring in 2015, he was the Deputy General Manager Development Banking overall responsible for lending to the SME, Rural, Agriculture and Microfinance, prior to which he successfully headed the Recovery and Credit Quality Management Division as its Deputy General Manager.

Over the 35 years, he has gathered extensive experience in Branch Banking, Corporate Banking, financing SME, Rural, Agriculture and Microfinance.

Mr Lasantha Fernando also had a one-year stint with Laxmi Bank Ltd Nepal, as its Deputy General Manager on secondment from Hatton National Bank PLC under Technical Service Agreement between the two banks.

He also served in the Boards of Sitma Development Ltd, a subsidiary and of Splendor Media Pvt Ltd an associate company of Hatton National Bank PLC.

Upon retirement, he took up an assignment as Consultant with KPMG Sri Lanka to study and submit a proposal to the Asian Development Bank (ADB) on the feasibility and recommend a mechanism of setting up an institution to provide Guarantees as Collateral to Banks to support and strengthen the lending to the SME Sector.

At the point of taking up the appointment as Chief Executive Officer at Sejaya Micro Credit Ltd he was an Independent Non-Executive Director of Richard Pieris Finance Ltd and was also a member of the Audit Committee and the Chairman of the Integrated Risk Management Committee.

Sub Committees:

- Membership Committee – Mr. Wasantha Gunawardena, Mr. Victor Ratnayake & Mr. Saman Ranaweera
- Public Relations Committee – Mr. Victor Rathnayake, Mr. Chamika Weerasinghe & Mr. Ransith De Mel
- Training Committee – Mr. Priyantha Dematagoda, Mr. M. M. Attanayake & Mr. Imran Nafeer

Meeting Attendance

Board Member	Physical Meetings Attended	Regular Online meetings attended	Ad-hoc online meetings attended	Total
Mr. Anura Atapattu	1	9	8	18
Mr. Priyantha Dematagoda	1	9	7	17
Mr. Imran Nafeer	1	9	8	18
Mr. Wasantha Gunawardena	1	9	6	16
Mrs. Shriyani Mangalika		5	1	6
Mr. M. M. Attanayake	1	8	6	15
Mr. Priyantha Gunawardena			1	1
Mr. Victor Ratnayake	1	9	4	14
Mr. Ransith De Mel	1	8	4	13
Ms. Charith Jagoda	1	4	3	8
Mr. Chamika Weerasinghe	1	8	7	16
Mr. Saman Ranaweera	1	9	5	15
Former members				
Mr. Felician Jayakody		5	3	8
Mr. Lasantha Fernando	1	1		2

Our Members

01	Agro Micro Investments Ltd	29	Negombo Community Development Company
02	Akmeemana Women Development Society	30	Nomic International Ltd
03	Arthavida Intermediary Ltd	31	People's Micro-commerce Ltd
04	Berendina Micro Investment Company Ltd	32	People's Capital Investment & Credit (Pvt) Ltd
05	Bimpuh Finance PLC	33	Pragathi Sewa Foundation
06	Candia Credit Ltd	34	Purewin Credit & Investments Ltd
07	Capital Credit & Investments (Pvt) Ltd	35	Puttalam District Isuru Development Company
08	Care Investments (Pvt) Ltd	36	Rajarata Praja Kendraya
09	Commercial Credit & Finance PLC	37	Reliance Investments Co (Pvt) Ltd
10	DCS Credit & Investment (Pvt) Ltd	38	S. N. Micro Credit (Pvt) Ltd
11	Development Facilitators (Pvt) Ltd	39	SANASA Development Bank PLC
12	Dumbara Micro Credit Company	40	SANASA Federation Ltd
13	ECLOF Lanka (Gte) Ltd	41	Sarvodaya Development Finance Ltd
14	Fintechology Asia Pacific Lanka (Pvt) Ltd	42	Sejaya Micro Credit Ltd
15	Graduate Investment Ltd	43	Sewa Community Credit Ltd
16	Habaraduwa Participatory Development Foundation	44	Silvereem Micro Credit Company Ltd
17	Hambantota WDF	45	SIYB Association of Sri Lanka
18	HNB Finance PLC	46	South Asia Partnership Sri Lanka
19	IDEAs Consultancy (Pvt) Ltd	47	Sri Lanka Savings Bank
20	Janarukula (Gte) Company	48	Stromme Micro Finance Asia (Gte) Ltd
21	KiwiFund (Gte) Ltd	49	SAPCO
22	Lak Jaya Microfinance Ltd	50	The Institute for Development of Community Strengths (INDECOS)
23	Lanka Credit & Business Finance Ltd	51	Uva Govijana Kendraya
24	Lanka Financial Services for Underserved Settlements	52	Ventura Crystal Investments Ltd
25	LOLC Development Finance PLC	53	VisionFund Lanka Ltd
26	LOLC Finance PLC	54	Y GRO Ltd
27	Muslim Aid Micro Credit (Gte) Ltd	55	YMCA Batticaloa
28	Nation Lanka Finance PLC		

Review of Activities in 2020/2021

As a representative body of microfinance practitioners, the LMFPFA's main objectives are advocacy and lobbying, creating a conducive environment for microfinance, capacity building, information sharing and international relations. The year 2020/2021 was a very turbulent year for the industry and LMFPFA with the COVID 19 pandemic, 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.

Creating a conducive environment

LMFPFA Work with the State Minister of Microfinance for the betterment of the Industry

On 14th of December 2020, LMFPFA met with Mr. Shehan Semasinghe, Hon. State Minister of Samurdhi, Household Economy, Microfinance, Self Employment, Business Development & Underutilized State Resources Development in Colombo. Minister Semasinghe is the subject minister for Microfinance and he is the first ever Minister appointed for Microfinance under the Ministry of Finance. The main objective of this meeting was to address the issues faced by the microfinance industry especially under the backdrop of overcoming the COVID 19 pandemic. During this meeting it was also identified that there had not been a proper study on the number of lending institutions in the country as there are still a large contingent of institutions that do not fall under the purview of the Microfinance Act due to various reasons such as Core capital inadequacy, and being credit only institutions. The present Microfinance Act which mainly focuses on regulating deposit taking institutions has created a vacuum in excluding institutions that are only into micro credit.



The state minister stated that the government will be organizing a series of awareness programmes on micro credit among the rural households and requested LMFPFA to conduct something similar in parallel. To this the LMFPFA officials proposed an online panel discussion with the state minister as a guest speaker to which he willingly agreed. The webinar was held in January 2021.

Thereafter LMFPFA had the opportunity of meeting with the Minister on several other occasions such as the Government Loan Scheme for Northern Province and Anuradhapura Micro credit customers, Proposal regarding the Micro Credit Regulation Authority Act and Microfinance Helpline.

LMFPA resolves Microfinance conflict in Batticaloa



LMFPA received several complaints from member MFIs operating in Batticaloa district that the District Secretary of Batticaloa stated that all microfinance activities undertaken by NGOs in the district are to be banned with immediate effect. LMFPA has 5 NGO member organizations serving low income households in Batticaloa. Even an MFI licensed by the Central Bank of Sri Lanka which is a member of LMFPA was also asked to stop lending.

Ceasing operations in the midst of recovering from the impact of COVID 19 was catastrophic and damaging to the industry. Therefore the LMFPA sprang into action by writing to the District Secretary of Batticaloa. LMFPA president Mr. Anura Atapattu met the District Secretary Mrs. Kalamathy Pathmarajah on 23rd of September 2020 and was able to clarify few misconceptions she had on our institutions. The main concern of the District Secretary was the interest rate charged on borrowers. She was with the opinion that the interest rates charged by MFIs was monthly rate but later we were able to make her understand that the rates are nominal and charged per annum basis.

During the discussion the District Secretary agreed to take reports from the Divisional Secretaries regarding the activities of NGO MFIs in Batticaloa and give her decision within a week.

Meanwhile LMFPA also met with Mr. Sathasivam Viyalanderan, State Minister of Postal Services and Professional Development of Journalists who is also an MP from the Batticaloa district on 22nd September 2020. During this discussion the issues that transpired in Batticaloa was the main focus and Mr. Viyalanderan was very attentive to the concerns of LMFPA on the Batticaloa incident and offered his assistance to ensure uninterrupted service by MFIs in Batticaloa district in the future. The issue resolved within a short period.

During the same period LMFPA Secretary Mr. Imran Nafeer was invited for an interview by DAN TV and this opportunity was used to put to rest the misconceptions stakeholders had over the issues.

Discussions with other Ministers and MPs on current issues in the industry

On 21st of December 2020, LMFPA had the opportunity of meeting Mr. Ajith Nivad Cabral, Hon. State Minister of Money & Capital Market and State Enterprise Reforms at the Ministry of Finance in Colombo.



LtoR: Mr. Wasantha Gunawardena (LMFPA Treasurer), Mr. Victor Ratnayake (Director LMFPA), Mr. Ajith Nivad Cabraal (Hon. State Minister), Mr. Anura Atapattu (LMFPA President), & Mr. Imran Nafeer (LMFPA Secretary)

The long felt need of a credit regulatory mechanism for the microfinance industry was the key highlight during this discussion. The minister stated that it is more important for the government to focus on creating opportunities for people to access funds for business ventures with fewer restrictions. Therefore he invited LMFPA to present a cost effective regulatory model that would be beneficial in the long run and agreed to support it based on its effectiveness. This in itself presents a great opportunity for the association to propose a workable solution to regulate a large contingent of micro credit providers in the country. LMFPA was able to meet the state minister again to present the association's proposal on a sustainable mechanism for the new regulation.



Meeting with Mr. Wijitha Herath of People's Liberation Front on 24th February 2021



Meeting with Dr. Harini Amarasuriya of People's Liberation Front on 01st April 2021



Meeting with Mr. Udaya Gammanpila, Minister of Energy on 27th January 2021

Webinar on “Towards a People-Centric Microfinance Industry in Sri Lanka”

LMFPA hosted its first webinar for 2021 on the theme “Towards a People-Centric Microfinance Industry in Sri Lanka” on 20th January 2021. The Chief Guest to this event was Hon. Shehan Semasinghe, State Minister of Samurdhi, Household Economy, Microfinance, Self Employment & Business Development. In his address the state minister agreed that there are many institutions that provide microfinance services in a responsible manner, playing a significant role in the Sri Lankan economy. Therefore the government is not ready to neither disrupt this endeavor nor pressurize the majority because of a few players that bring disrepute to a valuable industry due to their malpractices, however alternative action should be taken to resolve the issues” The State Minister stated that the ministry has already commenced public awareness campaigns centralized from Anuradhapura with the association of the Central Bank and the Department of Samurdhi Development. He also stated that the objective of the government is to implement practical solutions for the people in terms of access to finance. “People should be able to have access to financial services at affordable interest rates and honour them in a timely manner and all financial service providers should work in harmony towards this.”

One of the issues that was discussed was a revised microfinance regulatory framework where the minister welcomed proposals by the LMFPA to amend the present Microfinance Act. Another important issue is the accessibility to low cost bulk lending for MFIs. For this, the state minister mentioned that discussions are being made with state banks for the provision of same.



State Minister Hon. Shehan Semasinghe
(far right)



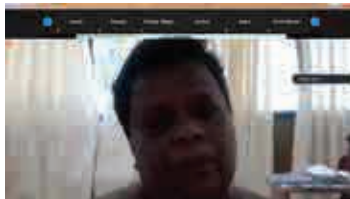
Mr. Imran Nafeer – Secretary, LMFPA



Mr. J.P.R. Karunaratne – Asst. Governor
Central Bank



Mr. Anura Atapattu – President, LMFPA



Mrs. Shriyani Mangalika – Managing Director,
Hambantota Women's Development
Federation



Mr. Neel Bandara Hapuhinne, Secretary &
Mr. C.D. Kaluarachchi, Additional Secretary
of the State Ministry

The webinar was attended by over 300 participants representing industry stakeholders, regulators, researchers and media representatives. Mr. Imran Nafeer, Secretary of LMFPA who moderated the discussion, stated that one of the main objectives of hosting this webinar was to welcome the first state minister for the Sri Lankan Microfinance Industry and build a foundation to collaborate with the government for the future development of the sector. In his address Mr. Anura Atapattu, President of LMFPA warmly welcomed the state minister on behalf of the microfinance industry and elaborated on the 16 year long dedicated service of the association and its future strategies to the participants.

The Assistant Governor of the Central Bank Mr. J.P.R. Karunaratne who also participated as a panelist, explained on the positive side of microfinance as a tool for providing quality credit and financial services from the perspective of a financial regulator and stressed on the need for a revamp of the regulatory framework to allow more MFIs to be integrated to it. In this regard a Credit Regulatory Authority Act was drafted by the Central Bank and forwarded to the Ministry of Finance with the inputs of the LMFPFA in 2019. He stated that in the national financial inclusion strategy to be implemented, one of the focus areas is MSME finance. He further stated that from a perspective of a regulator, consumer protection is also an important element in the present context of many unethical practices of some industry players.

From a practitioner's point of view, Mrs. Shriyani Mangalika, Managing Director of the Hambantota Women's Development Federation expounded on the importance of an MFI not only as a focal point for low income households to access credit but also as a beacon in developing the social capital of the grassroots communities. Drawing examples from her own organization, Mrs. Shriyani shared that a responsible MFI is not only an organization that needs to earn a certain amount of profit for its sustainability, but channels back its profits to develop the capacities of its customers and their communities.

Facilitation of debt write off reimbursements by Ministry of Finance

In May 2020, LMFPFA successfully created a mechanism with the Ministry of Finance to collect the respective fund installments on behalf of members who signed MoUs with the Ministry for the Government Debt Relief Programme in 2018. The 4th and 5th installments of this Debt Relief Fund were disbursed in October 2020 and March 2021 respectively. And as in the previous year, LMFPFA collected the respective funds on behalf of the members especially of those stationed out of Colombo and deposit them to their respective accounts.

Discussion with NGO MFIs



On 6th July 2021, The LMFPFA held an online discussion with its NGO member MFIs. The objective of this meeting was to understand the present issues faced by these organizations in the microfinance industry. A total of 07 member organizations took part in this discussion. In addition to this 06 more NGO MFIs that are non-members of LMFPFA was also invited. Following this discussion, LMFPFA convened an online workshop together with the NGO Secretariat on 2nd

August 2021 to address the issues that NGO MFIs had with regular reporting procedures to the NGO Secretariat as well as District and Divisional Secretariats. Mr. Raja Gonnaratne, Director General of the NGO Secretariat also participated in this programme. The Managers and district level officers of the NGO Secretariat also attended the workshop.

Pilot Project to Design Digital tool to capture MFI customer performance in Agriculture and Fisheries value chains

The Market Development Facility (MDF) is an Australian Aid Programme working in the space of private sector development of target industries in Sri Lanka over the past 6 years. LMFPA and MDF had a series of discussions since early 2021 for collaboration opportunities in the microfinance sector to support the agricultural and fisheries communities.

As a stepping stone, LMFPA had discussions to develop a digital tool to capture business performance over the years in various types of enterprises supported by MFIs in agriculture and fisheries value chains. This includes information such as investments, income, expenditure or business costs, cash flows, issues and bottlenecks, risks and opportunities etc. The objective of developing this tool is to provide much needed impact data of microfinance, increase the performance of loans, improve customer income and achieve business growth in MFI clients. We believe this data can be used by MFIs in evaluating credit proposals in the future.

As a pilot project of this programme, it is expected to select 2 MFI members of LMFPA for this initiative. Based on the outcome of the pilot project, replication in other MFIs will commence. MDF will provide the expertise and finance towards the project, to develop the tool, and pilot test. MDF will also finance training for clients involved in the pilot project. 05 LMFPA members indicated the interest to collaborate in this pilot initiative and 2 of them will be selected by MDF.

Facilitation of Members on Low Interest Government Loan scheme to emancipate over indebted micro borrowers

The government has released a revolving fund to the District Secretaries of the Northern Province and Anuradhapura district in Sri Lanka to assist over indebted micro borrowers to settle their loans borrowed at higher interest rates. This revolving fund can be utilized by the clients of any of the MFIs, to settle outstanding loans up to Rs. 100,000/- at 6% per annum which are disbursed through Cooperative Rural Banks (CRBs) and SANASA societies.

As an initial step, the LMFPA convened several online discussions between the Director Planning of the Anuradhapura District Secretariat and members operating in the Anuradhapura district in May, June and July 2021. The objective of these discussions was to discuss the procedure regarding the utilization of this revolving fund, by interested member organizations operating in this area.

Going forward with this government programme, LMFPA members agreed to waive off the interest component of the delinquent borrowers and also provide additional benefit to their clients to encourage them to take up this scheme. LMFPA will be coordinating with the district secretariats in the implementation of this programme.

Helpline for Microcredit Victims to lodge complaints



As a proactive measure to address any issues/grievances faced by any of the microfinance clients, the LMFPFA in consultation with the State Ministry of Samurdhi, Household Economy, Microfinance, Self-Employment & Business Development, established a 'Microfinance Helpline' to the general public and to persuade/encourage the stakeholders to take timely corrective measures for such grievances. The launch of this initiative took

place on the 3rd of August 2021 at the Auditorium of State Ministry of Samurdhi, Household Economy, Microfinance, Self-Employment & Business Development, 1st Floor, Sethsiripaya Stage II, Battaramulla.

The procedure of the customer complaint handling system is as follows:

- Complaints can be made in either Sinhala or Tamil.
- Only complaints from direct borrowers will be entertained for follow up actions.
- Verbal telephone complaints to be followed up with written complaints and are to be sent to LMFPFA either through WhatsApp/Viber/email or by post.
- If the complaint is against an LMFPFA member, then it would be notified to the respective member organization to take remedial action within 2 weeks.
- For complaints regarding non-LMFPFA members, LMFPFA would still write to them as an Industry Association to take action and a copy to be sent to the State Ministry of Microfinance for follow up action.

LMFPFA hopes this initiative will lead to finding solutions to genuine grievances of microfinance clients, minimize the criticism on the industry and ensure the important role played by MFIs in the national economic development and reduce the disparities in the distribution of benefits of development to rural, plantation and other under privileged communities in the country.



A special media campaign will be run on promoting the helpline so that it will reach a wider audience in the general public.

Telephone/**WhatsApp/Viber** No: 071 832 0000

Email: helpline@microfinance.lk

Operating Hours: From 7.00 am to 7.00 pm.

All 7 days in the week

Bulk loan Scheme with Sanasa Development Bank

In 2020, LMFPFA had several discussions with Sanasa Development Bank for the provision of bulk loan facilities to its members. SDB agreed to this and 13 of our members applied for same. By 2021 the following organizations were able to receive bulk loans from SDB for on-lending purposes.

- Arthavida Intermediary Ltd
- Dumbara Micro Credit
- Nomic International Ltd

Interventions for the revival of Etimos Fund

The Consorzio Etimos SC, the social cooperative from Padua in Italy was one of the key supportive organizations for the microfinance sector in Sri Lanka since 2005, commenced work after the Tsunami devastation. Etimos operated in Sri Lanka under a MOU with the Ministry of Finance. Since 2013 the activities of Etimos became non-operative as their account at Bank of Ceylon with a balance of Rs.150 million was frozen. As per the information given by Etimos, there is a fund amounting to Rs 541.4 million (as loans given to MFIs and including cash balance in the bank account) that can be reutilized for the benefit of the microfinance industry. There were many efforts to reactivate the functions of Etimos in the past. In this connection, a company under the name 'Social Investment Fund Limited' was established having the shareholding among Sri Lankan partner organizations in Sri Lanka to ensure proper management and utilization of funds among the partner organizations.

Since, the microfinance sector is facing serious challenges to find low-cost funding to support needy low income households, and considering the need for such financial support for people to re-establish the businesses affected by COVID 19 related issues, LMFPFA brought this to the attention of the State ministry of Microfinance as well as the Finance Ministry to make the fund available for the benefit of the microfinance industry.

Interventions for low cost funding by Central Bank

LMFPFA made written requests on several occasions to Central Bank for low cost funding schemes for MFIs. The Central Bank responded stating that their authorization to lending falls under Part IIIA of the Monetary Law Act. The definition of Credit Institution under this section of the Act is a banking institution and therefore Licensed Finance Companies and Licensed Microfinance Companies are not covered. According to the Central Bank, these institutions need to be considered as Participating Financial Institutions (PFI) selected by relevant line ministries, Project Management units and donor funding agencies for Central Bank to financially accommodate them within those schemes.

Interventions for reviving NDTF Funds of Sri Lanka Savings Bank

Since early 2021, the bulk loan provision by Sri Lanka Savings Bank to MFIs got suspended due to the merger of SLSB with National Savings Bank (NSB). This created unbearable difficulties to MFIs, especially to those who have been long-standing partners of SLSB. Majority of them have been partners of the predecessor of SLSB, the National Development Trust Fund (NDTF) before its transfer to SLSB and such partnerships go back to more than 30 years. Some of these MFIs totally depended on SLSB, found very difficult to operate and continue their activities.

LMFPA had discussions with the Chairperson of SLSB Mrs. Keshala Jayawardena since last year requesting the continuation of the bulk lending facility. Thereafter we wrote to the following parties as well highlighting the value of the NDTF fund for the sustainability of the microfinance industry.

- Governor of Central Bank (April 2021)
- Secretary, Ministry of Finance (April 2021)
- State Minister of Microfinance (April 2021)
- State Minister of Finance (May 2021)
- Prime Minister (June 2021)
- Finance Minister (August 2021)

LMFPA also highlighted this issue whenever the board members had the opportunity to meet with the State Minister of Microfinance as well as the State Minister of Finance.

Addressing Critics of the Microfinance Industry



It is no secret that the microfinance industry came under negative criticism over the past couple of years by the media and various interest groups. The LMFPA was concerned about these media reports as they could have serious implications on the industry as a whole. When similar media reports appeared in several occasions in the recent past, LMFPA responded to these institutions with the good intention of fact finding and to take any remedial measures if any. LMFPA as a responsible body wish to safeguard the key indus-

try stakeholders, especially the poor and low income clients, who are considered to be most vulnerable segment, who are presently facing the impact of COVID 19 pandemic too while ensuring the sustainability of the member organisations and the industry at large.

Such an opportunity arose on 22nd of April 2021 when LMFPA President was invited to the “Mawatha” discussion show on Sirasa TV on the theme of microfinance and the pitfalls faced by loan beneficiaries. LMFPA president was able to convey the true essence of microfinance and explain that the negative criticism is generated due to the malpractices of institutions that manipulate the public under the guise of microfinance when they are actually profit motivated money lenders. On another occasion on 9th July 2021, the LMFPA held an online discussion with a group of activists that often criticize the industry.

Capacity Building

Webinar for members on challenges and opportunities under new normal environment

As a Capacity Building initiative for its members, the LMFPFA organized a webinar titled 'Grabbing opportunities of new normal by small and medium enterprises' on the 7th of December 2020. The webinar was conducted by a renowned National level SME trainer and public speaker Dr. Premasiri Gamage and Development Finance Consultant and Secretary of LMFPFA Mr. Imran Nafeer. The webinar was moderated by LMFPFA Vice President Mr. Priyantha Dematagoda. The webinar was participated by more than 100 persons from the microfinance and finance industry.



Dr. Gamage explained how the COVID 19 pandemic has affected the Sri Lankan SME sector that has previously created over 2.25 million of employment. The breakdown of the supply chain, working capital, marketing, loss of livelihood opportunities and the psychological trauma has left many MSMEs in disarray. The total MSME sector accounts for 99.8% of the total establishments in the country and it also accounts for 75% of the total employment generation. The government of Sri Lanka has offered concessions on performing loans and non-performing loans as well as the introduction of new working capital or investment purpose loans

for the SME sector. Despite the loom and gloom, the pandemic has also created new opportunities that require people to adopt with a new mindset. Creating an online community for business has now become more important than ever before. This can help widen the customer base with a new dimension and reach out to even more potential customers using digital channels. Investing in telecommunication plans that offer unlimited calls/text/internet is important because customers have access either online or offline and providing good service and support servicing customer needs that can help their relationship with the brand (eg. Lockdown situation). Sharing information with fellow SMEs can also pave way for innovation and opportunities for one's own business. Due to the pandemic many social gatherings are restricted if not prohibited giving people the opportunity to organize their extra time in a more productive and efficient manner. Many organizations that used to maintain slow procedures and complex bureaucracies are now forced to break through such barriers and look for novel procedures that require sidestepping overbearing regulations, working with minimum supervision and thus improving efficiency, leading to innovation.

Mr. Nafeer addressed the participants on creating values for clients from an MFI's perspective. Due to the pandemic many MFIs were forced to shut down their operations for some time due to lockdown. As a result of the restrictions imposed on the mobility of the people, MFIs were unable to collect the loan installments from their customers. MFIs were forced to close branches, reduce staff salaries and benefits, provide moratoriums and restructure loans to customers, create flexible staff working arrangements and adopt alternative client relationship management (CRM) strategies. The highlight of Mr. Nafeer's presentation on Creating Values was whether MFIs should simply respond by adjusting to COVID 19 or responding to the change in client's needs due to COVID 19. Creating values depends on how well an MFI understands its customers' needs, lifestyle and the changes in their livelihoods due to the pandemic. While maintaining a high level of transparency with the client, an MFI should always strive to deliver more than what it promises to their customers and add more services (financial or non-financial), constantly keeping in touch with them and not being slow to embrace digital technology.



The webinar was a success as it provided great insight for the participants on how to address the present challenges, break away from traditional methods and embrace new opportunities in a digital environment.

Online Training workshop on “Managing Lending Risks under the new normal”

Building the capacities of the staff of member organizations was a tough challenge for the LMFPFA during the year 2020 with the spread of COVID 19 pandemic. In fact all training workshops of LMFPFA came to a complete standstill when the government announced an island wide lockdown in March 2020 and the priority shifted towards assisting member organizations to recover from the pandemic.

With the restrictions imposed on public gatherings, the LMFPFA sought to conduct its capacity building programme through online meeting platforms in 2021. Therefore LMFPFA’s first virtual training programme was held on 24th February 2021 on “Managing Lending Risks under the new normal”. The training was conducted by Mr. Priyantha Dematagoda, CEO of Sewa Community Credit and Vice President of LMFPFA.



In the programme, Mr. Priyantha Dematagoda expounded on the importance of identifying credit risks and adopting sound practices for managing them such as having a Credit Risk review system, proper and systematic collection/recovery/follow up procedure and the persistence of follow up microfinance clients. There is a danger of declining sales and closure of certain small scale businesses such as those in the tourism industry, however on the other hand there are opportunities for growth in other industries such as healthcare, online-trading and telecommunications. Prior to the pandemic, challenges faced by MFIs were collection, recovery, supervision and monitoring. Under the new normal environment additional challenges have emerged for an MFI in the form of restrictions on meeting clients for credit appraisals, organizing centre meetings, conducting home visits for recoveries and managing teams remotely and more importantly understanding

risks and viability in businesses, within the supply chains. This forces the MFIs to think creatively to ensure its sustainability. A total of 33 participants took part in the programme which was very promising start for the LMFPFA training calendar after a long hiatus.

Online Training workshop on “Making Credit Decisions after COVID 19”

Following the success of the previous programme, LMFPFA organized another training programme titled “Making Credit Decisions after COVID 19” on 19th March 2021. This training session was facilitated by Mr. Imran Nafeer, Secretary of LMFPFA. In this session, the participants were enlightened on the main changes that an MFI has to make in its Credit Policy due to the pandemic which are

- Customer segmentation
- Product features and development
- Credit evaluation criteria and
- Alternative security / collateral.

The Pandemic has seen the closure of many mainstream business activities. At the same time it has also paved way for new business opportunities such as mobile delivery services, healthcare products and online business ventures. Therefore an MFI should be mindful of these changes and help their existing customers to make transitions in their livelihoods. The financial products of the MFI should also be streamlined to meet with this change. On Credit Evaluation there are 5Cs that MFIs need to consider:

- Capacity
- Credit History
- Character
- Capital and
- Collateral

But because of the pandemic an additional 3 Cs need to be considered:

- Cause – how COVID 19 has affected the borrower
- Current status of the borrower after COVID 19 and
- Cash flow projection of the borrower

These additional considerations can help the MFI to assess the borrower’s eligibility, minimize the risk, and make an informed decision when introducing loan products. Alternative methods of collateral may also need to be considered such as upfront installments, a simple mortgage or an income/salary of a family member when providing credit after the pandemic. The training programme was attended by 64 member representatives.



Online Seminar on Mindfulness & Customer Relationship Management

The 3rd wave of the COVID 19 pandemic and the travel restrictions imposed by the government since 21st May 2021 hampered the operations of the entire microfinance industry including all member MFIs of LMFPFA as well as the livelihoods of their customers. As a representative body, the Association advised its members to provide concessions to their borrowers during this difficult period and help find practical solutions to the borrowers' loan repayments while trying to minimize losses.



In an effort to uplift the spirits of MFI management staff and to motivate them to overcome from the stress of COVID 19 pandemic in Sri Lanka, the LMFPFA organized an online seminar on Mindfulness and Customer Relationship Management on the 28th of June 2021. LMFPFA invited leading business trainer and TV personality Mr. Amintha Sugath De Silva to facilitate this programme. Mr. Amintha is an ex-banker of Commercial Bank and Sanasa Development Bank and his expertise as a Business trainer and motivational speaker was

very useful for MFIs under the present context in the country.

The programme was specially catered to address Senior Managers and Department Heads of MFIs and close to 100 participants representing 13 member organizations took part in the programme. Following its success LMFPFA hosted a similar programme on 10th July 2021 targeting field staff of MFIs where more than 200 staff benefitted from it representing 14 member organizations.

Information Dissemination

Microfinance Review 2019



For the 11th consecutive year LMFPA completed its annual review of microfinance and allied services in the country through its publication the Microfinance Review – Sri Lanka 2019; the only publication that comprehensively analyses the status of the microfinance sector in Sri Lanka and reflects on the evolution of microfinance, sustainability of services, emerging issues and challenges.

This review appraises the developments in Sri Lanka's microfinance sector in 2019 and it is based on data in relation to financial and social performances, obtained from 39 MFIs in Sri Lanka for which reliable data (audited financial statements and credible operational data) was available. Some of the conclusions that were drawn on current performances of the microfinance sector were mainly based on data provided by the MFIs throughout the reporting period. Thus, the data of member MFIs has been derived from structured data forms (known as member profiles) of MFIs.

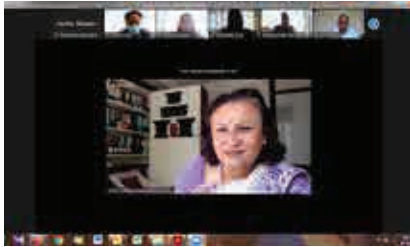
The review provides a detailed analysis of the financial and social performances of the sector at three levels: industry, peer group, and institution. The review also highlights the way forward for the sector with a focus on major challenges and opportunities.

Collaboration with Department of Census & Statistics for future Data Profiling of members

In May 2021 LMFPA held discussions with the Department of Census and Statistics to collaborate with the LMFPA in collecting microfinance data to analyze its contribution to the economy of Sri Lanka. This is a great recognition not only for LMFPA but also its members and the entire microfinance industry. Data profiling of members for the year 2020 is expected to commence in September 2021.

International Relations

Nepal Webinar Forum on “Microfinance Policies, Practices & Problems in Sri Lanka”



The LMFPFA President was invited by the Chairman of the Centre for Self-help Development (CSD) of Nepal to be the Keynote Speaker to the Forum titled “Microfinance Policies, Practices & Problems in Sri Lanka” held on 05th September 2021 via ZOOM. In his presentation Mr. Atapattu explained the current Sri Lankan microfinance landscape and its performance especially the impact due to COVID 19, the microfinance regulatory provisions, micro enterprise development and client protection practices. The webinar was participated by over 160 participants representing Nepal MFIs and other regional and international organizations.

Auditor's Report & Financial Statements



Edirisinghe & Co.
Chartered Accountants
 45, Braybrooke Street
 Colombo 02
 Sri Lanka

T: +94 11 2433933
 F: +94 11 2445683
 E: info@bakertilly.lk
 W: www.bakertilly.lk

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, 2020, 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, 2020 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2020 and its loss 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. Alahakoon ACA MAAT
 S.A. Hanschandra ACA ACMA CGMA MBA Bcom (Sp.)
Consultants: A.T.P. Edirisinghe FCA FCMA (UK) A.D. Jayasena FCA

Edirisinghe & Co., trading as Baker Tilly, is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

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
6-Jul-21



LANKA MICROFINANCE PRACTITIONERS' ASSOCIATION
STATEMENT OF PROFIT OR LOSS AND ACCUMULATED FUND

For the year ended 31 December 2020

	Note	2020 Rs.	2019 Rs.
General income	04	1,501,250	2,023,750
Interest income	05	291,034	336,867
Other income	06	842,195	9,289,354
Total income		2,634,479	11,649,971
Activity related expenses	07	(1,442,252)	(7,031,098)
Net income		1,192,227	4,618,873
Administrative expenses	08	(2,796,815)	(3,229,790)
Surplus / (deficit) before taxation	09	(1,604,588)	1,389,083
Income tax expense	10	-	(215,074)
Surplus / (deficit) for the year		(1,604,588)	1,174,009
Accumulated fund B/F		5,396,726	4,222,717
Accumulated fund C/F		3,792,138	5,396,726

Figures in brackets indicate deductions.

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



LANKA MICROFINANCE PRACTITIONERS' ASSOCIATION
STATEMENT OF FINANCIAL POSITION

As at 31 December 2020	Note	2020 Rs.	2019 Rs.
Assets			
Non current assets			
Property, plant and equipment	11	17,904	43,739
Investment in fixed deposits	12	1,536,690	1,425,040
		<u>1,554,594</u>	<u>1,468,779</u>
Current assets			
Receivables	13	232,520	406,900
Deposits and prepayments	14	525,000	550,000
Income tax receivable	15	52,541	52,541
Cash and cash equivalents	16	1,852,664	4,875,187
		<u>2,662,725</u>	<u>5,884,628</u>
Total assets		<u>4,217,319</u>	<u>7,353,407</u>
Funds and liabilities			
Funds			
Accumulated fund		3,792,138	5,396,726
		<u>3,792,138</u>	<u>5,396,726</u>
Non current liabilities			
Retirement benefit obligation	17	375,000	337,500
		<u>375,000</u>	<u>337,500</u>
Current liabilities			
Income tax payable	15	-	198,230
Accounts payable	18	43,500	477,610
Bank overdraft	19	6,681	943,341
		<u>50,181</u>	<u>1,619,181</u>
Total funds and liabilities		<u>4,217,319</u>	<u>7,353,407</u>

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 2020	2020 Rs.	2019 Rs.
Surplus / (deficit) before taxation	(1,604,588)	1,389,083
Adjustment for:		
Depreciation	25,835	45,215
Interest income	(291,034)	(336,867)
Gratuity provision for the year	37,500	69,109
Operating profit before working capital changes	(1,832,287)	1,166,531
Increase in receivables, deposits and prepayments	199,380	(214,400)
Increase in accounts payable	(434,110)	427,984
Cash generated from operations	(2,067,017)	1,380,115
Income tax paid	(198,230)	(61,283)
Cash generated from operating activities	(2,265,247)	1,318,832
Cash flow from investing activities		
Purchase of property, plant & equipment	-	-
Interest income	291,034	320,023
Investment in fixed deposits	(111,650)	(123,324)
Net cash generated from / (used in) investing activities	179,384	196,699
Net increase / (decrease) in cash and cash equivalents	(2,085,863)	1,515,531
Cash & cash equivalents at the beginning of the year	3,931,846	2,416,315
Cash & cash equivalents at the end of the year (Note A)	1,845,983	3,931,846
Note A - Cash and cash equivalents		
Cash and cash equivalents	1,852,664	4,875,187
Bank overdraft	(6,681)	(943,341)
	1,845,983	3,931,846

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 2020

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 32, Suriyamal Mawatha, Divulapitiya, Boralessgamuwa.

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 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 2020 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 6 July 2021.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 2020****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 2020

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

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 2020

2.9 - Income statement

2.9.1 - Revenue recognition

a Income - Restricted funds

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.

b Subscription income

Subscription income is recognised on cash basis at the point of receiving money to the bank from the members and confirmation received from the member.

Management committee has decided to change its subscription income recognition policy from accrued basis to the cash basis with effect from 1 January 2020.

c 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 2020

	2020 Rs.	2019 Rs.
04. General income		
Membership fees	1,441,250	1,913,750
Membership registration	60,000	110,000
	<u>1,501,250</u>	<u>2,023,750</u>
Management committee has decided to change its subscription income recognition policy from accrued basis to the cash basis with effect from 1 January 2020.		
05. Interest income		
Interest on fixed deposits and money market a/c	291,034	336,867
	<u>291,034</u>	<u>336,867</u>
06. Other income		
Book sales	9,000	26,424
Training income	-	3,907,175
Website advertising	4,000	9,500
Membership fees (SAMN)	178,675	1,134,092
Administration fee reimbursement (SAMN)	227,520	221,100
Miscellaneous income	30,000	41,300
SAMN conference income	-	1,875,249
Sponsorship income	355,000	635,000
Exposure programme income	20,000	1,439,514
Writeback of the accrued expenses	18,000	-
	<u>842,195</u>	<u>9,289,354</u>
07. Activity related expenses		
AGM expenses	104,900	137,500
Exposure programme expenses	-	1,135,875
Workshop expenses	2,770	2,111,706
Miscellaneous expenses	123,000	132,908
Conference expenses (SAMN)	-	3,083,749
Public relation expenses	1,211,582	429,360
	<u>1,442,252</u>	<u>7,031,098</u>
08. Administrative expenses		
Secretary fees for conference (SAMN)	227,520	416,000
Salaries	1,010,000	1,097,100
Employees Provident Fund	121,200	123,600
Employees Trust Fund	30,300	30,900
Gratuity	37,500	69,100
Travelling and others	25,425	91,580
Auditors' remuneration	31,000	30,250
Tax fee	15,300	-
Auditors' remuneration (SAMN)	-	4,600
Secretarial fee	44,100	74,322
Rent	601,500	546,150
Office maintenance	17,550	20,000
Postage and courier	19,955	27,050
Printing and stationery	10,978	23,853
Depreciation	25,835	45,215
Balance c/f	<u>2,218,163</u>	<u>2,599,720</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

	2020 Rs.	2019 Rs.
Administrative expenses (Continued.)		
Balance b/f	2,218,163	2,599,720
Internet charges	23,822	28,364
Sundry expenses	25,309	54,173
Computer maintenance	30,900	34,700
Website maintenance	42,650	13,250
Mobile allowance	20,750	20,000
Membership fee	-	87,500
Electricity	1,284	2,542
Telephone	24,292	27,591
Bank charge - conference (SAMN)	3,545	3,500
Bank charge (LMFPA)	11,200	8,000
Membership fee receivable - written off	341,900	271,850
Travelling allowances	47,000	44,000
Water	6,000	1,500
Documentation expenses	-	33,000
Penalties	-	100
	2,796,815	3,229,790

9. Surplus before taxation

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

Salaries	1,010,000	1,097,100
Employees Provident Fund	121,200	123,600
Employees Trust Fund	30,300	30,900
Gratuity	37,500	69,100
Auditors' remuneration	31,000	30,250
Depreciation	25,835	45,215

10. Income tax expense

Current income tax provision	-	215,074
	-	215,074

Reconciliation of accounting profits with tax profits

Profit before tax	(1,604,588)	1,389,083
Disallowable expenses and income	(227,699)	(135,279)
Tax deductible expenses	(54,438)	(54,438)
Exempt income	-	-
	(1,886,725)	1,199,366
Interest income	291,034	336,867
Loss claimed	(291,034)	-
Taxable income	-	1,536,233
Income tax at 14%	-	215,074
	-	215,074



NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020

11. Property, plant and equipment

	Computer equipment Rs.	Office equipment Rs.	Furniture and fittings Rs.	Office partition Rs.	Total Rs.
Cost					
Balance at the beginning of the year	599,211	684,563	171,824	107,425	1,563,023
Additions during the year	-	-	-	-	-
Balance at the end of the year	599,211	684,563	171,824	107,425	1,563,023
Accumulated depreciation					
Balance at the beginning of the year	594,861	684,563	171,824	68,036	1,519,284
Depreciation during the year	4,350	-	-	21,485	25,835
Balance at the end of the year	599,211	684,563	171,824	89,521	1,545,118
Written down value					
Balance at the end of the year	-	-	-	17,904	17,904
Balance at the beginning of the year	4,350	-	-	39,389	43,739

As at 31 December 2020

	2020 Rs.	2019 Rs.
12. Investment in fixed deposits		
Deposits with Banks	1,536,690	1,425,040
	1,536,690	1,425,040
13. Receivables		
Membership subscription	-	341,900
Administration fee receivable	227,520	-
Fund receivable	5,000	65,000
	232,520	406,900
14. Deposits and prepayments		
Rent deposits	525,000	550,000
	525,000	550,000
15. Income tax refund / (liability)		
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	198,230	61,283
Tax paid for previous year	(198,230)	(61,283)
WHT receivable for the current year	-	(16,843)
Tax provision for the year	-	215,074
Balance at the end of the year	-	198,230



NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020

	2020 Rs.	2019 Rs.
16. Cash and cash equivalents:		
Commercial Bank - money market a/c	1,696,065	4,686,039
Sampath Bank - current a/c (SAMN)	136,599	188,989
Cash in hand	20,000	159
	<u>1,852,664</u>	<u>4,875,187</u>
17. Retirement benefit obligation		
Balance as at the beginning of the year	337,500	268,400
Provision for the year	37,500	69,100
Balance as at the end of the year	<u>375,000</u>	<u>337,500</u>
18. Accounts payable		
Audit fee payable	43,500	30,250
Accrued expenses	-	447,360
	<u>43,500</u>	<u>477,610</u>
19. Bank overdraft		
Commercial Bank	6,681	943,341
	<u>6,681</u>	<u>943,341</u>

20. Commitments and contingencies

There were no commitments and contingencies existing as at the reporting date.

20. Events after the reporting date

No circumstances have arisen, since the balance sheet date, which would require adjustments to, or disclosure, in the financial statements.

21. Members interest in contracts

None of the members are either directly or indirectly interested in any existing or proposed contracts with the Organization.

22. Related party transactions

There have been no related party transactions to be disclosed to the financial statements.

Assets pledged

23. Bank	Nature of facility	Nature of asset pledged
Commercial Bank	Overdraft facility	Lien over fixed deposits for Rs.
	Rs. 450,000	661,749.45
		Letter of authority and set-off





Lanka Microfinance
Practitioners' Association

32, Suriyamal Mawatha,
Divulapitiya, Boralesgamuwa

Tel : +94 11 4369612

Fax : +94 11 2099511

Email : info.lmfpa@microfinance.lk

Web : www.microfinance.lk