

LMFPA News Bulletin

September - December 2022

LMFPA meets with officials of JICA



The LMFPA had the opportunity of meeting Mr. Yamada Tetsuya, Chief Representative of the Japan International Corporation Agency (JICA) on the 11th of October 2022 at the JICA Head Office in Colombo. Representing LMFPA Mr. Anura Atapattu (President), Mr. Udaya Bandara (Vice President), Mr. Wasantha Gunawardena (Treasurer) and Mr. Yasitha Munasinghe (Manager) were present. The objective of the discussion was to identify the opportunities for MFIs to collaborate with ongoing JICA technical assistance projects in Sri Lanka. LMFPA was able to identify several projects that JICA is engaged in that has relevance to the Microfinance Industry such as a Dairy project in the Northern province, Supply chain projects in Nuwara Eliya, Matale, Anuradhapura, Hambantota, Badulla and Moneragala districts and a Gender Project in Ampara and Moneragala districts. LMFPA intends to hold more discussions with JICA and facilitate future programmes for the benefit of its members and the microfinance industry.

LOLC Finance Strengths the Customer Income conditions through SED

As the largest Non-banking Financial Institution (NBFI) in Sri Lanka LOLC Finance PLC has always provided tailor-made financial solutions inspiring their customers to grow and to expand. We believe our brand comes with complete substance and value that we bring to the consumer, industry, public and economy at large. The public confidence and industry stability which LOLC Finance brings to the NBFI arena is absolutely vital for the long term progress, evolution and sustainability of the entire industry. The company is also the largest SME Financier, Personnel and Micro Financier, Islamic Finance service provider, Factoring and Receivable provider and Agricultural Equipment Financier in the industry.

At present we are the most dynamic catalyst in the NBFI industry, creating financial inclusion and essential capital to critical productive sectors.



As one such project, LOLC joined hands together with Small Enterprises Development Division (SED) to provide training for customers developing their skills and knowledge in relevant field of businesses that are engaged in. The programme was conducted for the customers who reside in Matara and Galle Districts

Representing the SED Mr. Pathmasiri Pathirana and Mrs. Chamila Dilrukshi joined the workshop to educate the participants and to support them to find solutions for issues they may face. During the program the customers were trained and educated on the basic etiquettes of customer servicing, how to create a brand for their respective business, how to stand out from competition and the participants were also educated on the methods of maximizing their revenues/sales.

Representing LOLC Finance PLC, Mr. Chandima De Silva and Mr. Roshen Perera addressed the gathering on the subject line of how to manage the funds while running the business consistently, using real-world examples.



Webinar on “The Fate of Microfinance during Economic Crisis

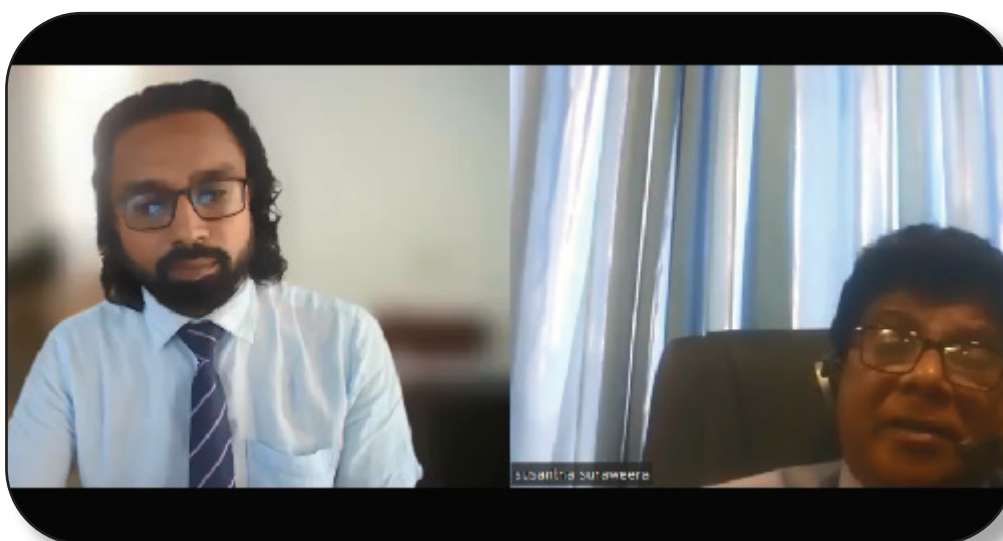
The economy of Sri Lanka is at its lowest ebb since it was declared bankrupt by the government in early 2022. Many industries in the country are struggling for sustainability since the recent past. The microfinance industry and its stakeholders too are facing the brunt of the economic crisis and therefore it is important to learn from the experiences among fellow stakeholders. With this in view, the Lanka Microfinance Practitioners' Association (LMFPA) organized an online webinar titled “The Fate of Microfinance during Economic Crisis” on the 26th of September 2022. More than 70 participants took part in the webinar representing 12 member organizations.

The panelists for the webinar were:

- Mr. Tharanga Wijayakoon – Senior Assistant Director of Central Bank of Sri Lanka
- Mr. Susantha Suraweera – Chief Operating Officer, Lak Jaya Microfinance Ltd
- Mr. Lakshman Eraj – Head of Microfinance, HNB Finance PLC
- Mr. Sanjev Perera – Chief Executive Officer, VisionFund Lanka Ltd

The session was moderated by Leading Development Finance Consultant Mr. Imran Nafeer.

The webinar was held in 03 rounds. The first round was focused on the present economic crisis where there was high inflation of prices in commercial goods, interest rate hikes and the fall in the purchasing power of the people. According to Mr. Suraweera a lot of clients of his MFI declined to take up business loans during the second quarter of 2022 due to the uncertainty of their business's sustainability. This has caused a drop in the demand for loans by 50%. However the demand for consumption loans was on the rise. Therefore it was important for the MFI to follow strict credit evaluations (purpose of loan, capacity to repay etc.) prior to disbursements. Priority on loan disbursement was also given to customers that have a good credit history and have completed their previous loan cycles. Mr. Sanjev Perera shared the experience of VisionFund where many clients were unable to meet their repayment obligations due to adverse economic conditions in their households, however this has improved from the month of September.





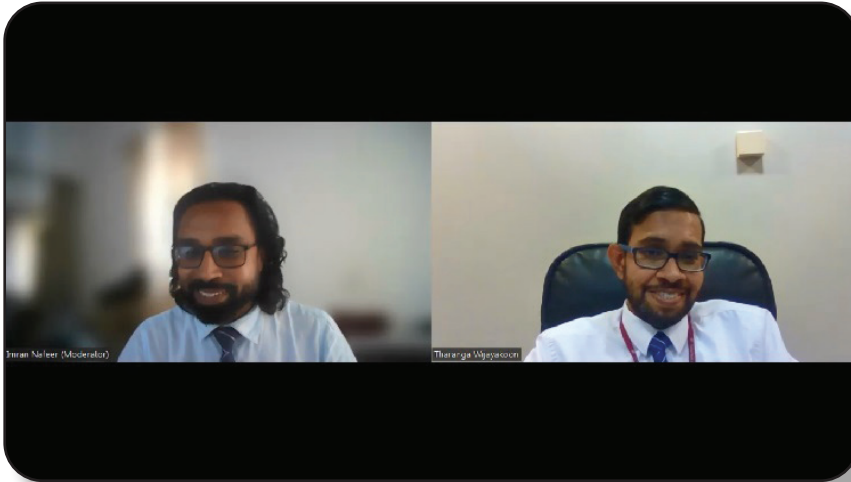
Mr. Lakshman Eraj elucidated that the increase in poverty levels does create opportunities for MFIs in providing financial services to households to engage in income generation activities to boost their income rather than consumption. In a situation where the whole country needs to increase its local productivity to generate income, the microfinance industry can work as a catalyst in

encouraging low income households to start small manufacturing businesses to cater to the demand of the local market. It is also important that the MFI acts responsibly to serve a greater social cause in rebuilding the economy.

As a regulator, Mr. Tharanga Wijayakoon of Central Bank explained that it was important to increase the interest rates to control the circulation of currency in the country. This was in bid to curb the high inflation rate that rose to more than 70%. The deterioration of the Rupee against the dollar, printing and circulation of local currency, depletion of foreign reserves were all contributing factors to the current economic crisis. Therefore the Central Bank is now taking strict measures on damage control. He further stated that the Monetary Policy transmission takes about six months to take real effect.



The second round focused on the challenges that the MFIs needed to overcome since the Easter Bomb attacks, COVID 9 pandemic and the economic crisis. Mr. Sanjev Perera of VisionFund explained how they gave their clients discounts during recoveries, removal of loan moratorium fees of clients with hardships, establishment of a special recoveries unit that focused on recovering on loan capitals while absorbing interest and collaboration with telecommunication companies such as Dialog to recover loan repayments via EZ Cash, a system where the clients can pay their loan installments via using their mobile phones. Clients also have the option of making their loan repayments through post offices. According to Mr. Suraweera, a careful study was conducted by Lak Jaya Microfinance to identify new local businesses in the tourism industry and recommend to their clients according to their skill level and interest. Mr. Lakshman Eraj explained that HNB Finance also focused on microfinance loan recoveries through mobile platforms and provided loan moratoriums and reschedules for their regular clients. For an institution that has a wide array of portfolios, there has been an increase on pawning services as well as savings on Fixed Deposits and term deposits. According to Mr. Tharanga Wijayakoon, the policy decisions of the Central Bank in the short run is to reduce the rate of inflation in the country while medium and long term goals are focused on increasing the production in the economy. In this regard, the Regional Development Department of the Central Bank has implemented some initiatives to improve the agricultural sector as well as providing financial assistance for value chain development (pilot phase).



One of the areas in the final discussion round focused on the strategies of MFIs in mitigating credit risks and operational risks. In Lak Jaya microfinance this is strictly followed from the stage of selecting the client until the loan recovery is completed. Furthermore they have also developed a comprehensive handbook for every department of the MFI (Administration,

Human Resources, Management Information System, Field Operations etc) This method has helped the MFI to reduce risks by 90%. Another area of concern that was discussed was the job security in the microfinance industry amidst the economic crisis. MFIs such as HNB Finance have taken the strategy for over one and a half years in training their sales staff for cross selling financial services besides microfinance products. This not only helps retain their staff but also empowers them with additional skills and knowledge on a variety of financial services other than microfinance. The discussion also addressed the risk of microfinance clients falling back on money lenders to access credit since many financial institutions have curtailed lending. MFIs such as VisionFund have addressed this issue by keeping their interest rates competitive to retain their customers by reducing their operational costs. In addition to this, increasing the loan tenure, increasing the communication with clients to better understand their needs as well as increasing their financial literacy, improving the operational efficiency through digitalization are some other methods that have been initiated to retain their client base.

Lastly the reconsideration of a new regulatory framework for the microfinance industry was explained by Mr. Tharanga Wijayakoon of the Central Bank. The proposed Micro Credit Regulatory Authority Act aims at regulating micro credit institutions giving emphasis to client protection principles. The task of the legal draftsman in compiling the Act is nearing completion and the new regulation is expected to be released in 2023.

Training on Business Development Plan for Customers Conducted by PIM

LOLC Finance also joined hands together with Postgraduate Institute of Management (PIM) in conducting a series of training programmes focusing to empower customers. LOLC Finance's Micro business unit conducted two workshops for two deferent batches on the subject line of "Business Development for Micro Entrepreneurs"



PIM is a self-financed, and a semi-autonomous body affiliated to the University of Sri Jayewardenepura. They have conducted training programmes all around the country and has created more than 300 CEEOs to the current market. PIM further offers several Postgraduate Degrees from MBAs to PHDs. We have now completed two successful workshops of the series.. This

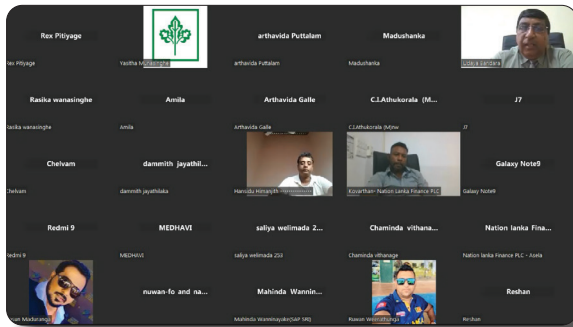
certain program was designed to cover a range of important areas from branding, logo usage, practice of different marketing strategies, and the significance and principal applications of digital marketing in modern day business. Representing PIM, the two senior lecturers Mr. Tharindu Ameresekere & Ms. Chandima Ranasinghe attended the knowledge sharing session.

Customer feedback collected at the completion of the multiple events were positive. Most of the participants acknowledged on their learnings and key take aways from the programs. Further, PIM also conducted a post evaluation on the impact of this workshop, and there findings were very satisfying. Moreover, LOLC and PIM together presented a valuable certificate for all the participants upon the completion of this workshop.



Webinar on “Positive Life & Well Being”

In view of motivating the staff of member organizations, the LMFPFA organized a webinar themed on “Positive Life & Well Being” or “හිරවුල් මනසක් තුලින් යහපත් රැකියා දිවියක්” on the 15th of November 2022 via ZOOM. More than 100 participants took part in this webinar representing 14 member organizations. The training was conducted by Mr. Rex Pitiyage, renowned Human Skill Development trainer and Motivational Speaker in Sri Lanka.



The webinar focused on the importance of increasing one's happiness Chemicals on a daily basis and they are Dopamine, Oxytocin, Serotonin and Endorphins. The webinar also identified common stress symptoms and their factors and the participants were able to experience through practical exercises on various Neurolinguistic programming techniques to overcome stress.

Proposed Microfinance & Credit Regulatory Authority Act

Many stakeholders in the microfinance industry would be pleased to know that the proposed Microfinance & Credit Regulatory Authority Act is set to be published in the year 2023. This was highlighted during the President's Budget Speech in Parliament in November 2022. The proposed regulation is expected to regulate all credit lending institutions, thereby a segment of MFIs that were not incorporated in the previous Microfinance Act No 06 of 2016 will get the opportunity to operate their services with a regulatory license in the near future. The LMFPFA will be working closely with the regulators in the drafting of the regulatory guidelines to comply with the Act in the months to come.

LMFPA meets with Department of Census & Statistics

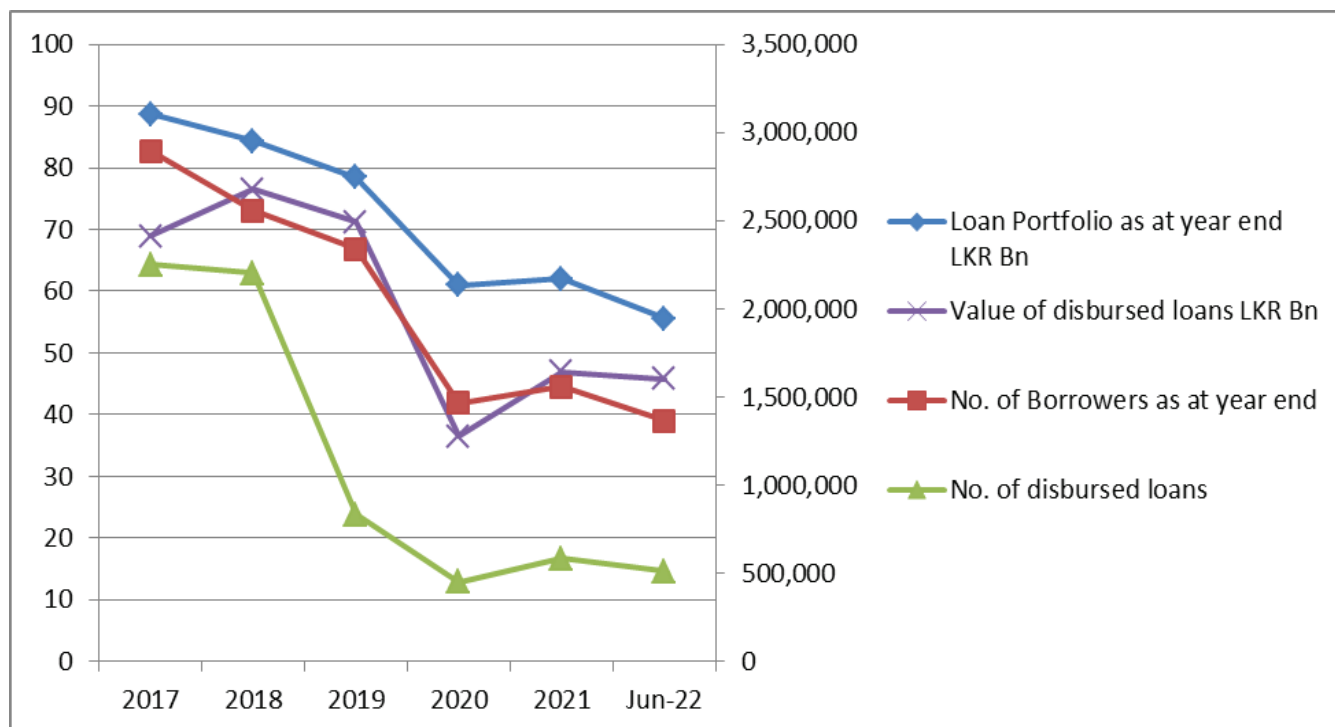
Back in 2021, the Department of Census and Statistics (DCS) collaborated with the LMFPFA to collect and analyze microfinance data, identify its short term and long term trends and its contribution to the economy. 21 member organizations provided data according the format that was shared by the DCS, and the department was expected to analyze the data together with other data collected from non-member stakeholders in the industry.



Nevertheless, the collection of data from the microfinance industry posed a tough challenge for the DCS in order to interpret an accurate landscape of the industry and therefore LMFPFA convened a meeting with the DCS officials on 12th December 2022 to identify the challenges that were faced and discussed on the methods to overcome same.

It was mutually agreed by both organizations that a joint workshop should be organized inviting different stakeholders of the industry and create awareness on the importance of the collection of statistical data and to seek their collaboration towards this project. LMFPFA will be closely working with the DCS to organize such a programme in early 2023

Snapshot of the Microfinance Industry in 2022



The above chart was compiled using 2022 figures of Member MFIs. After the steep drop in all indicators in 2020 due to the COVID 19 outbreak, the Sri Lankan microfinance industry slowly began to recuperate last year. However, the economic crisis in 2022 affected the industry once again with many MFIs are now facing liquidity crisis and shortage of funds for sustainable operations. LMFPFA reached out to several local and international sources for much needed financial impetus in the form of bulk loans for MFI on lending purposes, yet in the absence of strong political leadership that attunes to the economic conditions of the masses, such financial avenues are delayed with uncertainty.