

**Code of Conduct for LMFPA Members**

**Introduction**

Microfinance Institutions seek to create social benefits and promote financial inclusion by providing financial services to low income households. As these institutions build partnerships with their clients, it is increasingly important to define core values and fair practices, so as to ensure that microfinance services are provided in a manner that benefits and respects clients. In addition to all regulatory guidelines introduced by the government of Sri Lanka for the microfinance sector, this code of conduct adopted by Lanka Microfinance Practitioners' Association is to ensure that the highest level of professionalism, ethical conduct and good governance are observed by all Microfinance practitioners and their employees; and binds its member MFIs and their employees to total compliance as a condition of its membership.

**1. Avoid Over Indebtedness**

- 1.1 The MFI will obtain a disclosure from the household on the number and value of loans that were obtained previously and are currently outstanding.
- 1.2 The MFI will ensure that the household has at least 40% of disposable income after accounting for loan repayment obligations.
- 1.3 If household is having more than 03 outstanding loans whether with the MFI and other MFIs collectively, then the MFI may take steps to obtain the clients' CRIB report should the loan facility exceeds Rs. 200,000/- and client has obtained previous loans from a CRIB member.
- 1.4 If a higher loan value (Rs. 200,000 and above) is being awarded to household, the MFI will ensure that 2/3 or acceptable terms of previous loans taken by household is completed before disbursing the additional loan.
- 1.5 The MFI will ensure that all its mainstream loan products are 6 months and above in tenure.
- 1.6 The MFI will conduct an internal audit to verify a sample of households with multiple loans for additional verification.

**2. Maintain Transparency**

- 2.1 The MFI will ensure that it communicates clearly to its clients on the effective interest rates of its loan products considering all costs prior to signing the loan agreement. This information shall also be disclosed in all promotional materials for its loan products. The loan agreement and all other documents given for clients to fill and sign should be in the vernacular language (Sinhala/Tamil). Alternatively, a signed confirmation from the client that the said document was read and understood should be obtained.

**3. Loan Disbursement & Recovery Practices**

- 3.1 The MFI and its agents provide their services to their clients fairly and respectfully and without any discrimination such as race, religion, physical disability or level of poverty.
- 3.2 The MFI will place safeguards to detect and avoid corruption as well as aggressive and/or abusive treatment by their employees and agents to their clients during loan disbursements and recoveries. Specified sanctions should be in writing in the employment contract.
- 3.3 House visits and telephone calls should be conducted in a manner that does not create inconvenience to the client.
- 3.4 The MFI will provide official identification tags to all its loan officers and recovery officers.



**4. Maintaining Healthy Competition**

- 4.1 Develop regular interaction with other MFIs operating within the same area or in new areas where expansion is planned.
- 4.2 Follow fair and ethical practices when recruiting employees of other MFIs.
- 4.3 In case of such recruitment a clearance letter should be obtained from the former MFI at the time of recruitment.
- 4.4 Share information with LMFPA on employees terminated for fraudulent activities or disciplinary grounds.
- 4.5 The MFI may obtain clearance from LMFPA at the time of staff recruitment.

**5. Develop a Feedback Mechanism**

- 5.1 The MFI will set up efficient and effective feedback mechanisms for complaints and problem resolution for their clients.
- 5.2 The MFI will inform the clients about the existence and purpose of these mechanisms and how to access them.

**6. Information Sharing**

- 6.1 The MFI will provide timely statistical information to LMFPA for publication as requested from time to time.

**7. Quality of Staff**

- 7.1 The MFI will ensure that its staff is periodically trained to update their knowledge on principles of microfinance and related subjects.
- 7.2 The MFI will ensure that its entire staff is aware of the contents of the Code of Conduct.

**8. Breach of Code of Conduct**

- 8.1 A breach in the Code of Conduct by any member can be communicated in writing to the LMFPA.
- 8.2 LMFPA will inquire into and where necessary refer the complaint to an independent body/person to inquire the complaint.
- 8.3 The MFI in breach of the Code of Conduct will be first issued a letter of warning.
- 8.4 Thereafter for repeated breach, such MFI's membership status with LMFPA will be terminated.
- 8.5 Terminated members will be published on print media.

- 9. The terms and conditions of this Code of Conduct are subject to periodical review and will be a binding condition for renewal of membership.



**DECLARATION**

We ..... member of Lanka  
Microfinance Practitioners' Association, unanimously and whole-heartedly agree to abide by the Code of  
Conduct stated above.

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Signature

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Company Rubber Stamp

Name:

Designation:

Date: