



**MONETARY BOARD
CENTRAL BANK OF SRI LANKA**

03 December 2018


FINANCE BUSINESS ACT DIRECTIONS

No. 10 of 2018

MAXIMUM RATE OF INTEREST ON MICROFINANCE LOANS

In terms of the powers conferred by Section 12(1)(b) of the Finance Business Act, No. 42 of 2011, the Monetary Board issues Directions on maximum rate of interest on Microfinance loans for Licensed Finance Companies (LFCs).

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| 1. Applicability and scope | 1.1. The Central Bank of Sri Lanka introduces a maximum rate of interest on Microfinance loans with the objective of protecting the customers being charged with exorbitant interest rates on Microfinance loans granted by LFCs. |
| | 1.2. This Direction will be applicable for all Microfinance loans granted from the date of this Direction. |
| 2. Maximum Rate of Interest | 2.1. LFCs shall not charge a rate exceeding 35 percent per annum (effective annual interest rate), inclusive of all other charges on Microfinance loans. |
| 3. Definition of Microfinance Loans | 3.1. Loans granted for individuals/individuals under Group Lending System for income generating activities, which include loans for establishing and managing Micro Enterprises. |
| 4. Reporting Requirements | 4.1. LFCs shall report the Microfinance loans under code 1.1.4.12.0.0- Microfinance Loans in the Financial Information Network (FInNet) return NBD-MF-01-BS - Balance Sheet. |
| 5. Interpretations | 5.1. "Micro Enterprises" shall mean enterprises in the manufacturing and service sector with an annual turnover of less than Rs. 15 million and employees less than 10 [Source: National Policy Framework for Small Medium Enterprise Development issued by Ministry of Industry and Commerce]. |


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Governor of the Central Bank of Sri Lanka*