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Press Release

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Supervision of Microfinance Institutions

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LICENSING, REGULATION AND SUPERVISION OF COMPANIES CARRYING ON MICROFINANCE BUSINESS

The Microfinance Act, No. 6 of 2016 was enacted with the objective of providing a regulatory framework to cover microfinance institutions that are not regulated at present. The purpose of the Act is to improve the delivery of financial services to low income persons and micro enterprises, increase financial inclusion, strengthen the soundness and systems of microfinance institutions, facilitate microfinance institutions to access wider sources of funding, promote consumer protection and promote a safe and stable financial system.

The Microfinance Act came in to operation on 15 July 2016. Accordingly, the Monetary Board of the Central Bank of Sri Lanka is empowered to issue licences for applicant companies carrying on microfinance business, issue rules and directions for Licensed Microfinance Companies (LMFCs) and issue guidelines to the Registrar of Voluntary Social Services Organisations for the regulation and supervision of Microfinance Non-Governmental Organizations (MNGOs).

In line with the provisions of the Microfinance Act, the Monetary Board has taken steps to facilitate this process. Accordingly, two rules addressing licensing criteria and licensing fee and eight directions covering the main prudential requirements such as capital, liquid assets, statutory reserve, deposits,

accommodations, fitness and propriety of relevant personnel governing LMFCs, assessment of shareholders and reporting requirements have been issued with effect from 27 October 2016. Institutions that fulfill the licensing criteria may apply for licensing under the Microfinance Act, which will be evaluated by the Monetary Board. The prudential directions will ensure the sound functioning and resilience of LMFCs.

The guidelines to the Registrar of Voluntary Social Services Organisations are currently at the discussion stage with relevant stakeholders and will be issued by the Monetary Board in due course.