

**THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES
BMSHONS IN ACCOUNTING AND FINANCE
AFU5322 – MICROFINANCE**



FINAL EXAMINATION – 2025 / 2026

DURATION – THREE (03) HOURS

DATE: 27th JUNE 2026

TIME: 01.30 P.M. – 04.30 P.M.

INSTRUCTIONS:

- Answer five (05) questions only.
- All questions carry equal marks (20 marks each).
- The use of non-programmable calculators is permitted.

Question 1

- a) Women entrepreneurs play a significant role in promoting economic development and poverty reduction in developing countries. Discuss the key characteristics of women-owned businesses and evaluate how microfinance institutions support the growth and sustainability of such enterprises. — (10 Marks)
- b) Explain the legal and regulatory requirements that must be fulfilled to establish and operate a licensed microfinance institution in Sri Lanka. (10 Marks)

Question 2

- a) Discuss the main revenue models used by microfinance institutions and evaluate their effectiveness. (10 Marks)
- b) Explain the core principles that should be considered when designing microfinance products for low-income clients. (10 Marks)

Question 3

- a) Explain the concept of credit rationing. How do microfinance institutions help reduce credit rationing and promote financial inclusion? (10 Marks)
- b) Microfinance sector has experienced significant growth in countries such as Sri Lanka. Discuss the factors that have contributed to this growth. (10 Marks)

Question 4

- a) Describe the technology-based products and services introduced by microfinance institutions in recent years in Sri Lanka. Use suitable examples to support your answer. (8 Marks)
- b) "Technology is a double-edged sword for microfinance institutions." Critically evaluate this statement by discussing the challenges associated with technology adoption in microfinance sector. (12 Marks)

Question 5

- a) Explain the concept of group lending in microfinance and discuss how it differs from traditional bank lending. (10 Marks)
- b) "High interest rates undermine the social mission of microfinance institutions." Critically evaluate this statement. (10 Marks)

Question 6

- a) Discuss the importance of regulation and supervision in ensuring the stability, transparency, and sustainability of microfinance institutions. (06 Marks)
- b) A Microfinance Institution (MFI) has provided the following information extracted from its audited financial statements and loan portfolio report for the financial year 2025.

Income Statement Highlights

Item	Amount (Rs.)
Financial income	95,000,000
Financial expense	12,500,000
Salaries and benefits	28,000,000
Other operating expenses	14,000,000
Net income after tax	18,500,000

Balance Sheet Highlights

Item	Amount (Rs.)
Total assets	245,000,000
Total equity	82,000,000
Total liabilities	163,000,000
Loan loss reserves	8,500,000

Loan Portfolio Report Highlights

Item	Amount (Rs.)
Total outstanding loans	205,000,000
Amount of loans in arrears	28,500,000
Total loans disbursed during the year	310,000,000
Total number of loans disbursed during the year	8,200

Additional Information

Item	Amount (Rs.)
Average loan portfolio	195,000,000
Average number of credit officers	25
Average total assets	225,000,000
Average equity	75,000,000

Required:

Calculate the following performance indicators and evaluate the portfolio quality, productivity, efficiency, and profitability of this microfinance institution based on the calculated indicators.

- i. Portfolio at Risk (PAR)
- ii. Loan Loss Reserve Ratio (LLRR)
- iii. Average portfolio per credit officer
- iv. Operating Cost Ratio
- v. Return on Assets (ROA)

(14 Marks)

(Total 100 Marks)

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