

## **Determinants of Financial Performance in Micro Finance Institutions of Sri Lanka**

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Financial sector plays a key role in the economic development. It is generally agreed that a strong and healthy banking system is a prerequisite for sustainable economic growth. Financial sector includes mainly the banking system and the microfinance institutions in the country. Microfinance promises to reduce poverty. To achieve this amazing objective Microfinance institutions have to developed strong enough in financial performance because donor constancy is not a given. Thus the question is: In what extent the MFI-specific, industry-specific and macroeconomic factors determinants the Sri Lankan micro finance industry financial performance from the period 2010-2015. The study was based on a six years secondary data obtained from annual reports. Regarding the explanatory variables, operational efficiency ratio, debt to equity ratio and capital assets ratio affect MFIs financial performance significantly. The outcome of the study shows that GDP growth rate and the debt equity ratio have positive relationship. But GDP growth rate statistically insignificant effect on their financial performance. The capital assets ratio, debt equity ratio and operational efficiency ratio have statically significant. The Sri Lankan MFIs policy makers and managers should give high concern to the expense management and also the government and policy makers should work combining both poverty decrease and financial self- sufficiency of MFIs. And also MFIs have to emulate profit-making banking performs by effecting a sound financial management and good managerial governance to assure their financial performance and in the long run sustainability.

**Keywords:** Microfinance institution, Financial performance, Sustainability