

Predictors of Profitability of Selected Microfinance Institutions in Sri Lanka

Wijesinghe, W. P. J. L.¹ and Thrikawala, S. S.²

This study, conducted with the purpose of assessing profitability predictors of microfinance institutions (MFIs) in Sri Lanka. The study has been conducted by using a panel data analysis and the sample consists of nine MFIs for six-year period where data were collected through the audited financial reports. Institutional size, age, financing structure (FSR), quality of portfolio (QOP), operational efficiency (OER) as well as the debt equity (DER) considered as predictors of the study.

Thus, the debt to equity forms a negative insignificant relationship with profitability while capital adequacy suggesting a positive insignificant relationship to the profitability. In the case of operational efficiency and quality of portfolio shows a negative relationship to the profitability as researcher expected. Further, institutional size and age as well as financial structure represent a negative insignificant relationship with profitability. It is required to concern about the operational efficiency of MFIs in Sri Lanka. Exempt to that the institutional SIZE, FSR, QOP, as well as DER, operating expenses has a significant impact to the MFIs profitability.

The role of MFIs in an economic sustainability has quoted by many authors and other economic reports around the world. However, in Sri Lankan context, lack of the researchers has conducted on the profitability analysis based for recent years. Therefore, the current study equipped with the purpose of investigating predictors of MFIs profitability.

Keywords: *Microfinance Institutions, Profitability, Financial Structure, Operational Efficiency, Quality of Portfolio*

¹ Ministry of Housing & Construction, Sri Lanka (jayarangawijesinghe@gmail.com)

² Department of Commerce and Financial Management, Faculty of Commerce and Management Studies, University of Kelaniya, Sri Lanka (sujani@kln.ac.lk)