

**FDI IN MICROFINANCE INSTITUTIONS - HARBINGER FOR INCLUSIVE GROWTH**

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**ABSTRACT**

Economic development for the sake of development is not sustainable in the long run. The fruits of economic development must percolate unto the last person to be both equitable and sustainable. Inclusive growth deals with policies that allow people from different groups and across sectors to contribute to, and benefit from economic growth. Inclusive Growth is measured by GINI Index, which for India improved to 36.8 in 2004 from 37.8 in 1997. There is still a long way to go. Microfinance is a popular poverty reduction strategy and has the potency to empower individuals, thereby families, enterprises, and whole communities. Despite huge inflows into the MFI sector from various sources, there still exists a huge gap. The present paper argues for FDI into micro-finance because it presents an attractive investment proposition with double bottomline. It gives a tolerably good rate of return, enables risk reduction because it has no correlation with capital markets. The MFI industry has sound industry fundamentals because it has encouraging growth potential, historically low delinquency rates, and increasing sustainability and resilience in periods of market turmoil. It has a high social impact because funds will help bridge gaps in the financial system and achieve financial inclusion. Therefore, FDI in Micro finance could be a harbinger to inclusive growth.

Keywords: *Foreign Direct Investment, Inclusive Growth, Micro Finance Investments, Social Rate of Return, Commercial Rate of Return, Double Bottom line*