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Funds Flock to India in Effort To Tap Robust Loan Demand

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MUMBAI, India -- Attracted by high repayment rates and the return on investment, microfinance funds are flocking to India, where demand from low-income groups for credit, insurance and other financial products is ballooning.

Three microfinance funds have started operations over the past year. Fund managers say an additional eight are likely to enter the country in the next two years.

Although the funds that have entered the country are small, the rising profits are likely to attract bigger players, said Vishal Mehta, fund manager of U.S.-based LokCapital, which has set up a \$12 million India-dedicated fund and expects a 12% to 15% return on its investments over the next five to seven years.

Experts say the robust economy will sustain demand for loans. India's gross domestic product grew 8.1% in the April-June period, one of the fastest growth rates in the world. The central bank forecasts GDP to expand 7% to 7.5% this fiscal year.

Like banks and nonbanking financial corporations, microfinance funds lend to nongovernment organizations, which in turn fund rural self-help groups. Such a group consists of 15 to 20 people, usually women, who get together as a saving circle. Once the kitty reaches a certain size, members approach a bank or NGO for credit to set up