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MFI-turned-banks must not forget their mission: Mengistu Alemayehu, IFC

BY [SUMAN LAYAK](#), ET BUREAU | APR 26, 2018, 09.04 AM IST

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International Finance Corporation (IFC), the investing arm of the [World Bank](#) Group, has been in [India](#) since 1958 and has been an early investor in quite a few top Indian private sector companies, such as Jet Airways and HDFC. One more winner it has backed recently is [Bandhan Bank](#), which listed at a 27% premium in March, emerging as the 8th mostvalued bank in India.

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Bandhan was part of IFC's inclusion themes investments, that has focused on [microfinance](#) and similar other ventures. IFC also doubled investments in India in 2016-17(July-June), over 2015-16. **Mengistu Alemayehu, IFC's director, South Asia**, spoke to ET in an interview recently, mapping out IFC's India plans around inclusion-themed ventures. *Edited Excerpts.*

On doubling of investments last financial year to about \$2 billion in India...

When I took up this position in South Asia in July 2015, we sat down to see what we had done so far in India. We have been in this country since 1958. Cumulatively, we have invested more than \$15 billion of our own account. We made hundreds of investments, pretty much in all key sectors. Now, we looked at the biggest challenges facing India, and how to translate those into deliverable targets, to be delivered by the private sector. The investments you see are a result of that assessment. Our investments are just a part of it. We mobilise more from others. Our investments in 2017-18 are set to exceed last year's numbers of \$1.96 billion.

On IFC's microfinance journey and strategy in India...

When the microfinance crisis in Andhra Pradesh broke, I was in charge of the microfinance and banking unit at IFC. The crisis shrank the sector, many clients fell off the microfinance grid and the regulator became more active. This was 2009-10 and I had stressed on our need to get involved. IFC often plays a counter-cyclical role. When there is a crisis, we come in to give confidence and comfort,

especially in a sector where it is badly needed. We decided to invest actively, clean up things, help in formation of credit bureaus, and strengthen the riskmanagement capacity of entities in which we were investing.

Between 2010 and 2014-15, we invested in several institutions: Bandhan, Ujjivan, Equitas, Utkarsh, Suryoday. Today, almost 50% of the disbursements in microfinance is through IFC-backed companies. Directly, we have reached about 40 million microfinance clients. Indirectly – because we have funds like Lok, Aavishkaar, and others – we have reached another 25 to 30 million clients. Lots of them are women. Many institutions backed by us became small finance [banks](#) .



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What exactly did you bring to the table apart from money?

We brought a strong back office. There was an issue with some of these institutions in terms of risk management. They were good at lending money, but were lacking in terms of having the right type of IT, the right type of information, the right type of product development and increasing stickiness of the client.

For me, inclusion is not only about credit. Credit is just one part of it. Real inclusion happens when you provide financial services for savings, credit, insurance, housing, and all the others. You cannot build a nation on credit alone. To bring that type of discipline, in some cases we have people on the board, in some cases we have advisory engagements, and in some cases we are handholding them in their transformation.

As microfinance firms become banks how do they ensure their original objectives are not lost?

One thing we are making sure is that even as they become banks, they must not forget where they started, and they must not abandon the mission. That focus is still there. You will see these institutions doing both, a substantial part being microfinance.

Bandhan is a full bank now. The focus may shift to large money, large clients...

If you look at Bandhan's operations, it is still microfinance. We paid a lot of attention to this: whom do we pick and how should the governance structure be set up so that the institutions we pick do not lose their focus. So far, the institutions with which we have been working are focused. We have created a structure where the business is still driven by the loan officers, the people in the frontline in the

field offices. Then we have bankers who manage risk, treasury, compliance with the RBI, those types of things. We spent a lot of time to make sure that balance is maintained.

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