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Reputation and Communication in Microfinance

An Exploratory Study in Orissa, India

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1 Introduction

Microfinance Institutions (MFI) are often subject to misunderstanding from the public, suspicion from local politicians and destructive and ill-informed rumors from competing MFIs. Indeed, during the March 2006 "crisis" in Andhra Pradesh, MFIs were the object of some very negative articles in the press (mostly regarding allegations of hidden charges and usurious interest rates), and several are still struggling today to restart operations and rebuild standing in the communities in which they work.

Given this context, it is critical to understand the reputation of MFIs among various stakeholders, to which extent this reputation is negative and why these reputations are formed. It is also critical that MFIs improve transparency, streamline their operations and develop their communications skills to develop a sound reputation and protect themselves against defamation and misinformation.

To better understand these issues, the following study was conducted on the politico-cultural context in which MFIs operate in the State of Orissa. Orissa was chosen as the focus for this study because in this State, the microfinance sector remains in a nascent stage, but in recent years has been experiencing rapid growth and mounting competition.

At this turning point, this study seeks to understand how the press, local politicians and other MFIs perceive these emerging MFIs, to what it is due, and what impact it has on MFI operations. The study concludes with several recommendations for how MFIs might improve their communications strategy, work together on issues of mutual interest, and better navigate the external world in which they operate.

2 Methodology

This study presents the results obtained from interviews conducted with a wide variety of microfinance stakeholders in the State of Orissa. A total of 48 interviews were carried out in Orissa: 7 from government, 3 from development banks, 9 from government and commercial banks, 18 from microfinance institutions, 5 from microfinance resource agencies, 4 from the media, and 3 with groups of borrowers in three different villages. Additionally, two interviews were conducted with microfinance practitioners in Bangalore regarding possible communications strategies emerging MFIs in Orissa might choose to pursue.

In order to ensure variety within the sample, these stakeholders hailed from different communities in Orissa and represented different perspectives within the microfinance sector. Guidance in selecting the interviewees was provided by CARE India, as well as ad hoc recommendations from various interviewees.

The interviews had no set format or standard questionnaire. Sampling was therefore not systematic or random, and it is difficult to draw statistical conclusions based on the results of this study. This research was designed as an exploratory study to be followed by further systematic research.

3 Background

Compared to an all-India average of 28 percent, Orissa is one of the poorest and least developed states in the entire country with 47 percent of all households below the poverty line.[1] Orissa also hosts one of the largest adivasi (tribal) populations in the country, constituting 24 percent of the population.[2] This legacy of poverty and pronounced under-development has long been attributed to a government that has been historically corrupt, bureaucratic and inattentive to the needs of the low-caste, semi-literate poor.

A disproportionate share of Orissa's poverty is faced by women and children. Female literacy remains dismally low at 50.5 percent,[3] and infant mortality occurs in 98 out of every 1,000 live births.[4] Furthermore, only 31.35 percent of the labor force is composed of women, the vast majority of which are employed in the unorganized primary sector, which includes agriculture, animal husbandry, fishery, forestry, mining and allied activities.[5]

While in recent years, microfinance (mf) has exponentially expanded its reach, 51 percent of the population has yet to gain access to mf services.[6] Total portfolio advances by this sector represent a meager .98 percent of the total credit advanced by all sectors,

[1] Census of India, 2001
[2] Ibid
[3] Ibid
[4] Ibid
[5] Ibid
[6] "A Report of Workshop on Emerging Trends in Microfinance," Adhikar (April 29, 2006): 3

and its overall impact remains marginal.[7] One of the key constraints in credit deepening is the low credit absorbing capacity of microfinance clients in Orissa, particularly in impoverished tribal areas which that to face a lack of investment opportunities.

3.1 Non-Governmental Microfinance Sector

There are over 25 non-governmental microfinance institutions (MFIs) currently operating in the State of Orissa, most of which are concentrated in the relatively prosperous coastal region. The aggregate loan outstanding of these MFIs is estimated to be about Rs. 250 crore, and the total number of clients being served is about half a million. About 74 percent of microfinance clients served by these institutions are organized as Self Help Groups (SHGs), and 22 percent are organized as Joint Liability Groups (JLGs), with a minuscule number being provided individual loans.[8]

An April 2006 study by the Reserve Bank of India (RBI)[9] found effective interest rates charged by the major MFIs ranging from 15 to 45 percent per annum. However, among 88 percent of clients surveyed, effective interest rates were below 30 percent, and among 95 percent, interest rates were below 35 percent. In about half of these cases, interest was charged on a flat basis, and in other the half, a reducing balance was followed.

On June 24, 2006, the State Level Banker's Committee (SLBC) agreed to an effective interest rate cap of 28 percent on microfinance services in Orissa. It remains unclear how or if this decision will be enforced. In the wake of this controversy, as well as the March crisis in Andhra Pradesh, at least one MFI[10] has opted to lower its interest rates.

Among the major MFI players in the State, the vast majority are homegrown, not-for-profit organizations (NGOs) that have recently decided to focus their efforts on microfinance. In the case of Gram-Utthan, mf has become the organization's core business. (as of 1997). Other organizations, such as CYSD and Biswa, have created subsidiaries to manage their mf portfolio (Swayamshree Micro-Credit (2005) and Biswa Financial Services Limited (2006) respectively). Awareness and Adhikar have opted to incorporate mf

[7] "Microfinance in Orissa: A state level quick study on practice and policy implications," Reserve Bank of India (May 2006): 16

[8] "Microfinance in Orissa," 1

[9] "Microfinance in Orissa."

[10] Asmitha Microfin

into the broader package of services they provide.

Recently a few MFIs headquartered in Andhra Pradesh - Asmitha Microfin, Basix and SKS - have established operations in the State. Basix, a self-proclaimed “livelihoods promotion institution,” has been working in the Ganjam and Naygarh Districts of Orissa since 2000 and broke ground in Sambalpur this past July. SKS first entered Orissa in late 2005 and already has 10 branches with ambitious plans to open two to three new branches each month during the year to come. Asmitha has been working in Orissa since September 2003 and today boasts the largest clientele base in the State, as well as the largest loan portfolio.

Kas Foundation, which also opened its doors in September 2003, is in a category of its own. While it is headquartered in Orissa, the CEO and founder, Mr. Kathiresan Sundaram, initially registered the organization in Tamil Nadu and is a Tamil native. Kas proclaims itself “the fastest growing MFI in India” and is currently in the midst of expanding its operations to states outside Orissa.

Orissa also hosts several mf wholesale lenders and resource agencies that have done much in recent years to foster and enable the sector’s rapid growth and expansion. These resource agencies include Rashtriya Grameen Vikash Nidhi (RGVN),[11] SIDBI Foundation for Micro-Credit (SFMC),[12] and CARE through its Credit and Savings for Household Enterprise (CASHE) program.[13] A few banks have also chosen to enter the mf wholesale lending business, including State Bank of India (SBI)[14] and ICICI Bank. ICICI Bank, which has emerged as the State’s leading wholesale lender, has had a particularly significant impact, largely accounting for the sector’s meteoric growth since 2004, when its “Partnership Model” was established.[15]

In addition to the large host of microfinance institutions in Orissa, there are also hundreds of not-for-profit Self Help Promoting Institutions (SHPIs) based across the State. Typically these SHPIs form and cultivate Self Help Groups for internal lending and bank

[11]RGVN mostly supports Self Help Promoting Institutions, although it does lend to a few small MFIs.
[12]SIDBI lends to four MFIs: Gram-Utthan, Asmitha, Biswa and RGVN.
[13]CARE lends to four MFIs: FARR, Parivartan, Gram-Utthan and Biswa.
[14]The State Bank of India (SBI) offers MFIs wholesale loans at seven percent interest, but so far, one one - Swayamshee Micro-Credit, has chosen to avail these loan because of its obligation that MFIs cap their interest rates at 11 percent (not including fees).
[15]ICICI has six partners: Kas Foundation, Biswa, Swayamshree Micro-Credit, Awarenss, Gram-Utthan and Adkhikar.

linkage. A number of private and governmental institutions provide grant assistance to support these operations including RGVN, Catholic Relief Services (CRS), the National Apex Bank for Agricultural and Rural Development (NABARD) and the Government of Orissa.

Self-Help Cooperatives have also been increasingly active in Orissa. In 2001, the State Cabinet approved the Orissa Self Help Cooperative (OSHC) Act, which provides legal status for cooperatives that are managed and controlled by women to address issues of economic and social empowerment. By the end of 2005, 480 cooperatives had registered under the new Act. A few MFIs, including Biswa, Awareness and Adhikar, lend to many of these cooperatives to on-lend to their members.

4 Analysis

4.1 Introduction

Since this is an exploratory study and not a systematic randomized study, the findings have limitations and reflect only the perspectives of the respondents interviewed. Each of the interviewees were asked broad, generalized questions about their organization, their views on the state of the microfinance sector, and challenges they anticipated the sector would face in the future. Additional, tailor-made questions were then asked in response to these answers.

Findings from these interviews were broadly divided into three categories: 1) relations within the sector; 2) relations with government; and 3) relations with the media. During the course of this study, the microfinance sector in Orissa also faced a situation during which time relations were challenged within each of these three spheres. This report thus devotes a separate, final analytical section to this incident and the events that subsequently unfolded.

4.2 Relations within the Sector

Most MFIs in Orissa do not appear to have a strategic communications strategy in place to promote their work, address accusations and control damage. During interviews, few expressed a unique organizational message to brand themselves on issues such as their contribution to society, the quality of their products, or their ethics as an organization. Instead, most tended to highlight their bottom line (number of borrowers, crores dispersed, branches opened) and their performance in relation to other MFIs. As a result, reputations in Orissa are often defined not by what MFIs say about themselves, but rather what they say about each other.

This competitive communications approach is particularly distressing with regards to the degree of rumors, innuendo and name-calling originating from within the sector. In particular, MFIs have a tendency to point out the interest rates of their competitors, even though they often do not, in fact, know what their competitors are charging. This makes prospects for shared collaboration difficult and exacerbates perceptions of the sector as not being transparent, since few seem to know their own competition.

Competition among MFIs is becoming particularly intense in certain hot spots across the state where MFIs are increasingly opting to cluster themselves. Many MFIs reason that it's more efficient to establish microcredit operations in areas in which the model has already been introduced rather than break ground in uncharted territory. As operations progressively overlap, "poaching" of joint liability groups is subsequently becoming an increasing source of contention between MFIs.

When questioned about the potential harmful effects of competition, nearly all practitioners were quick to confess their concern that competition, infighting and multiple financing will, no doubt, be to the mutual detriment of the sector. A couple practitioners even admitted their apprehension that overall repayment capacity is much lower in Orissa compared to neighboring Andhra Pradesh and that borrowers could ill-afford multiple loans. Still, the sector is hard-pressed to seek out an internal solution.

These early symptoms of unhealthy competition are, in part, being fuelled by the speed with which these MFIs are growing. Finance has become easier to access in recent years, and unsatisfied demand among the poor has prepared the ground for a scramble for growth. Capacity issues, however, are not being given due consideration in the decision to expand operations. Indeed, MFIs are too often expanding before they have designed or implemented a strategic communications strategy to support these operations.

There have been some efforts on the part of certain players to improve communication and promote healthier competition. In particular, CARE CASHE, which provides sectoral support to eight MFIs in the state, has long been sensitive to this issue and has a policy of only supporting organizations working in distinct regions. This policy may soon end, however, since the CARE CASHE program is scheduled to terminate this coming December.

4.3 Relations with Government

4.3.1 Government-MFI Relations

While non-governmental MFIs have experienced a growth explosion in recent years, the state-administered microfinance schemes have scaled up their operations as well. In 2001, the State government embraced the Indian microfinance revolution with its launch of Mission Shakti and its campaign to promote Self Help Groups across the state. To date, the program has surpassed its own targets, a record of success that could not have happened without the total involvement and participation of Chief Minister Naveen Patnaik and the many hundreds of government and bank officials in each of the 30 districts across the State.

Although the government initiatives have witnessed remarkable growth in recent years, sustainability and quality have emerged as significant issues. MFIs in Orissa recognize these problems and have little respect for these initiatives. Practitioners from across sector expressed no sense of camaraderie with their government counterparts, and most wasted little time in disparaging, insulting and belittling these programs. They painted these initiatives as realms of self-interest and rent-seeking and suggested that they represent nothing more than a drive to meet politically-driven targets.

Curiously, few MFIs referred to specific government programs, such as Swarjayanti

Gram Swarozgar Yujana (SGSY)[16] or the Integrated Child Development Scheme (ICDS),[17] instead lumping all government initiatives together under one banner: “Mission Shakti.” This is somewhat ironic since, theoretically, “Mission Shakti” is not a government program, but rather a governmental campaign in support of the Self Help Group movement in Orissa. This suggests that as much as MFIs consider government programs to be the competition, they do not have intimate knowledge of this competition and how it operates.

MFIs were particularly contemptuous of the subsidy-cum-credit SGSY program (frequently referred to as “Mission Shakti”), which often cherry-picks their ‘below poverty line’ groups for SGSY subsidy support. MFIs complain that this program poaches their groups, inflames tensions and does irrevocable damage to the repayment culture in Orissa. As a result, many MFIs refuse to report their groups to the district administration out of fear that their groups will be provided SGSY support without their participation or blessing. This simple act of defiance no doubt has increased ill will and confirmed suspicions that MFIs are not transparent.

On the part of government officials, opinions toward MFIs were mixed. At the state level, government officials were, to some degree critical of MFIs, but by and large, were judicious in their assessment of the sector. At the local level, however, governmental relations are much more dubious and depend on the district administration. A number of government officials suggested that MFIs lack transparency, integrity and values. These latent tensions were particularly salient in areas in which government schemes and MFIs are competing for the same space.

[16]Swarnjayanti Gram Swarozgar Yojana (SGSY) is a comprehensive self-employment program jointly administered by the Central and state government. The program is mostly implemented through SHGs in which at least 80 percent of the members are Below the Poverty Line (BPL). SGSY provides its assisted SHGs a one-time microcredit loan, 50 percent of which is subsidized subject to a ceiling of 1.25 lakh, for generating employment. The emphasis is on a cluster approach, with key activities being identified for each assisted SHG based on the resources, occupational skills of the people and availability of markets. Banks and other financial institutions are closely associated with the program, not only in dispersing and recovering the loan, but also in selecting the Swarozgaries, pre-credit activities and post-credit monitoring.

[17]The Integrated Child Development Scheme (ICDS) is the flagship program being run out of the Women and Children’s Development Department (WCD) of the Government of Orissa. The program aims to address issues of child survival and safe motherhood and is implemented through about 35,000 “Anganwadi workers” at the village level. The SHG-promotion initiative is a large component of this program, and it is closely integrated with other initiatives of the program, including sexual health, adolescent development and capacity building of women. As of March 2005, ICDS had formed 1,08,027 SHG groups. (“Empowered Woman: A Vision Document for micro-Finance in Orissa,” Women & Child Development Department, Government of Orissa (2005): 4)

4.3.2 Local Government's Conflict of Interest

The government's target driven microfinance programs, particularly ICDS, appear to present a special conflict of interest for the District Collector, who is entrusted with protecting the public good, but also tends to be unduly influenced by his personal and political stake in maintaining authority in the district and meeting and exceeding SHG targets. In at least a couple cases, District Collectors have confused their oversight of governance issues with that of financial scrutiny. This is a particularly tricky issue since regulation of MFIs remains murky and grey.

These pressures also trickle down to local bank branch managers, who often have little ownership over the government's SHG linkage objectives. The State Bank of India (SBI), in particular, appears to be feeling the heat most.[18] SBI, more than any other bank, bears the burden of the state's SHG linkage schemes. It has also been hypothesized that SBI is frustrated because MFIs are, by and large choosing to secure finance from other, more expensive sources, such as ICICI Bank and SIDBI, so that they can circumvent SBI's interest rate cap. This has helped fuel SBI's recent allegations that MFIs are charging "usurious interest rates."[19]

Partly as an outgrowth of these pressures, the ICDS and SGSY programs are beset by widespread fraud and corruption, issues which threaten to undermine the economic and social development these programs are intended to bring about. In this context, the successful spread of MFIs is increasingly agitating local government and bank officials who know that their programs are not meeting their impact objectives. Still, these community power brokers find it aggravating that MFIs appear to have little respect for their oversight and authority.

The CARE CASHE Program has recognized these latent tensions and taken steps to address these concerns at senior levels of government. Under the auspices of Mission Shakti, CARE brought together a number of stakeholders across the sector last year to discuss some of these issues and craft a vision document for Mission Shakti. However, while its intentions were noble, government has clearly not taken ownership over this

[18] It was also an unhealthy nexus between the District Collector and the State Bank of India bank manager earlier this year that brought about recent political troubles for a couple MFIs in the state.

[19] See Subsection 4.5 for more background on this issue.

vision document, nor have MFIs begun to view Mission Shakti differently. Indeed, it was CARE, not Mission Shakti, that drafted the 76 page document, and MFIs continue to call Mission Shakti "the competition."

4.4 Relations with the Media

For the most part, MFIs appear to have no dealings with the media. Representatives from Dharitri and Sambad, two statewide newspapers based in Bhubaneswar, said they had never heard from any of the MFIs. The Bhubaneswar branch office of Samaja, another statewide paper, also had no recollection of ever being approached.[20] Morever, none of these newspapers seemed to know much or have an interest in microfinance.

It is also clear MFIs by and large do not have any kind of strategic, communications strategy in place. They do not communicate with the government, and they rarely reach out to the media. Their organizational message is vague and inconsistent. As a result, reputations are largely defined by what other stakeholders say about MFIs rather than what they say about themselves. This was demonstrated when Dharitri newspaper published an inflammatory article saying that MFIs were charging upwards of 120 percent interest:

> The misery that poor people used to face by taking money from landowners is by and large the same misery they are facing today under microfinance institutions (MFIs). Many of these MFIs are operating in the same way that other organizations run in foreign countries, modes of operation are not suitable for the conditions of Indians. These MFIs often charge as much as 120 percent interest, which makes it impossible for poor people to repay, so they get entrapped in a cycle of debt. In view of such situations, the State Level Banker's Committee (SLBC), in the 106th annual meeting, decided that SHGs and NGOs that take money from the banks at a low rate of interest and charge more are nothing better than professional moneylenders, so they capped the interest rate at 28 percent. Those institutions that charge more than 28 percent interest will be penalized...[21]

[20]Samaja is based in Cuttack, so it is possible that this manager in Bhubaneswar was not aware of the situation.

[21]Rudra Prasad Jena, "Restrictions on Micro-Finance: Penalty for Charging over 28%", Dharitri Newspaper (June 25, 2006).

There is some anecdotal that suggests that local media are more likely to cover articles about microfinance than the statewide newspapers. Just a few months ago, one MFI in the State touched base with a local newspaper and was rewarded with an affirmative story about its work, an experience that suggests that MFIs could perhaps garner positive media attention if they made a strategic, proactive effort to reach out to the press. However, while local newspapers tend to be more interested in MFIs, they also tend to be less professional, more personal and political, as at least one MFI in the state learned the hard way earlier this year.

4.5 Testing Relations: The SLBC Decision to Cap Interest Rates

Each of the three challenges faced by the sector - relations with government, relations within the sector and relations with the media - were tested in the wake of the March 8, 2006, State Level Bankers Committee (SLBC) meeting.[22] During this meeting, latent tensions with government came to the surface when a representative from the State Bank of India (SBI)[23] accused MFIs of charging usurious interest rates upwards of 120 percent. The SLBC agreed to investigate the issue and reconvene on June 24 to discuss follow-up action.

There are a couple theories why this SBI official attacked the integrity of MFIs. According to some mf practitioners, these allegations were motivated by mounting frustrations on the part of SBI as they face increasing difficulty meeting their SHG-linkage targets.[24] Borrowers prefer private MFIs that provide timely loans and doorstep service, and SBI is beginning to feel eclipsed by the competition.

One practitioner, however, offered a different explanation: SBI is frustrated because most MFIs in Orissa are not interested in availing their wholesale loans.[25] Indeed, SBI offers MFIs bulk lending at a generous interest rate of seven percent, but then requires that its MFI borrowers on-lend at no greater than 11 percent, a condition to which only

[22]The SLBC is a banker's forum in Orissa which meets three times a year. Members include the Finance Minister, the Finance Secretary of State, the RBI Deputy Governor, and representatives from all of the private and government banks. There are no microfinance Institutions (MFIs) represented on the Committee.

[23]Local Head Office, Bhubaneswar

[24]Under the Integrated Child Development Scheme (ICDS), banks are required to meet certain SHG linkage targets each year. ICDS is implemented by the Government of Orissa's Department of Women and Children.

[25]So far, SBI has only appraised and approved lending to Swamshree Micro-Credit and agreed to support Biswa and Gram-Utthan.. ("Empowed Woman: A Vision Document for micro-Finance in Orissa," Women and Child Development Dept, Government of Orissa)

one MFI in the State to date has agreed. However, there are four MFIs in the State[26] that are currently choosing to borrow at around 10 percent from SIDBI, which, ironically, receives it financing from SBI. SBI is therefore aggravated that MFIs are opting to borrow at a higher rate in order circumvent SBI's interest rate cap.

Shortly after the SLBC meeting, Finance Minister P. Chidambaram wrote to two wholesale lenders in the State, SIDBI and ICICI Bank, asking that they clarify the interest rates of their MFI partners. Both responded, firmly denying the allegations expressed at the SLBC meeting. The ongoing deliberations, however, ultimately inspired Deputy Governor Usha Thora to call for an independent audit by RBI.[27] RBI promptly followed up and conducted a study in 18 districts, which ultimately concluded that, "The apprehension of widespread usurious interest rates is not valid."[28]

The sector recognized this ongoing threat and came together to address the issue a couple days after RBI concluded its investigation. On April 29, Adhikar sponsored a sector-wide workshop on "emerging trends in microfinance." Fifty-one mf stakeholders attended, including representatives from SIDBI, NABARD, the Government of Orissa and ICICI Bank.[29] The workshop emerged with several recommendations for further action: 1) "a pragmatic formula for deciding the rate of interest on credit to clients;" 2) "an ethical committee for self regulation of MFIs;" and 3) "digitization of MFI operation for transparency and good governance."[30]

While this meeting was promising and certainly represented a step in the right direction toward increased cooperation, the sector has since had difficulty overcoming its own fragmentation to implement the workshop's recommendations. This is due in part to the fact that the sector has no institutional infrastructure to carry out any of the heavy lifting these proposals require.

On June 24, 2006, SLBC held its follow-up meeting, ruling that MFIs should not impose more than 28 percent on any kind of loan or advance. It remains unclear, how-

[26]Gram-Utthan, Asmitha, Biswa and RGVN

[27]Rural Planning and Credit Dept, Bhubaneswar Regional Office

[28]Reserve Bank of India, "Microfinance in Orissa: A state level quick study on practice and policy implications," May 2006.

[29]Neither the Finance Minister, nor any representatives from SBI, attended the meeting. (The ex-Finance Minister was a key note speaker, however.) Also, Mr. Kasthiresan Sundaram, CEO of Kas Foundation, lamented that he was "not invited."

[30]"A Report of WorkShop on Emerging Trends in Microfinance," Adhikar (April 24, 2006) pg. 5.

ever, whether this agreement was an informal "gentleman's hand-shake," or whether it will be enforced in the courts. According to the Indian Express, a local newspaper in Bhubaneswar, the bankers "will keep a watch on the transactions of the microfinance institutions and report to the State Government for initiation of action against the violators under Money Lenders Act." However, according to several other stakeholders, this agreement does not have the force of law behind it.

Part of the reason why this agreement remains unclear may be because of the lack of transparency in the SLBC proceedings. The June 24 SLBC minutes are vague and ambiguous, not to mention the fact that government officials never made them public to MFIs. Moreover, many MFIs seem to have only received secondhand information about what actually transpired in the SLBC and what it ultimately means for their organization.

Additionally, one of the statewide newspapers caught wind of the conflict just as it was being resolved, publishing an inflammatory article without cross-checking any of its facts. Among other falsehoods, Dharitri newspaper said that MFIs were found to be charging as much 120 percent interest. It also made several inflammatory statements like, "The misery that poor people used to face by taking money from landowners is by and large the same misery they are facing today under Micro-Finance Institutions."[31]

As MFIs, banks and other mf resource agencies continue to anticipate how this decision will be implemented, there is a wide spectrum of reactions (at least publicly expressed) on the part of MFIs with regards to its implications. One MFI manager said that the decision is good "because it will keep out the competition," since "many of them are just coming [to the State] to make a profit." On the other end of the spectrum, however, MFIs are concerned that this decision is an ill-omened threat of what is to come. As one MFI CEO put it, "If 28 today, 14 tomorrow."

5 Conclusion

This past March, the microfinance sector in Andhra Pradesh experienced an ill-omened threat to its long-term viability. The crisis emerged, in part, out of latent tensions be-

[31] Roughly translated from Oriya. (Rudra Prasad Jena, "Restrictions on Micro-finance: Penalty for Charging over 28%", Dharitri Newspaper (June 25, 2006).)

tween the state and MFIs vying for the same space, a conflict that ultimately attracted the attention of local and national media across the country. Not only did this crisis seriously damage the reputations of certain MFIs working in the State, but it also irrevocably changed the sector's confidence in its prospects for long-term growth and stability. In the aftermath of this crisis, it is now abundantly clear that political risk is a threat with which MFIs must contend.

The microfinance sector in Andhra Pradesh is unique compared to the sector in Orissa, or any other state in India for that matter. The microfinance sector in Andhra is concentrated and sophisticated. Not only is the non-governmental sector active in this State, but local government has also long embraced the microfinance movement with a number of its own microfinance schemes. Indeed, the entire sector in Andhra Pradesh has long had to contend with multiple users vying for the same space. This is not the case in Orissa.

While the microfinance sector in Orissa remains nascent, it is growing and changing at a meteoric rate. The two largest MFIs in the State - Asmitha and Kas Foundation - established operations just three years ago, in September 2003. ICICI Bank established its "Partnership Model" in 2004. And the government launched its Mission Shakti initiative not long before that, in March 2001. Given the current growth and expansion of the sector, it is not hard to imagine that Orissa will increasingly have to contend with many of the same issues that Andhra has faced in the years to come.

The study revealed three major challenges facing the microfinance sector in Orissa today. First, unhealthy competition[32] among MFIs is becoming increasingly salient, a trend which tends to manifest itself through malicious rumors, innuendo and name-calling. Second, government schemes and MFIs are increasingly competing for the same space, and latent tensions have emerged. And finally, MFIs by and large do not have any kind of strategic, communications strategy in place. They do not communicate with the government, and they rarely reach out to the media. Their organizational message is

[32]"Unhealthy competition" is defined as a form of competition that contradicts business ethics, causes damage to the legitimate rights of other MFIs and/or reduces aggregate consumer welfare. It tends to manifest itself through malicious rumors, false advertising, lack of transparency, poaching of clients, etc, etc. While this form of competition can be viewed by some as "overly fierce" or "aggressive" competition, it has been shown in Europe, as well as the U.S. in the early development days of the 20th century, that such competition often leads to market monopolies, manipulation of information, distortion of prices, and worsening of consumer welfare in the absence of a well-functioning regulatory market. In the microfinance context, we can therefore expect that competition will not necessarily be welfare optimizing, particularly in the absence of free, fair and transparent information.

vague and inconsistent.

Each of these three challenges - relations with government, relations within the sector and relations with the media - were tested in the wake of the March 8, 2006, SLBC meeting. Latent tensions with government came to the surface when SBI accused MFIs of charging usurious interest rates upwards of 120 percent. The sector duly recognized this threat and tried to come together to address the issue, but ultimately, had difficulty overcoming its own fragmentation, distrust and suspicions. Ironically, one of the statewide newspapers caught wind of the conflict just as it was being resolved, publishing an inflammatory article without cross-checking any of its facts.

In short, this experience makes patently clear that MFIs are operating at the nexus of business, government and media, and yet they too often do not appreciate or acknowledge how their success or failure as institutions can hinge on how they do business in this complex environment. Few have a strategic approach to build relations with government so as to prevent a conflict from emerging. The tensions remain latent in Orissa, not patent as they are in Andhra, but they are present, and as the sector continues to grow and expand at a meteoric pace, they need to be addressed before the options for action are much more limited and costly.

6 Recommendations

Although tensions between microfinance stakeholders cannot ever be totally avoided, a more strategic, forward-thinking approach is certainly more likely to prevent, or at least soften, the impact of any potential crisis. Unfortunately, few MFIs in Orissa have a strategic communications strategy in place to promote their work, address accusations and control damage. However, while this study's findings raise some serious concerns about the microfinance sector's reputation in Orissa, it is not too late! There are some of very simple, dignified and appropriate strategies MFIs can implement now to support better communication and increased cooperation between MFIs, media and government.

First, MFIs need to develop a strategic, communications strategy to promote their organization. A communications strategy is important for any growing non-profit organization or business, but it is particularly important for MFIs. MFIs are unique because they operate in the nexus between government, media and business, and their entire success or failure can hinge on how they manage the challenges of doing business in this environment. "Communications" is not just about showing off an MFI's work (although that's a big part of it); it's also about building long-term, healthy relationships with stakeholders whose actions can have a huge influence on their organization.

A big part of this communications strategy is creating a key organizational message. This message should not be just for interacting with the media, but for all communications with the external world. MFIs should embrace their message, and it should reflect the reality of their daily operations. This message might talk about the business ethics of the organization or the quality of its products. It might refer to an MFI's contribution to society or it leadership in the business. Whatever the message is, it should be simple, concise and specific. It should brand the organization in a way that reflects the mandate of the organization.

After developing this message, MFIs should make proactive efforts to convey it to the media. Successful interaction with the media is often the best way to garner support for specific events and programs within an MFI. More importantly, a long-term, healthy relationship with the media can clear misperceptions about what an MFI is trying to achieve, build its reputation, and clarify its vision for the future of the organization. MFIs should consider the media an important tool for achieving their ultimate mission and objectives. If MFIs cultivate this relationship well, journalists will be much more likely to publish their story when they do have a newsworthy "press release." And, chances are, they'll provide MFIs an opportunity to give a response as a negative story is emerging.

Second, MFIs need to recognize that they operate in the same space as government and take steps to mitigate this potential conflict of interest. They need to strive to complement the SHG-bank linkage programs, rather than compete against them. They need to work to gain the legitimacy of local power brokers and not offend their authority. Unfortunately, since local governments are never monolithic, there is no exact prescription for managing government relations that can be applied to all MFIs. Indeed, some local governments make great partners for cooperation, others leave space for complementarity, and others still are hopelessly attracted to conflict. Regardless of the situation, however, MFIs need to appreciate this complex environment, its impact on their organization, and then work to improve this relationship.

Third, MFIs need to come together to build an institution that represents the sector on issues of mutual interest. While there have been some ad hoc efforts to unify the sector in this regard, none of these efforts have been institutionalized. CARE brought stakeholders together last year to write a vision document for the government-sponsored Mission Shakti campaign; ICICI hosted a conference in West Bengal several months ago; And Adhikar sponsored a sector-wide workshop earlier this year. Despite these laudatory efforts, however, the CARE CASHE program is going out of business in December, ICICI and SIDBI don't represent enough MFIs to act as a liaison, and there has yet to be any follow-up action from Adhikar's workshop.

As the market continues to drive competition among MFIs in Orissa, it is thus becoming increasingly obvious that ad hoc meetings and workshops are not enough. What the sector in Orissa really needs is an independent, neutral umbrella organization that will exist now and long into the future.[33] Regardless of its form, this organization should establish a forum for MFIs to meet, share and exchange ideas, expertise and resources. It should work on behalf of the sector to dialogue with policymakers and represent MFIs in the media. And it should evolve a self-governed code of conduct that decries unhealthy competition and seeks to ensure high standards of corporate governance and transparency.

If MFIs recognize their common constraints and challenges, work to build rapport with government, and step up efforts to shore up their profile, they will be much better equipped to prevent crises before they begin. Winning the support and confidence of governmental power brokers, the press and the public at large not only diminishes the threat of a political crisis, it also strengthens the capacity of MFIs to carry out their core mission in the communities in which they work. MFIs should therefore change the way they view communications. Communications isn't just about self-promotion; it's a critical tool for ensuring sustainability, strengthening business operations, and ultimately, for helping the poor better their lives through microfinance.

[33] Sa-Dhan, a national umbrella organization, could potentially perform this function if it established a local chapter in Orissa.