

# MicroSave Briefing Note # 131

## Public Relations Policy in MFIs – A “Nice To Have” or Necessity?

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### Introduction

In the space of less than a year, the public image of microfinance institutions in India underwent a shift from that of benign, philanthropic organisations helping the poor, to avaricious profit-maximising loan sharks driving their clients to suicide. This shift started with publication of the Poverty Action Lab’s (PAL’s) randomised control trial on Spandana’s work in Hyderabad.<sup>1</sup> Despite being controversial,<sup>2</sup> this attracted extensive media attention. Media reports accused MFIs of extortionist practices and causing farmer suicides in Andhra Pradesh (AP). The foundations were laid for the “AP crisis”, and need for a concrete public relations (PR) approach in such a situation.

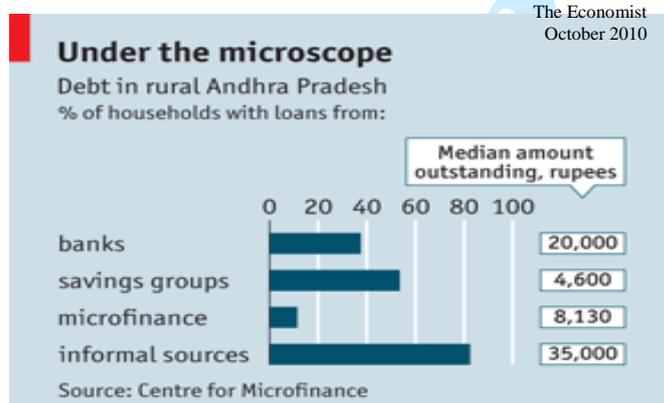
The industry was largely unprepared to counter the tsunami of negative publicity from press. Industry leaders had not analysed data on depth of outreach (it is often collected on loan application forms but not used), and had not conducted the research and analysis (for example the prevalence of suicides in AP farmer populations to compare with the prevalence of suicides in microfinance client populations) to underpin a compelling case in their defence. This paper highlights the increasing importance of PR policies, and need for a structured approach to handle PR for a MFI.

As Edward Byner puts it, “*Public relations is the attempt by information, persuasion and adjustment, to engineer public support for an activity, cause, movement or institution*”. Unlike marketing, which helps organisations to improve brand recognition, market penetration and sales, PR helps them to build and sustain corporate image, reputation and credibility. The PR function has come a long way from being an external media communicator, to one that now plays the role of a “*catalyst of change*” - change in belief, perception of organisation’s internal and external public.

### Need for Public Relations - The AP Crisis

In AP, when state government released the Ordinance regulating MFIs’ alleged exploitative operations, the media seized this opportunity, and newspapers carried headlines like “*The Ugly Underbelly of Microfinance*”<sup>3</sup>

and “*Microfinance Companies: Moneylenders or Parasitism?*”<sup>4</sup> At that time lack of an effective public response from MFIs allowed the situation to deteriorate further, ultimately resulting in mass defaults by clients.<sup>5</sup>



This illustrates how reputation loss (which could have been avoided using proactive PR policies) can have significant financial impact and requires careful management. Timely implementation of PR campaigns can reduce confusion and create an environment of mutual trust between the public and the MFI.

### Objective of PR Policy

Based on *MicroSave*’s experience of working in varied geographies with MFIs, it is clear that any PR policy serves following three objectives:

1. *Client Connect*: This is achieved by implementing client centric activities, wherein company policies are explained, including any change in product/service offering. “*We converted our centre meeting into a “leadership meeting”, and tried to show videos to clients during these meetings, immediately after AP crisis, explaining fraudulent lending, and reasons for default*”, says Area Manager of a leading Bangalore based MFI. The implications of the AP crisis for the MFI were also discussed and explained. One of leading the Kolkata-based MFIs organised social awareness programmes, and returned their 10% security deposits to existing clients. This too was

<sup>1</sup> <http://www.povertyactionlab.org/evaluation/measuring-impact-microfinance-hyderabad-india>

<sup>2</sup> There are many valid critiques of RCT trials (see for a few examples [Auerswald](#), [Cartwright](#), [Deaton](#), [Stark](#), and many are summarized beautifully by [David Roodman in his blog](#)). But in addition, in this particular case, the trial was assessed after just 18 months (*inter alia* because so many of the control group were going “out of control” and accessing the same type of credit services – perhaps suggesting that they were perceived as valuable ... more of Eshter Duflos’ “moronic revealed-preference”). Assessing the trial after 18 months was unfortunate given the fact that most previous studies have suggested that poor families do not benefit from micro credit for 4-5 annual loan cycles – see for example [Zaman](#).

<sup>3</sup> Times of India, October 18<sup>th</sup> 2010

<sup>4</sup> Economic Times, December 22<sup>nd</sup> 2010

<sup>5</sup> See *MicroSave* India Focus Note 59 “[The Andhra Pradesh Crisis – Clients’ Perspective](#)”

communicated to clients during the centre meetings. Clients sensed improved transparency as a result these activities, and felt connected to, and more trust in, the organisation.

2. **Staff Connect:** This is done by varied communication channels, including e-mail alerts, SMS alerts, and personal letters to staff. During the AP crisis, the corporate communication teams of various MFIs visited delinquent areas, explaining the policy level changes related to products and services that needed to be conveyed to clients. One of the leading MFIs used awareness videos related to repayment to explain critical points to its staff (as well as clients). An active PR department of a MFI can help bridge gap between branch level information dissemination, and head office, particularly in troubled times. *“We were being given clear cut instructions: to what extent we were supposed to share information, and in what way, and by what means”*, says the Area Manager of a leading Bangalore based MFI.
3. **Public Connect:** One important role of PR is to help manage reputation risk (and thus political risk). PR can address information distortion and misinterpretation by opinion makers, who are actually not MFI clients, but influence the image of MFI, its policies, and market position. Regular publications in leading local newspapers highlighting company products, features and service availability, as well as descriptions of successful clients can shape the image of company. ASA, in Bangladesh, typically publishes at least one article in one of country’s major newspapers every week, as well as highlighting its MD’s role on the international stage. Media can also be used to highlight MFIs’ social commitments and activities – an idea that Bandhan has executed very effectively, winning the [Skoch Award for Financial Inclusion in 2012 for its work on education](#). This helps paint a positive social image of any financial institution. One of the leading Bangalore based MFIs, had a major delinquency problem in one district in West Bengal, which was brought under control by the intervention of locals and opinion leaders, who knew about the MFI and its credentials.

During the AP crisis, leading MFIs communicated the fees and charges on their products and services. Such communication activities, helped clients to get the right information, and made them understand their financial obligations to the MFIs. During a recent major share price dip of SKS, the top management including its Managing Director and Chief Finance Officer had one to one interactive sessions on leading business news channels, explaining the position of their organisation. Such a move helped to win and restore some confidence of shareholders.

## PR Approach – Road Ahead

Any PR policy should encompass two approaches:

**Preventive:** This should be the core approach, in all operational circumstances, as a standard operating procedure. The policy and procedures should define the ways in which any changes to products should be communicated to clients and other key stakeholders. Media management, people responsible for it, and the amount and nature of information to be shared, all need to be explained, and interpreted uniformly, across the staff hierarchy. Every month, one of the leading MFI’s senior branch management team briefs all the district magistrates in their branch operational areas, on the latest updates on products and services. Communicating the right message about the institution, its products, goals, and practises helps bring operational efficiency, and build the brand and market reputation of MFI.

**Curative:** This approach should be the modus operandi in the event of any reputation damage, or an AP crisis-like situation. The PR policy in such a scenario, should clearly spell out the contingency teams to be in place, activities to be rolled out, and information circulation medium.



Given what MFIs have done to the poor, I don't know what would have happened had we allowed them to access deposits.

K.C. CHAKRABARTY  
DEPUTY GOVERNOR, RBI

MFIs emerged as the cost-effective solution to reach the bottom of the pyramid as they have much lower overhead costs.

SUSHIL MUHNNOT  
CMD, SIDBI

Microfinance is a very important measure for financial inclusion but the real issue is that the banking system has not really scaled up.

USHA THORAT  
DIRECTOR, CAFRAL

## Conclusion

As the financial services market for the low income segment grows, and matures, public relations will have a greater say in influencing strategic decisions at organisation level. The key is appropriate, transparent communication measures, and effective relationship management, which will involve concerted efforts from all stakeholders of financial service providers. PR policy can play a game changing, catalytic role in creating loyal customers, quality portfolio, and strong market reputation.

In the same way as a proverb says that “the face is the index of mind”, so the PR activities of MFIs today, and in days to come, should reflect its mission and values, and the decisions that these drive. In the words of the distribution manager of a Kolkata based MFI, *“What is preached, practised, and publicised, is what is perceived”*.