15.972 Professional Seminar in Sustainability (Spring 2010)
INTRODUCING SKS

SINCE 1998…

- 5.3 Million Members
- US$ 425 Million outstanding
- US$ 2.2 Billion disbursed
- 1.6 Million health insurance policies
- ~99% repayment rate
- 17,520 employees
- 1,627 branches
- Over 60,000 villages

SKS is one of the fastest growing MFIs in the world, with annual growth of 200%
SKS HAS ALREADY EXPLORED FINANCING “GREEN” PRODUCTS FOR ITS CLIENTS

Solar Powered Lights

Device description:
- Charged by solar panel and AC Charger
- Four Brightness Level Settings:
  - Bed (500 hrs)
  - Low (40 hrs)
  - Medium (20 hrs)
  - High (10-12 hrs)
- 12 Month Warranty
- Lifetime of 1-5 Years

Solar Loan Product details:
- Principal: Rs. 1250
- Interest: Rs. 78
- Loan Processing Fee: Rs. 12
- Upfront payment: Rs. 91

Drinking Water Purifier

Device description:
- 100% protection from drinking water diseases (e.g., cholera, jaundice, diarrhea)
- Does not use electricity, batteries, or continuous tap
- 18 L capacity for Rs. 1800/unit (price increase to Rs. 2000 in Jan. 2009)
- Rs. 350 for filter replacements (every 1,500 L of use)

Water Loan Product details:
- Principal: Rs. 1750
- Interest: Rs. 109
- Loan Processing Fee: Rs. 18
- Upfront payment: Rs. 177

However, SKS can better leverage its privileged position to amplify its positive impact on the environment
FRAMEWORKS FOR IDENTIFYING HIGH-IMPACT INITIATIVES

• **Footprinting** (life cycle analysis (LCA), carbon, water): what is the footprint of the proposed business activity?

• **Value Chain**: what sustainable materials (raw or waste products) exist locally that can be converted into product

• **Stakeholder Analysis**: get input from investors, clients, communities, etc. to prioritize investment targets

• **Crowdsourcing**: how can the wisdom of the crowd enhance investment selection?

• **System Dynamics**: can be used to look at all of these factors and how they interact with each other
EXAMPLES OF INTERNAL & EXTERNAL AREAS OF OPPORTUNITY

Internal

SKS Must set an example by reducing energy use, water use and waste from internal operations

Energy Consumption
- Challenging branches to compete to see who can use the least amount of energy
- Optimizing loan officer routes to decrease the amount of fuel used in servicing their loan book

Waste Generation
- Cataloguing current waste generating metrics and building plans to reduce these activities where possible

Employee Education
- Employee action through behavior change can lead to greater process improvement, discovery of new opportunities, and reduced costs.

External

What frameworks exist to help inform SKS’s investment decisions?

Product Development
- Continuing and expanding efforts to finance products that decrease clients’ reliance on dirty sources of energy

Loan Disbursement
- Prioritizing the disbursement of loans to clients who are operating sustainable micro-enterprises

Client Education
- Educating clients on ways in which they can reduce their costs and negative impact on the environment and increase revenues by adopting sustainable business practices
FURTHER RECOMMENDATIONS FOR INTERNAL IMPROVEMENTS

With 1627 branches and 17,520 staffs across India, SKS can make its operation more sustainable by:

• Selecting green and energy efficient materials to build/assemble the office
• Wherever applicable, using renewable energy for office operations
• Using conference calls rather than on-site meetings to reduce transportation between branches
• Conducting internal training to educate employees on the concept of sustainability and what actions they can take to make the change
• Integrating a sustainability strategy with the HR plan to motivate employees to initiate a “greener” alternative operation model
• Developing plans to manage recycling and waste in its branches
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<thead>
<tr>
<th>ENERGY CONSUMPTION</th>
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<tr>
<td><strong>Problem</strong></td>
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<tr>
<td>Loan Officer Transportation</td>
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<tr>
<td>IT Systems</td>
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<td>Air Conditioning</td>
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WASTE REDUCTION

• Reducing waste generation can decrease costs resulting from waste collection

• Reducing the quantities of water and energy used can generate significant savings

• Most of the measures have very short payback periods ( < 3 yrs)
EMPLOYEE EDUCATION

Keep updating employees with latest trend of “green business” to help them give advice on client’s business plan

Use feedback scheme to help employees discover areas to improve

Build frameworks for employees to consider sustainability in different operational areas

Create experience-sharing session to have employees learn from each other’s experiences

Organize workshops for employees to learn frameworks and identify areas to implement
FURTHER RECOMMENDATIONS FOR EXTERNAL IMPROVEMENTS

Incentivize borrowers to start “green” businesses

Business ideas

• Handicrafts from waste materials
• Organic / sustainable farming & produce
• Water purification
• Waste management / electronics recycling (ex: cell phones)
• Biodegradable pressed leaf plates or chai mud cups

Execution strategy

• Incentives for MFI staff: Bonus structure for green loans
• Partner with local NGO’s to train borrowers on green business opportunities
• Track loan results / environmental impact to attract/retain investors
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<tr>
<th>Category</th>
<th>Problem</th>
<th>Opportunity</th>
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<tr>
<td><strong>FMCG</strong></td>
<td>• Clients purchase very small amounts of key household consumer goods leading to more packaging waste</td>
<td>• Provide a small, supplementary credit product (INR 2000) to allow clients to purchase consumer goods in larger quantities</td>
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<td><strong>Home Energy Systems</strong></td>
<td>• Clients either don’t have electricity or only have it illegally for a few hours a day, depriving them of light, fans, and other quality of life products</td>
<td>• Provide a follow-on credit product so clients can purchase a home energy system to cleanly power electric products in their home</td>
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<td><strong>Smoke-less Stoves</strong></td>
<td>• Clients often use wood burning stoves to cook in their unventilated homes leading to high levels of indoor air pollution and poor respiratory health</td>
<td>• Provide a follow-on credit product so clients can purchase a clean-burning “smoke-less” stove</td>
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• SKS can integrate environmental standards into its client contracts

• Excluding certain types of businesses from its portfolio can ensure SKS does not contribute to environmental damage

• Many microfinance firms are developing a target percentage of green investments
• Educating clients on providing buffalo feed that will reduce methane emissions can reduce SKS’s portfolio’s GHG emissions

• Providing resources and training to implement sustainable agricultural practices can result in decreased use of pesticides, better water quality in the region and this more opportunities for microloans.
WHY YOU SHOULD DO THIS

• To grow revenue with new market opportunities

• To reduce costs

• To achieve a competitive advantage through press, goodwill, investor excitement

• To adapt to a global business trend of CSR best practices

• To attract international and domestic funding and investment

• To preserve natural resources/ find alternative energy resource given India’s explosive population growth