

# **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

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#### 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

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#### 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

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### Energy Consumption

- Challenging branches to compete to see who which 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?

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### 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

# ENERGY CONSUMPTION

## Problem

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## Opportunity

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### Loan Officer Transportation

- Loan officers drive their motor cycles all day to visit various villages to carry out the loan disbursement and collection activities

- Use simple route optimization and scheduling software to optimize loan officer's routes to reduce costs and fuel consumption

### IT Systems

- Within the head office, IT systems require massive amounts of air-conditioning and energy consumption

- Conduct a technology hardware audit to determine if there are more energy efficient IT systems available

### Air Conditioning

- Across the 1600+ branches some air conditioning is installed contributing to a significant aggregated energy use

- Establish a better screening tool for opening new offices that looks for building with natural shade and consistent air-flow; ensure those with AC are well insulated

## 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



## 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

# PRODUCT DEVELOPMENT

## Problem

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## Opportunity

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### FMCG

- Clients purchase very small amounts of key household consumer goods leading to more packaging waste

- Provide a small, supplementary credit product (INR 2000) to allow clients to purchase consumer goods in larger quantities

### Home Energy Systems

- 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

- Provide a follow-on credit product so clients can purchase a home energy system to cleanly power electric products in their home

### Smoke-less Stoves

- Clients often use wood burning stoves to cook in their unventilated homes leading to high levels of indoor air pollution and poor respiratory health

- Provide a follow-on credit product so clients can purchase a clean-burning "smoke-less" stove

## LOAN DISBURSEMENT

- 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

## CLIENT EDUCATION

- 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

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