

SKS MICROFINANCE
empowering the poor



SKS BELIEVES THAT BY PROVIDING THE POOR WITH ECONOMIC OPPORTUNITIES, THEY CAN REACH THEIR FULL POTENTIAL AND OVERCOME THE BARRIERS OF POVERTY. OVER THE PAST SEVERAL YEARS, WE HAVE MADE ENORMOUS STRIDES TOWARDS OUR MISSION OF EMPOWERING THE POOR. WE ARE THANKFUL TO ALL OF YOU WHO HAVE CONTRIBUTED YOUR TIME, YOUR ENERGY, AND YOUR MONEY TO ENABLING US TO ACCOMPLISH OUR GOALS. WITH YOUR CONTINUED SUPPORT, WE ARE CONFIDENT THAT WE WILL ACHIEVE OUR LONG-TERM VISION.

VIKRAM AKULA, FOUNDER SKS MICROFINANCE



sks mission

To empower the poor to become economically self-reliant by providing financial services in a sustainable manner.

sks vision

To provide financial services to 300,000 poor families in India by 2008.



INDIA HAS NEARLY 400 MILLION POOR, MORE THAN ANY OTHER COUNTRY IN THE WORLD. THESE POOR LIVE ON THE BRINK OF SUBSISTENCE.

who are we?

India has nearly 400 million poor, more than any other country in the world. These poor live on the brink of subsistence. SKS Microfinance was founded in 1998 to combat that poverty. It is guided by the principle that the poor need opportunity, not charity. SKS seeks to eradicate poverty by providing basic financial services (loans, savings, and insurance products) to the poor through a process of peer lending. In addition, SKS provides these services through a business model that enables SKS to be financially sustainable. This allows SKS to continue to expand its outreach to poor families throughout India.

SKS launched its microfinance initiative in one of the poorest parts of India—the drought-prone Deccan region of southern India. Since its inception, SKS has made great strides in reaching out to the poor and achieving one of the fastest growth rates of any microfinance institution in the world. To manage this rapid growth, in 2003, SKS converted from a non-profit society to a for-profit company and received its Non-Banking Finance Company (NBFC) license in 2004. This legal structure enables SKS to access sufficient commercial funding, to expand its microfinance operations and to achieve its vision of reaching out to 300,000 poor women by 2008.

why microfinance?

The poor in India live on the brink of subsistence. To cope with their extreme vulnerability, the poor take out small loans during emergencies for income-generating activities from local moneylenders who charge exploitative rates of interest. Interest rates can run as high as 96% per year, placing the poor in a debt trap. This debt trap, in turn, sometimes results in the poor “mortgaging” themselves or their children into bonded labor—a system of indentured servitude in which an individual “sells” his or her labor in exchange for a loan.

If poor people can access small, low interest loans during times of crisis, they can avoid falling into this tragic debt trap. Banks, however, require collateral and are often located in distant towns. The poor also have difficulty with bureaucratic—and sometimes corrupt—loan application procedures. Thus, the poor have no alternative than to turn to village money-lenders.

SKS Microfinance addresses this problem by delivering collateral-free microfinance—loans, savings, and insurance products—to the doorstep of the poor.

who do we serve?

SKS Microfinance targets women both because they are the most marginalized and because they tend to use resources more productively than men. Social science research has shown that women tend to undertake small, manageable activities rather than risky ventures and that they invest the majority of their income into the household and for their children.

SKS began operations in the Telangana region of Andhra Pradesh, India, which is part of the drought-prone, semi-arid Deccan Plateau and is one of the poorest parts of India. Almost half of the Deccan population lives in poverty, and the region suffers from high rates of hunger and malnutrition. In the future, SKS plans to expand into the neighboring states of Karnataka and Maharashtra, as well as other parts of India.

The vast majority of the poor in the Deccan region are landless laborers or marginal farmers who draw their livelihood from subsistence agriculture. The average daily wage for this population is less than a dollar a day. Moreover, since many people subsist on rain-fed agriculture, they usually do not have consistent work year-round. Their yearly income is not enough to provide their families with basic necessities like food, healthcare and education.

In addition to having to contend with such dire economic hardship, the poorest—many of whom are from the lowest caste, the “untouchables” or Dalits—also have to deal with the severe social discrimination that is part of the Indian caste system. For instance, Dalits are prohibited from drinking in the same tea stalls or drawing water from the same wells as upper castes. They are also forced to live in segregated neighborhoods within villages.



ACTION AT THE GRASS ROOTS



sk's microfinance methodology

SKS uses a peer-lending model, integrating industry best practices with our own innovations.

the group formation process

Village Surveys – SKS staff select villages through surveys that evaluate population, level of poverty, road accessibility, political stability, and safety.

Projection Meetings – SKS staff conduct highly interactive, public meetings, introducing SKS, its methodology, and its services.

Mini-Projection Meetings – SKS staff conduct follow-up visits after the projection meeting to further explain SKS to interested parties and to appeal directly to those who may not have attended the meeting because of religious, class, caste or gender barriers.

Group Formation – Women form self-selected, five member groups because then members can best serve as guarantors to each other. Experience has shown that a five-member group is small enough to effectively enforce group peer pressure and, if necessary, large enough to cover repayments in case a member needs assistance.

compulsory group training

Once a group is formed, SKS conducts a five-day training entitled Compulsory Group Training (CGT). The CGT consists of daily, hour-long sessions. This creates a culture of credit discipline and ensures that all group members understand the credit program. Using innovative, visual and participatory teaching methods, SKS staff introduce SKS's financial products and procedures. In addition, members receive training in basic arithmetic, learn to sign their names, learn the importance of savings and collective responsibility, elect group leaders, and learn a pledge that serves as a verbal contract between SKS and its members. This pledge is repeated at the commencement and conclusion of each center meeting and reinforces the commitment that members have made to fulfill their fiscal responsibilities to SKS and to each other. During the training period, SKS staff also conduct a quantitative evaluation of group members to ensure that each member is poor and to record base-line data for each member. After successful CGT completion, the group joins the village center.

group joins village center

As additional groups are formed within a single village, a center (sangam) emerges. This center is composed of up to 10 groups or 50 members. Center meetings are held weekly to disburse loans and collect savings, deposits and loan repayments. Additionally, these meetings serve as a forum to discuss loan proposals, loan utilization, and community issues. Each center elects a leader and deputy leader who are responsible for facilitating meetings and ensuring compliance with SKS procedures. Center meetings are conducted with rigid discipline in order to sustain the environment of credit discipline created during the CGT. Microfinance can be successful only if this discipline is maintained.

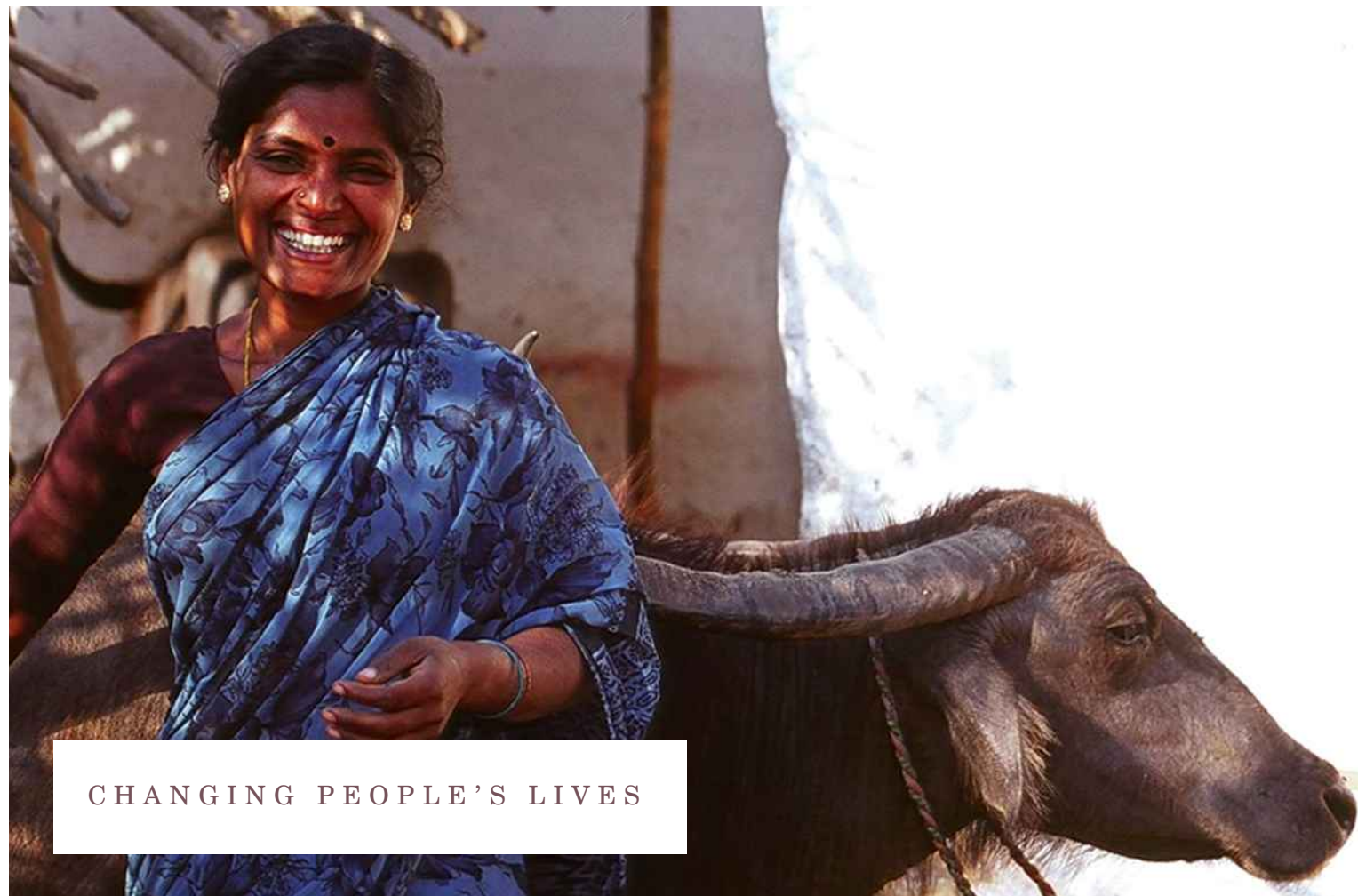
what do we offer?

SKS provides basic financial services with the belief that the poor have a strong understanding of which businesses to start and how best to employ working capital. Loans are provided through and managed by SKS while savings are provided through Mutual Benefit Trusts (MBTs) and managed by SKS. MBTs are trusts formed by SKS members and in accordance with their charters, MBTs collect savings and provide loans from these savings to members. When SKS loan officers go to villages to disburse loans and collect weekly loan repayments, they also collect savings and distribute these savings under the guidance of the center.

In addition to its basic savings and loans products, SKS is constantly developing new products. In the near future, SKS will offer life insurance and SKS is also exploring other types of insurance as well as remittances, money transfers, and pension plans.



Product	Purpose	Maximum Amount	Terms
LOANS			
Income Generation Loan (IGL)	Income generation, asset development	Minimum: Rs. 1000 (US\$23) Maximum: depends on loan cycle and borrower's ability to repay loan	Interest Bearing: yes Fee: yes Term: 50 weeks Repaid: weekly
Mid-Term Loan (MTL)	Same as above, Available at middle (week 25) of IGL	Cycle maximum minus IGL amount borrowed	Interest Bearing: yes Fee: yes Term: 50 weeks Repaid: weekly
Emergency Loan (EL)	All emergencies including maternal health, funerals, hospitalization	Rs. 500 to Rs. 1000 (US\$12 to US\$23)	Interest-free Fee: none Term: 20 weeks Repaid: bullet
Group Fund Loan (GFL)	Effectively a withdrawal of savings	50% of balance of group compulsory savings	Interest-free Fee: none Term: decided by group Repaid: decided by group
SAVINGS			
Group Fund Savings (GFS)	Compulsory (funds Group Fund Loan)	Rs. 5 (US\$0.12) per week	Weekly deposit
Voluntary Savings (VS)	Voluntary (used for consumption)	Voluntary	Voluntary deposit



CHANGING PEOPLE'S LIVES

Name: Suvarna
Age: 32
Husband: Narayana
Children: 2 daughters, married; 1 daughter, 7th grade
Hometown: Nandi Kandi
Date of Joining: March 23, 2002
Current Loan: IGL US\$233 (Rs. 10,000)
Loan History: 4 loans (2 IGL and 2 MTL), US\$535 (Rs. 23,000)
Business: Grocery Store Owner

As a child, Suvarna enjoyed attending school but, due to the financial burden of school fees, her parents stopped her studies in sixth grade and had her marry Narayana. After they were married, Suvarna and Narayana struggled to earn enough to support themselves and their daughters. Suvarna stitched clothes and earned US\$0.93 (RS 40) per day on the days that she had customers. Her husband operated an unsuccessful grocery store that provided them with US\$0.45 (RS 20) per day. Their family barely survived. Suvarna's older daughters married at a young age and did not complete school.

In 2002, Suvarna joined the SKS center in her village with hopes of turning her family's life around. She did not want her younger daughter's life to follow the same path as her life. She invested her first loan of US\$163 (Rs. 7,000) in the family grocery store by

purchasing new stock for the store, which helped their business prosper. With a second loan of US\$70 (Rs. 3,000), they were able to further diversify their stock and increase their profits. This increase in profits made it possible for them to buy a refrigerator to store soft drinks and other cold items. This made their store very popular among villagers. Suvarna continued to take out more loans to expand their business and they now have one of the most successful businesses in her village.

Suvarna and Narayana have invested a large portion of their profits in their youngest daughter's education. She is now studying in seventh grade and Suvarna's hope is that she continues to study and becomes an engineer. She does not want the financial difficulties that prevented her from attending school to stop her daughter from continuing her education. Suvarna works hard at making her grocery store a success in order to provide her daughter with the schooling she was denied.

Suvarna is grateful to SKS for helping her in her time of need by lending her money without any collateral. She says the support that SKS provides her and her business has created a better future for her family.

Name: Bhagyamma Vadla
Age: 26
Husband: Malleesh
Children: 1 son, 8 years old
Hometown: Chitayala
Date of Joining: November 11, 2001
Current Loan: IGL US\$279 (Rs. 12,000)
Loan History: 4 IGL Loans, US\$674 (Rs. 29,000)
Business: Buffalo milk sales and sewing

Bhagyamma used to struggle to find work. She earned US\$0.58 (Rs. 25) per day rolling bidli leaf cigarettes for a manufacturer, but work was inconsistent. Her husband's day laborer work was also sporadic. They frequently could not afford meals and went hungry.

She bought a buffalo with her first microfinance loan and sells the daily milk. She bought additional buffalos with her second, third, and fourth loans. The buffalos birthed four calves, two of which she sold

for US\$35 (Rs. 1500) each. With her 4th loan, she also diversified her business risk, purchasing a sewing machine. She sews and sells clothing while earning US\$2.44 (Rs. 105) a day in buffalo milk sales... a 380% increase over her best pre-loan day! With her profits, she and her husband built a cement water container in their house to store cleaner water and now don't get sick as often. They have put a waterproof roof on their home and eat regular, nutritious meals. They bought cooking equipment and chickens that produce eggs and can afford to pay their son's school fees. Bhagyamma also has savings for a medical or other emergency.

She enjoys being in a loan group with women who have become her good friends. Early on, they were scared about their ability to repay and cheered each other on saying, "We can do this!" Prior to her microfinance loans, Bhagyamma worried constantly about where the next meal would come from. Now she focuses on her future and is excited about her son's education. Smiling, she comments, "Everything in my life is going well now because of SKS."



THE SUPPORT PROVIDED BY SKS HAS CREATED A BETTER FUTURE FOR SUVARNA'S FAMILY. THEY INVEST A LARGE PORTION OF THEIR PROFITS IN THEIR DAUGHTER'S EDUCATION.

INCREASED EFFICIENCY AND PRODUCTIVITY MAKE IT POSSIBLE TO SUSTAINABLY INCREASE OUTREACH TO THE POOR.

sk's automated mis

The SKS management information system (MIS), called SKS MAPS (Monitoring, Accounts, Portfolio & Smart Cards) offers:

- Accurate and user-friendly information systems that manage small transactions efficiently, increase staff productivity, provide accountability for funds, and generate reports for effective and efficient management and decision-making.
- A Smart Card solution that can potentially automate village level transactions and facilitate the interface between the village, the branch office, and the head office.
- A high degree of flexibility, with the capability to track over 100 types of savings and loan products.

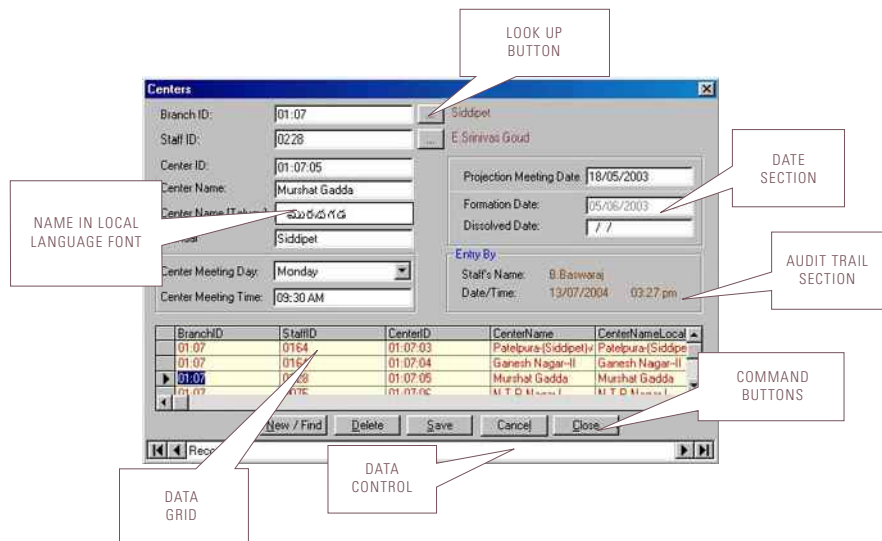
smartcards: mobile data capture with smart cards

During 2000 – 2001, SKS completed a pioneering SmartCard Pilot Project that used SmartCards and Palm Pilots at the village level. The project won the CGAP Pro-Poor Innovation Award and the pilot phase of the project showed the potential to lower the cost of delivery, reduce the scope for error and fraud, and enhance the efficiency of the MIS. SKS is exploring how to best continue the project.



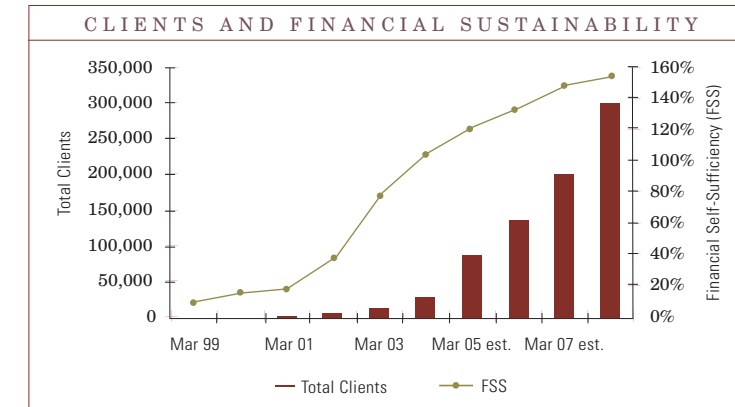
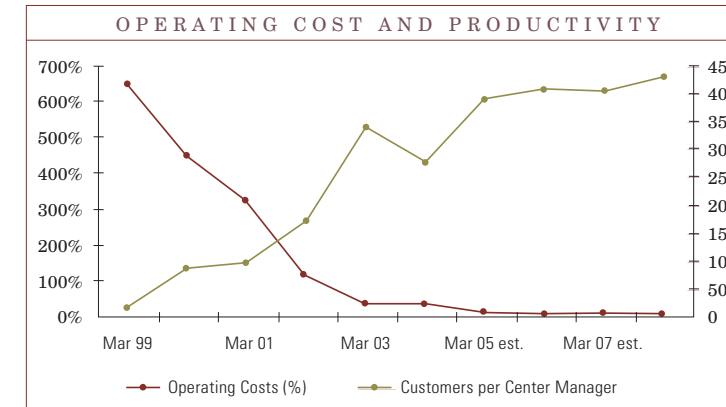
modules

Portfolio Tracker Module enables the electronic capture of all loans, savings, and portfolio performance data at the client, group, branch, and field staff levels. Once collected, data can be consolidated in daily, weekly, and monthly reports, offering real-time analysis of operations and product performance. *Accounts Module* is seamlessly integrated with Portfolio Tracker and provides updated full financial statements as well as general ledgers. *Performance Monitor Module* consolidates branch level data stored in the Portfolio Tracker and Accounts Module and allows management to track institutional and operating unit performance metrics against set business plan targets.



financial sustainability

SKS Microfinance emphasizes growth via a financially self-sustainable business model. SKS's focus on building the capacity to serve large numbers of clients through implementation of efficient operational processes and innovative management systems has allowed it to achieve consistent and impressive year-over-year growth while maintaining perfect portfolio quality and providing high quality service to its clients. As a financially self-sustainable institution, SKS can continue to provide permanent, stable access to credit for poor women entrepreneurs.



¹Operating costs as a percentage of average loan portfolio outstanding.
²Financial self-sufficiency ("FSS"), defined as adjusted operating revenue/ (Financial expense + Loan loss provision expense + Adjusted operating expenses), illustrates the ability of an MFI to cover the cost of operations on an unsubsidized basis.

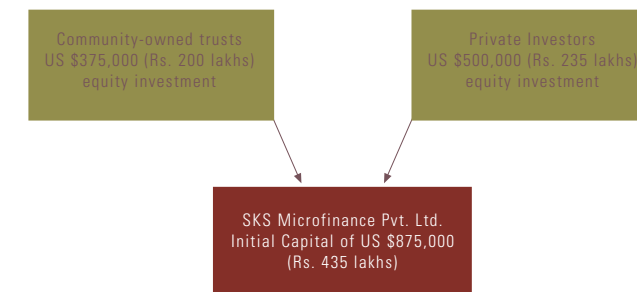
transformation to a non-banking finance company

In order to meet its objective of serving over 300,000 clients by 2008, SKS has transformed from a non-profit organization (SKS India) into a regulated company (SKS Microfinance Pvt. Ltd.). In 2004, SKS registered as a limited liability "Non-Banking Finance Company" (NBFC), an entity legally recognized and regulated by the Reserve Bank of India (RBI). As a registered NBFC, SKS enjoys the following benefits:

- *Access to Funds:* Commercial lenders have greater comfort lending to a regulated company with transparent ownership.
- *Diverse Funding Source:* As a regulated for-profit company, SKS can raise equity and offer returns, enabling it to access commercial investors and international capital markets and thus diversifying away from donors and members as sources of equity.
- *Outreach Potential:* With increased access to funds and as a regulated institution, SKS will be able to scale into a regional and nationwide provider.

ownership structure

SKS is structured to give all stakeholders including clients, management, employees and investors the opportunity to hold ownership and to participate in governance. SKS has been given grants by the American India Foundation (AIF) and others in the amount of about US\$375,000 (Rs. 200 lakhs) that has been used to give clients ownership over the NBFC. Simple trusts have been formed to serve as vehicles for this equity ownership. In addition, U.S. based social venture investors Unitus and TMSV provided US\$500,000 (Rs. 235 lakhs) of equity investment.





who supports us?

Vikram Akula, Founder and Chair, SKS Microfinance

Vikram Akula is a management consultant with McKinsey & Company. Prior to joining McKinsey, he founded and served for six years as the CEO of SKS, the parent organization of SKS Microfinance. Vikram has over a decade of work and research experience in microfinance. He was a Fulbright Scholar in India and before that he was a researcher with the Worldwatch Institute, a Washington D.C. policy institute. He also worked as a community organizer with the Deccan Development Society in India. He holds a B.A. from Tufts, an M.A. from Yale, and a Ph.D. from the University of Chicago. He has received several awards for his work with SKS, including the Echoing Green Public Service Entrepreneur Fellowship.

Ravi and Pratibha Reddy, Founding Investors

Ravi and Pratibha Reddy were among the earliest supporters of SKS and their family foundation has donated over half a million dollars to SKS. Ravi has also provided strategic guidance to SKS. His entrepreneurial vision has been a driving force for several companies that he has co-founded, including Think Systems, Inc., which he guided from inception to sale and was worth \$150 million when it was sold. A graduate of Osmania University in Hyderabad, India, Ravi received his MBA from Rutgers University. Currently, Ravi serves as chairman & CEO of Quest Industries LLC. Among Ravi's many other philanthropic activities, Ravi is also a trustee of the American India Foundation.

Sandeep and Vidhya Tungare, Founding Investors

Sandeep (Sandy) and Vidhya Tungare were among the founding donors to SKS. The couple has also established the Tungare Manohar Social Venture Fund, which has made a social investment in SKS Microfinance. Sandy's rare mix of technology vision, keen business acumen and inspirational leadership has enabled him to co-found several successful companies. In 1986, Sandy co-founded Think Systems, Inc., where he served as chairman and CEO. He grew the company from a three-person start-up to a multi-national operation with 150 employees. Sandy is currently CEO and chairman of Vistaar Technologies, Inc. A graduate of Bombay University in India, Sandy received his MBA from Rutgers University. Among his many philanthropic pursuits, Sandy is on the Board of the Morristown Memorial Health Foundation.

Unitus, Founding Investor

Unitus is a U.S.-based global microfinance accelerator, providing high-impact funding and consulting to the highest-potential microfinance institutions (MFIs) in developing countries. Their innovative approach vastly increases the number of loans an existing MFI can make to the

working poor and empowers significantly more families to work their way out of poverty. Unitus's 2003 \$4.7 million investment enabled SKS to raise our expansion objective from 100,000 to 300,000 borrowers.

American India Foundation, Founding Investor

The American India Foundation (AIF) is devoted to accelerating social and economic change in India by connecting communities and resources across the United States and India. AIF's grant of a \$130,000 to SKS has been primarily used to enable women borrowers of SKS to have a financial stake in the company.

thank you

In addition to our founding investors, over 700 individuals and organizations have supported the work of SKS. We would like to extend a special thank you to everyone who has enabled SKS's tremendous success and growth.

other major supporters

Crystal Springs Foundation
Sreekanth Ravi
Sudhakar Ravi
Lekha Singh and Sanjiv Sidhu
The late Chandra Shaker Thunga and Thunga Family
Digital Partners
The Echoing Green Foundation
Grameen Foundation USA
Hindu Temple Society of Capital District, Ny
The India Development Service
The i2 Foundation
The Maharashtra Foundation
Citibank
Consultative Group to Assist the Poorest (CGAP)
Friends of Women's World Banking
HDFC Bank
ICICI Bank
Small Industries Development Bank of India (SIDBI)
UTI Bank

awards

CGAP Pro-Poor Innovation Award
Digital Partners SEL Award
Finalist, Stockholm Challenge
Finalist, UC Berkeley Haas School Social Venture Competition
Finalist, Grameen Foundation Pioneer Award



SKS MICROFINANCE
301, 3rd FLOOR BABUKHAN ESTATE
BASHEERBAGH, HYDERABAD 500001
ANDHRA PRADESH, INDIA
TEL +91.40.2329.8131/41
FAX +91.40.2329.8161

SKS FOUNDATION
P.O. BOX 6058
CHICAGO, IL 60680 USA
TEL 312.498.5298

EMAIL INFO@SKSINDIA.COM
WWW.SKSINDIA.COM

