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Annual Report 2008

The Dakshana Foundation

2010) • **Deepak Kumar Labh**, East Sikkim, Sikkim (JNV Moregaon, IIT-JEE 2010) • **Ankush Lahane**, Amravati, Maharashtra (JNV Pune,
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 u & Kashmir (JNV Ludhiana, IIT-JEE 2009) • **Manjunath M**, Bangalore Rural, Karnataka (Faridabad Hostel, IIT-JEE 2009) • **Haritha M.**,

Dear Friends:

Dakshana completed its 2nd full year of operations in 2008. It was a year filled with some very solid achievements, a few significant mistakes and tremendous learning. Most importantly, there are over 650 families whose future financial fortunes are in the process of being dramatically improved. Most of these folks somehow survive on less than \$1/day. In a few years, as their most promising young talents graduate from IIT and other top institutes, their present bleak circumstances will only be a distant memory.

This year the annual report has been delayed and yours truly is entirely to blame. However, the delay has meant that we've received the IIT-JEE and AIEEE results for 2008 and 2009 and we've proved that our model works - in spades!

*“Here is a path on the mountainside.
At first there is no path.
But then there are people passing that way.
And there is a path.”*

- Lu Xun

A total of 350 Dakshana Scholars appeared for the IIT-JEE and AIEEE examinations in April 2009. 75 Dakshana Scholars were accepted by IIT and another 154 made it to the IIT-JEE Extended Merit List (EML) which makes them eligible to join some of the best science and technology institutes in the country. And an even larger number did well enough on the AIEEE to get a good slot at a top-ranked engineering institute. It exceeded our best case expectations. Less than 2.5% of the nearly 400,000 students that appeared for the IIT-JEE were successful in getting accepted by the IITs. Dakshana's hit rate was over 21%! Four out of every five Dakshana scholars were either accepted by IIT, had a good AIEEE rank or had earned a place on the EML.

About a year earlier, in April '08, we had our first two scholars take the IIT-JEE and AIEEE. Both did reasonably well in the AIEEE and joined good institutes. More color on the 2008 and 2009 results later.

We had many shortcomings in our IIT-JEE coaching and execution during the last two years. At the outset, we had zero competence in this brand new endeavor. And while we are still pretty new at all this, I am fully confident that our yields will only get better over time - even as we scale up.

With all visceral and direct experiences of the last two years, I remain more convinced than ever that Dakshana's core focus of getting the poorest of the poor accepted as students at IIT and other top institutes in India - and thus lifting families out of poverty is fantastic and right

on. It is an extremely high ROI endeavor with very measurable and tangible results.

“Invest in businesses that an idiot can run because, sooner or later, one will.”

- Warren E. Buffett

Dakshana's core model is so elegant and powerful than even with our numerous mistakes and sub-optimal execution thus far, the results are excellent. In emulating the Super 30 model (www.super30.org) for lifting families out of poverty, Dakshana gained a tremendous advantage. For this I have to thank Anand Kumar, the creator of the Super 30 program. The world is a vastly better place because there are humans like Anand Kumar in it.

I think of these annual reports as chapters of an unfinished book. It is best to start with the first chapter - last year's annual report. You can view it at www.dakshana.org/AR07.pdf. Alternately, you can email me at mpabrai@dakshana.org and I'll mail you a hardcopy. For brevity, I'll assume that the reader has already read the 2007 annual report and perused our website.

I spend most of the year in Southern California sporting a golf shirt and shorts. And I get around in my BMW Convertible. Rough life! I typically get to spend less than four weeks a year in India. Most of the heavy lifting to execute Dakshana's model is done by our energetic CEO, Colonel Ram Sharma and his exceptional team of volunteers and staff. They are the real heroes and I'm eternally grateful for their efforts. Colonel Sharma works for the grand sum of Rs. 1/year and all our volunteers are at Rs. 0/year!

2008 Financial Overview

2008 Dakshana Financial Overview

(In millions of US\$)

Cash and Marketable Securities on 12/31/07:	\$2.8
Scholarships and Overhead Expenses:	(\$1.4)
Contributions by Principals:	\$0.1
Net Investment Gains (Loss):	(\$1.1)
Cash and Marketable Securities on 12/31/08:	\$0.4

Dakshana began 2008 with a very healthy \$2.8 Million in cash and marketable securities. The financial crisis and large equity market drops took its toll on Dakshana's resources. We incurred about \$1.1 Million in realized and unrealized losses in 2008 and ended the year with \$440,000 in cash and securities. Harina and I contributed \$106,000 to Dakshana in 2008.

In these annual reports, I have taken an atypical approach of not including detailed financials. This has been done for readability and saving a tree or two. US Foundations are required to file Form 990-PF with the IRS every year and the IRS makes these filings public. We provide a link to these public filings on our website (www.dakshana.org/about_us/financials.asp). The Form 990-PF is filed in May of each year for the preceding year and it provides all the detailed financials.

Direct Scholar Expenses

In 2008, we spent \$1.4 Million on our Dakshana Scholar program and related corporate overhead. Of this amount, \$966,000 was spent directly on the Dakshana Scholar IIT-JEE coaching Program and \$470,000 was corporate overhead. Let's examine the scholar expenses in a bit of detail. We have two programs for Dakshana Scholars. The scholars we take on after 10th grade are with us for two years. They stay on JNV campuses and Dakshana provides comprehensive IIT-JEE coaching. We also take on scholars who have finished 12th grade and wish to dedicate a year solely focused on IIT-JEE coaching. These scholars are with us for about a year. However, we provide room and board as well.

During 2008, we delivered the equivalent of 524 scholar years of coaching in the 2-year program at an average cost of \$1500/year or \$3000/scholar. We also delivered 44 scholar years of coaching and boarding in the 1-year program at an average cost of \$4100/scholar. Our blended direct average cost for IIT-JEE coaching was \$3085/scholar in 2008.

That \$3085/scholar includes various mistakes and execution flaws during 2008. For example, we leased scholar hostel space in Bangalore and subsequently decided to base the hostel in Faridabad as our model and plan evolved. That mis-step cost us north of \$25,000 in rent and lease termination charges and is included in these direct scholar expenses.

We are singularly focused on driving our spending per scholar lower, while improving yields and quality. We know that if we had 160 or more scholars at a single JNV (versus 40 presently), our costs would be under \$2000/scholar.

Corporate Overhead Expenses

Our corporate overhead expenses of \$470,000 look extraordinarily high relative to the spending on the scholars. It is high, but unlike many other foundations, the Dakshana Scholar program is a direct program run by Dakshana. We typically do not make grants to other non-profits. We've run these very labor and management intensive programs ourselves. With staff and scholars spread across 10 remote locations including two hostels, the logistical challenges are quite daunting. It does involve considerable infrastructure and staff to

execute. Nearly 2/3 of the overhead expenses comprises of staff payroll, benefits, recruiting costs, office setup expenses and travel. We have plenty of travel by staff to the various centers to monitor coaching quality and engage with the scholars. Many of the expenses that we conservatively characterize as overhead could easily be considered core program expenses.

This corporate overhead averaged out to \$828/scholar/year. Our fully loaded was around \$4000/scholar in 2008. We have learnt a number of lessons and have made a number of changes to our model to bring these costs down while improving on the already incredible success rate. By the end of 2009, I expect our fully loaded cost per scholar to be around \$3000/scholar - including corporate overheads. And corporate overheads should come in at under \$600/scholar. We'll try hard to drive both numbers lower in the years ahead.

*“Eikh sohneh ki eenth pighaltee hai
toh eikh bachha bada hota hai.”*

English Translation:

“When a brick of gold melts, a child is raised.”

- Dr. Harbans Gogia
(Mohnish's late maternal grandmother, 1978)

Cost to produce an IITian

We know that our all-in cost to prepare a student for the IIT-JEE was \$4000 in 2008. And we also know that our yield was about 21%. It thus cost Dakshana about \$19,000 to produce an IITian. While this number is over-stated as it does not measure the tremendous opportunities we've created for our other 275 scholars to get a great quality education, it is a good metric to measure annually. Besides driving the \$4000 number lower, it is critical that we drive the \$19,000 number way lower.

This \$19,000 can be exchanged for over a pound of pure gold presently. That's a nice little brick of gold. And when you add in what the JNV and IIT systems spend on our gifted scholar, it becomes a pretty large brick. My grandmother was a wise old lady and she got this right! We were enjoying the perfect warmth of a Delhi winter morning sun on the balcony of my parents' home over 30 years ago when she laid this factoid on me.

Program Cutbacks and Changes

With \$440,000 in cash and investments on January 1, 2009, Dakshana's financial resources are fairly limited versus a year ago. Additionally, near term prospects for major contributions from Harina or me seem unlikely. You'll recall that Harina & I donate 2% of our net worth to

Dakshana every year - as long as we're worth over \$50 Million at the end of any given year.

The financial crisis took a significant toll on our wealth as well. We ended the year with a networth of well under \$50 Million. Based on this algorithm, we were expected to contribute \$1.1 Million in 2006, \$1.3 Million in 2007 and zero in 2008. So far we have contributed over \$4 Million to Dakshana - about \$1.6 Million above our pledged formulaic annual contributions. We hope to adjust this "surplus contribution" in the years ahead and keep funding Dakshana per this simple algorithm. However, it does not appear likely that we will be large donors in 2009. It is possible that we'll back on track in 2010 or 2011.

As an aside, there are much worse problems in life than "... a networth below \$50 Million." We both feel incredibly blessed on all fronts, including financial well-being.

Dakshana Begins Accepting Donor Funds and Gifts

After our great IIT-JEE results, we opened up to accept outside donors. Dr. Ajay Desai of Bakersfield, California became our first outside donor, contributing \$25,000. I am very grateful for his generous gift. We will be working on building our fund raising capabilities and competency. Outside donors and Dakshana's alumni contributions could be quite meaningful in the years ahead.

My dad always taught me that in business always hope for the best, but plan for the worst. Worst-case planning means assuming that we'll have virtually no inflows for a multi-year period. Against this backdrop, our number one priority is to fully support the existing scholars through their entire IIT-JEE coaching - until April 2010. Our committed expenses till then are expected to be around \$275,000. And I write this (June 1, 2009), we have about \$170,000 in cash and investments. Harina and I will make additional contributions as necessary to cover any shortfalls towards Dakshana's Scholar program. And we believe donor funds and investment gains are likely to reduce this gap substantially. The situation is very stable.

We have been very transparent with JNV management about our recent resource constraints and they have been most accommodating. They requested us not to freeze the program, but rather to take atleast a limited number of scholars annually, so the program continues and the most promising JNV graduates can make it to IIT. We agreed to this request and intend to take atleast 40 scholars annually. This will mean an additional committed expenditure of about \$100,000/batch. Again between donors, Harina and me, I believe we've got this covered.

Adversity and Challenges are Good

If I could go back and change one thing about Dakshana's past, I'd reduce the number of scholars we took on in 2007 and 2008 to be around 40. This would have given us most of the data and learning we got with the 300-odd scholars, but with substantially less waste. The good news is that, even with all the inefficiencies and mistakes, the results are very acceptable - and actually quite remarkable. And some 570 additional impoverished families did get helped from 2007-09.

The availability of millions of dollars of funding to a startup is usually a bad thing. It simply amplifies most of the inevitable mistakes. I learnt this lesson in spades in the business world about a decade ago and am not at all pleased with myself for not having extended those painful lessons to Dakshana. Making the same major mistake twice is inexcusable.

I believe our present constrained resources are actually wonderful for Dakshana's long-term future. While we have enjoyed some good success, we have identified several flaws in our execution that we've begun to fix. It has forced us to hunker down and be as efficient as possible in our core objective of permanently lifting impoverished families from poverty.

Restructurings are very painful. Dakshana has either accepted the resignations or terminated the services of all our legacy faculty and staff. All were given plenty of notice. All but two members of our team (of over 30 individuals) has moved on successfully to their next endeavor. And I believe these last two folks will land on their feet soon enough as well. Both have plenty of skills and talents that would be attractive to a wide range of organizations.

All our IIT-JEE coaching has been fully outsourced. We have dramatically reduced overhead expenses and have brought on board Colonel Ram Sharma as our CEO. He is supported by some exceptional Dakshana Fellows and volunteers, including Ms. Reema Mukherjee Shachindra Gautam. In addition, we have an impressive cadre of volunteers and board members who have been critical to our success. Our total payroll expenses, going forward, are expected to be under \$10,000/year.

We closed our office and hostels in Faridabad (Haryana) in April 2009 and have relocated our very trimmed down operations to Pune (Maharashtra) where Colonel Sharma and over 40 Dakshana Scholars are based.

Building a Solid Foundation for Dakshana

The events on 2008 have impressed upon me that Dakshana needs to have resources that allow it to weather storms that are even more severe than 2008 without any hiccups. We intend to build up Dakshana's assets and investments over the next few years by spending a small (but meaningful) fraction of our assets annually. This will give Dakshana a very substantial margin of safety whereby:

1. Outlays range from 10-25% of its corpus.
2. The corpus builds with 2% of networth contributions from Harina and me.
3. The corpus further builds with contributions from independent donors.
4. In a few years, Dakshana's affluent alumni begin making contributions.
5. Dakshana's investments can be held for several years, allowing for the potential for substantial returns.

As all the various engines kick into gear, I am hopeful that Dakshana can help an increasing number of impoverished families year after year and grow substantially. And while it grows, it has the resources to withstand serious storms without cutbacks. At the same time, Dakshana

will endeavor not to spend less than 10% of its assets annually. And as long as it can do so effectively, it should not hesitate to increase that number to be as high as 25%. This will ensure that we do not become focused on simply growing our resources at the expense of truly helping society. A spending range of 10-25% feels "Goldilocks" right. Not too small and not too large.

2009 IIT-JEE and AIEEE Results

The 350 Dakshana Scholars who took the IIT-JEE in '09 were prepped by us at 9 different locations and parsing the data is instructive.

	GEN	OBC	SC	ST	PC	PT	PD	IIT-JEE TOTAL	EML	DNQ	TOTAL
1 Kota	0	0	0	0	0	0	0	0	4	1	5
2 Ludhiana	0	0	0	0	0	2	0	2	10	23	35
3 Bangalore	6	1	2	0	1	0	0	10	21	9	40
4 Bundi	5	2	2	1	3	2	1	16	17	7	40
5 Cuttack	2	1	7	0	0	1	0	11	21	7	39
6 Lucknow	0	0	2	0	1	0	0	3	25	12	40
7 Pune	5	2	1	1	1	0	0	10	14	21	45
8 Ranchi Faridabad	1	0	0	0	0	0	0	1	13	24	38
9 Hostel	5	3	7	2	3	2	0	22	29	17	68
TOTAL	24	8	21	4	9	7	1	75	154	121	350

Legend:

GEN	General IIT-JEE Merit List
OBC	Other Backward Classes IIT-JEE Merit List
SC	Scheduled Caste IIT-JEE Merit List
ST	Scheduled Tribe IIT-JEE Merit List
PC	Preparatory Course for Scheduled Caste IIT-JEE Merit List
PT	Preparatory Course for Scheduled Tribe IIT-JEE Merit List
PD	Person with Disabilities IIT-JEE Merit List
EML	Extended Merit List
DNQ	Did not Qualify in the IIT-JEE

While Dakshana achieved a 21.4% hit rate of scholars being accepted by IIT, one sees wide disparity in the batches. 40% of the scholars from Bundi made it while 0% from Kota did. In fact, the blended hit rate of the top 4 locations was 30% while the blended hit rate of the bottom 4 locations was just 5%.

We know exactly what the problems were at the poorly performing locations and they have mostly been fixed. The main issue was poor delivery by the IIT-JEE coaching vendors. We also had a number of issues with the Dakshana faculty at these locations, including absenteeism, unfilled vacancies and a lack of passion for our mission. We did not do justice to these scholars and I'm sorry about it. The good news is that it is not too hard to improve on our already impressive yields for future batches - and we are fully on top of it.

*"If you don't like the way the world is, you change it.
You have an obligation to change it.
You do it one step at a time."*

- Marian Wright Edelman

Scheduled Tribes (ST)

The IITs have various quotas to tackle social injustices done to the lower castes over millennia in India. Scheduled Castes and Tribes make up about 20% and 9% of India's population respectively. The IITs have quotas of 15% and 7.5% respectively for these two disadvantaged groups.

We coached a total of 15 ST scholars. All but one of these scholars either made it to IIT, the EML or a very good rank in the AIEEE. All in all, we are batting with a 90+% hit rate on our ST scholars. That is incredible considering the 5% yields at nearly half the centers.

Scheduled Castes (SC) - The Dalits

Of the 350 scholars, 56 were SCs. 30 of the 56 got accepted by IIT - a hit rate of over 50%. Another 14 made it on the EML. And nearly all 56 did well enough on the AIEEE to get a seat at a good engineering institute in their home state.

While Dakshana's best centers had a 30% yield of producing IITians, 50-75% of our SC/STs got accepted by IIT. And well over 90% of this group ended up either at IIT or another well-regarded institute.

Ashkenazi Jews and India's SC/STs

Psychometric studies have recorded people of Ashkenazi Jewish descent as having higher mean IQ scores than any other ethnic category. While Ashkenazi Jews represent less than 2% of the US population, they have won 27% of the US Nobel Prizes in science, account for 20% of country's CEOs and make up 22% of Ivy League students. Why is that?

Well, European Jews were forbidden to work in many common jobs, such as agriculture, of the middle ages from 800 to 1700 AD. They thus worked, in high proportions in professions such as finance and trade - some of which were forbidden to non-Jews by the church. Those who performed better are known to have raised more children to adulthood, passing on their genes in greater proportion than those who performed less successfully.

While it is politically incorrect to go there, deliberate genetic selection can produce strong variations in relatively few generations. Consider the wide variety of Darwin's finches on the Galapagos Islands. All hail from the same ancestor, are about the same size and color. However, there are dramatic differences in the size and shape of their beaks. The various Galapagos Islands offered up widely differing terrain and food for the finches and their beaks adapted accordingly to ensure survival. Created over millennia, these differences were clearly visible by the time Darwin showed up in the Beagle.

With the Ashkenazi Jews, not only did the brightest ones become wealthy and have more kids, they tended to marry women from similarly placed families (with bright parents). And the deltas this created are clearly visible in just a few generations. Shifting the IQ bell curve even slightly to the right creates huge deltas in the highly intelligent - as we've seen with the Ashkenazi Jews.

In India, the SC/STs or the untouchables are the lowest castes. For millennia, they have been assigned the most menial tasks (garbage disposal, carcass handling, human and animal waste disposal etc.). A large cross-section of Dalits (Scheduled Castes) were bonded workers and work in slave-like conditions to pay off debts that were incurred generations ago. In rural India, the Brahmins, at the top of the caste system, have denied this group any opportunities at an education or advancement for generations. SC/STs can typically only marry among themselves. And they have more kids, on average, than the rest of the population. In India, we see the Ashkenazi effect in reverse - the affluent have fewer kids and the impoverished SC/ST have many. As a result, while India's population has more than tripled in the last half-century, the growth of the SC/ST population has been even higher.

India's SC/ST population exhibits the impact of controlled genetic selection as well - similar to that of the Ashkenazi Jews. The SC/ST population comprises a large mosaic of very small, geographically and culturally isolated groups. Thousands of years ago, humans in India were stratified into rigid castes with zero mobility. The Brahmins became the scholars and the priests. They married within themselves and all the genetic and environmental factors have been honed over millennia to only produce scholars and priests.

At the other end of the spectrum are the Dalits. At some point they were selected to be the lowest ranking group and not given any access to an education, knowledge or even a decent human existence. Each group of Dalits, like the Ashkenazis, is a small group forced to marry within itself. The Dalits could only marry Dalits and Dalit children remained illiterate for millennia, surrounded by illiterate Dalits as role models. The main difference is that this, illiterate marrying the illiterate, has been forced upon them for a much longer period than for the Ashkenazi Jews.

It is not hard to see that, after millennia, this group would have some trouble meeting the high IQ standards of IIT. I suspect that if IQ tests were conducted for the SC/ST and general populations, the SC/ST averages would be meaningfully lower than the general population. The IIT-JEE results give us a peek at the disparity. In the IIT-JEE 2009, less than 1 out of every 100,000 18-19 year old STs in the country made it to IIT without quotas versus more than 1 in 600 GEN category kids of the same age making it to IIT. The contrast is alarming.

One can argue that part of this delta is caused by genetics and part by environmental factors. The proportion of the ST population that finishes high school is much lower than the general population. Not only does the ST population have a lower IQ, they have very limited access to any type of quality education - starting with pre-school and elementary school. Regardless of the genetic or environmental causes here, it is clear that action needs to be taken to correct this timeless injustice.

*“Few will have the greatness to bend history itself;
but each of us can work to change a small portion of events.
And in the total of all those acts
will be written the history of this generation.”*

- Robert F. Kennedy

There is a Free Lunch for Dakshana - Focus on the SC/STs

The facts are:

- Scheduled Castes and Tribes make up about 30% of India's population.
- 90+% of SC/STs live in rural India where caste-based discrimination is rampant.
- Rural India is vastly more impoverished than Urban India. The India growth story is limited to a few states and urban areas. Rural India has mostly been left out.
- SC/STs families, on average, are much poorer than GEN/OBC families.
- Illiteracy among the SC/ST population is much higher than GEN/OBC families.
- Nearly ¼ of IIT seats have to go to SC/STs.
- Only 15 ST students would be accepted by IIT annually if there were no quotas.
- Less than 100 SC students would have been accepted by IIT if there were no quotas.
- By 2011, the IITs will have 2250 seats allocated for SC/ST students.
- The JNV system graduates over 10,000 SC/STs annually.

Dakshana cannot do much about the genetic issue. That took millennia to cause the negative deltas and it will take millennia to rectify. This damage continues to be inflicted. It will only be eliminated as large portions of the SC/ST population moves to urban areas.

If Dakshana were to truly focus on social justice, we should gravitate towards a focus on rural, illiterate, impoverished SC/ST families. If we can identify the brightest SC/ST students, we can minimize the negative environmental factors. If this group can be properly groomed for the IIT-JEE and AIEEE, we would be lifting the most deserving families from poverty. Since Dakshana operates at the extreme right hand tail of the bell-curve and we just take a handful of scholars on annually, it is possible that we can eventually get top-flight SC/ST talent into IITs that is nearly on par with the rest of the students.

The Lower Middle-class Games our System

It is very hard to ratify household income for most families in India - especially rural India. Dakshana has historically set a limit of Rs. 7000/month (about \$150/month) as the maximum household income for our scholarship. We have relied on voluntary disclosure so far. The JNVs are rural, residential schools that provide very basic facilities and food. It is very unattractive for most affluent families to endeavor to send their kids to JNV. Since all our scholars come from the JNV system, the odds that we have affluent families taking Dakshana for a ride approaches zero.

It is, however, very attractive for impoverished and lower middle-class families to seek admission. None of these families would have seen their kids go to IIT had Dakshana not stepped in. Nonetheless, lower middle-class families are keenly interest in participating - even though they don't fit our charter. Some of them have been gaming our system. That is a problem that we're well on our way to solving for future batches.

Learning from GEICO

GEICO is a very successful car insurance company based in the United States. It is a subsidiary of Berkshire Hathaway and I am a GEICO customer. GEICO does not use insurance agents or retail locations to write policies or service customers. They do it via the phone or the internet. Their tag line is, "A fifteen minute call can save you 15% on your car insurance." GEICO needs to be really good at screening out bad risk drivers. But it also needs to make it easy for good risk drivers to sign on. And they cannot spend a lot of time or money on their screening before they give a quote.

So, they have to take statistical shortcuts. They know that teenagers have much higher accident rates. And they know that typically government employees are safe drivers who generate few claims. Similarly, they know that the odds of a car being stolen is largely a function of geography and zip code. They ask a bunch of questions (within 15 minutes), feed it into a computer and out pops a quote.

GEICO's success depends on over-weighting important factors that are unlikely to be gamed. For example, miles driven per year may be understated by the potential customer. It thus gets underweighted - even though it is an important variable. On the other hand, driver data from government sources (e.g. speeding tickets) is likely to be very accurate and given more weight.

At Dakshana, we can learn a thing or two from GEICO. We also need a scholar selection process that cannot be gamed easily. It needs to be robust, cheap and fast. If GEICO wanted to be 100% sure that they have insured a good risk, they could not do it in 15 minutes or even 150 minutes. They must take short-cuts and rely on statistics and probabilities.

Here are some of the filters we intend to apply for future scholar selection:

- Must be a student of JNV. Eliminates the affluent and upper middle-class.
- Preference to the highest 10th Standard Science and Math Board Scores.
- Preference to the highest Dakshana Selection Test Scores.
- Selected students must be SC/ST.
- Preference to students of illiterate parents.
- Preference to students from families of laborers or poor farmers.
- Preference to rural families.
- Preference to families from the 100 poorest districts in India.
- Stated income must be under Rs. 5000/month.
- Preference to families who pay zero fees to JNV (below poverty line).

Most of the above factors (e.g. JNV student, board results, selection test results, district, SC/ST, home address, occupation etc.) are very difficult to game and will get high weightage. Others like family income or parental education will get lower weightage. It is highly unlikely that a rural SC/ST kid from one of the poorest districts in India is from a lower middle class background. She is likely from an illiterate family living well below the poverty line. We will be drilling down in this area over the years ahead and hope to get better (and faster) over time.

The free lunch here is that because of the government-mandated SC/ST quotas, we are likely to have high success.

When we successfully send a SC/ST scholar to IIT, several things happen:

- She will eventually move most of her origin family to an urban area.
- She is likely to marry well - shattering caste barrier
- One extended SC/ST family is permanently lifted out of a wretched existence.

We will generate some of the highest ROIs imaginable of any charity program I can think of. Zeros will be converted into heroes in droves. Stay tuned on how we do on this front in the years ahead.

"I constantly see people rise in life who are not the smartest, sometimes not even the most diligent, but they are learning machines. They go to bed every night a little wiser than they were when they got up and boy does that help, particularly when you have a long run ahead of you. Nothing has served me better in my long life than continuous learning."

- Charlie Munger

Dakshana - A Continuous Learning Machine

Dakshana is fully committed to being a continuous learning machine. When we began figuring out our strategy and direction in 2005, I knew very little about operating a non-profit. And when we started setting Dakshana's focus in late 2006, we barely knew how to spell IIT-JEE. We had never heard of the JNVs. We didn't understand much about the IIT-JEE SC/ST quotas and how they worked or even much detail about the plight of India's Dalits. And starting any operation remotely in India has its own set of challenges. Today, with over four years of thought and two years of execution under our belt, we've learnt a tremendous amount - although we still remain relative novices. The key is to keep putting one foot in front of the other and continuing to learn.

As Warren Buffett says, giving money away effectively is much harder than making it. We were thus prepared to make lots of mistakes, but that we needed to be an efficient learning machine and gradually reduce the error rate while becoming better at the core mission. For example, this year about 21% of our scholars made it to IIT. In 2010 I expect the number to exceed 50%.

Dakshana is now a well-established brand in the minds of hundreds of thousands of JNV students and being named a Dakshana Scholar is a big deal. We're leveraging this fully. We used to invite JNV principals to send kids who had done well in their 10th grade board exams to appear for our test. Our scholars came from less than 20% of the JNV schools. And a few schools dominated. This year we additionally invited the most promising kids from all the schools directly and posted selected scholars names on our website. This has led to much wider participation and a vastly better pool to draw from.

I believe our scholar selections in 2009 will be of the highest quality so far and we are hoping that from 2011 onwards our hit rates with producing IITians exceeds 90%.

2008 Results

We've discussed our 2009 results at some length in the last few pages. Let's explore our 2008 results as well. Two Dakshana Scholars gave their IIT-JEE in 2008. They were Shashank Dube from Jabalpur (Madhya Pradesh) and Bhanu Upadhyay from Golaghat (Assam). You'll recall that Shashank is the son of a deceased paan-wala (street tobacco vendor) and Bhanu's father is a wheel-chair bound teacher.

Both Bhanu and Shashank relocated to Kota in Rajasthan. Dakshana enrolled Shashank at Bansal Classes and Bhanu at Insight IIT-JEE coaching institute. Neither was successful in their IIT-JEE attempt. However, both did quite well on the AIEEE.

AIEEE

All Dakshana scholars are also prepped and encouraged to take the All India Engineering Entrance Examination (AIEEE). Like the IIT-JEE, the AIEEE is used as a means of granting admission to over fifty top engineering universities and institutes throughout India. Many of these institutes, like the Birla Institutes of Technology (BIT) and National Institutes of Technology (NIT) are world-class and nearly on-par with the IITs in academic excellence.

There are a large number of students who get accepted at IIT every year who decline joining IIT and instead join one of NIT or BIT etc. They do so for many reasons, but primarily due to preferences for field of study or location. If you get Rank 7000 in IIT-JEE, you'll be admitted to IIT-JEE, but may be forced to select Mining Engineering as a major. Since the number of seats among the fifty institutes is much larger than IIT, you could get Computer Science at a top-rated NIT - and many students prefer getting a more desirable field of study over the IIT brand.

Bhanu got admitted to NIT Silchar (Assam) and Shashank got accepted at Maharashtra Institute of Technology (MIT) in Pune (Maharashtra). Both are very well regarded schools. And both are highly likely to lead vastly more affluent lives than their parents. The banking sector stepped in with student loans for both Shashank and Bhanu.

Bhanu is thrilled to be attending a top-ranked engineering school in his home state of Assam. Bhanu also happens to be our first scholar from Jawahar Navodaya Vidyalaya (JNV). He finished his 12th grade exams and attempted the IIT-JEE and AIEEE for the first time in 2007 and didn't make it. Then he came to Kota, spent a year getting coached and ended with a wonderful result.

Lessons Learnt

We have learnt a tremendous amount from the journey we took with both Bhanu and Shashank. None is happier than me at their success and accomplishments. There were many unknowns when we took on Bhanu and Shashank. Shashank got accepted as a Dakshana Scholar in April 2007 - before we even had an office or any presence in Kota.

We did not have any competence in screening for intellect, knowledge or poverty when we accepted Bhanu and Shashank. Shashank was accepted because he had cleared the Bansal Classes selection test. With Bhanu there was a bit more rigor. We had Insight administer a screening test for Bhanu and a few other candidates. Bhanu was the only one among a handful to clear Insight's test. Their success demonstrates the power of the Dakshana model. As well as both are likely to do in life, neither would likely have been accepted as a Dakshana Scholar today. The bar is substantially higher.

Both Bhanu and Shashank happen to be from states in India that are not part of the India growth story. They've been left behind. Another secondary benefit of Dakshana's model is that by successfully harnessing the tremendous raw human talent in the most economically backward regions in India, we are eventually aiding in the development of those states.

You can lead a perfectly happy life if you skip the next three pages of commentary in this annual report. It delves into the bowels of the IIT-JEE coaching industry. My driver for writing this section was to expose the underbelly of IIT-JEE coaching. I'm hoping that a few affluent parents interested in getting their wards coached for the IIT-JEE will read the next few pages and be vastly better off as a result.

On Mistakes and Rip-off Artists

Dakshana has made a number of mistakes as we executed our giveback model. We got taken for a ride by a plethora of folks and organizations who exhibited low ethos and tried to rip us off as much as they could. The good news is that even with these mistakes and rip-offs, the model delivers the goods. We learnt an incredible amount from these mistakes. Fool me once, shame on you; Fool me twice, shame on me. The rip-off artists taught us a bunch. Dakshana's future endeavors will be that much more efficient and better as a result. I'm grateful to them for the invaluable learning.

As an aside, I used to believe that the greatest challenges Dakshana would face in India would be dealing with the government bureaucracy and corruption. In fact, the government came through for us and delivered - in spades. I love the Indian government. On the other hand, some of the coaching institutes, landlords, a few vendors and several our own employees and faculty disappointed us. They created some of the biggest challenges and road blocks. And some just blatantly ripped us off.

Higher Education Policy in India and IIT-JEE Coaching

In India, more money is spent on IIT-JEE coaching than on the IITs. In general there are very few college seats in virtually all disciplines and a large number of aspirants. The end result is a sheer waste of brains and resources. Higher Education is tightly regulated by the Indian Government. It is virtually impossible to setup a private degree granting institution. With one stroke of the pen, if the government fully deregulated higher education, resources would flow from coaching to colleges. And the country and the world would be vastly better off.

One needs to trust in Adam Smith's invisible hand and let employers and the free market sort it all out. Indian policy makers and planners ought to study and replicate the US or the Brazilian model. They are among the very best in the world - and the most lightly regulated. In India, shoddy operators would eventually go under because both potential students and employers would shun them.

Let's consider the case of one of the top-rated IIT-JEE coaching institutes that we'll keep anonymous. For our purposes we'll call them "Extract IIT-JEE Coaching." In 2008, Extract sent over 1600 students to IIT. One in five students admitted to IIT came from Extract. It is a stunning statistic. In order to be admitted to Extract, one has to clear their proprietary selection test. When we were told that one of our scholars had cleared the Extract test, it obviously sounded like his prospects for joining IIT were pretty good. His family could not afford the coaching and Dakshana stepped in with a Dakshana Scholarship. Our direct cost for supporting him was \$3000. Roughly half this amount went to Extract as tuition fees.

Here is what Extract does not tell you. Each year they admit over 13,500 students to their institute. This topline statistic implies that roughly 12% of Extract's students make it to IIT. In 2008, 310,000 students took the IIT-JEE and 8,600 were admitted. That's a success rate of less 3%. Extract does seem to quadruple one's odds of making it.

But headlines can be misleading. IIT veterans will tell you that serious IIT aspirants - students who have truly prepared for the exam and burnt the midnight oil - are less than 100,000. This fact is borne out by the fact that well over half the IIT-JEE aspirants score less than 2% on the test (a score of less than 9 out of 486). So the real apples to apples comparison is that Extract has a 12% hit rate and a bright, hardworking student who attends a half-way decent coaching institute has a 8% chance of making it to IIT.

But here is the real kicker. Extract ranks these 13,500 students based on their selection test, but they do not inform the students of their rank until after all fees for the full year have been collected. There is an extremely strong correlation between performance on the Extract selection test and final selection in the IIT-JEE. Extract ranks these students from 1 to 13,500 and puts them into specific batches.

These batches have names like A1, A2 ... A26, P1, P2, ... P26, X1, X2 ... X26 etc. Rank 1-75 would go into batch A1, rank 76-150 into A2 and so on. After the first 2000 or so ranks, the batch size increased eventually to 150 students in a single classroom.

Extract management knows that if you are ranked 1-1000, you have a 70+% chance of going to IIT. Of Extract's 1609 selections, roughly 80-90% will come from the top 2000 selection test rankers. Here is a likely table of probabilities:

Extract Selection Test Rank	IIT-JEE Selection Probability
1 - 1000	70%
1001 - 2000	50%
2001 - 4000	10%
4001 - 8000	3%
8001 - 13,500	<2%

If Extract and the other coaching institutes truly wanted to run their businesses in an above-board manner, they'd publish these historical correlation statistics on their website and give the students their selection test rank and probability of success at IIT before collecting their tuition fees. Some 9500 students that are admitted by Extract have a less than 3% chance of making it to IIT- even after being rigorously coached for two years and burning the midnight oil. The Indian Government has virtually no regulation on the coaching industry. A simple change in the laws forcing coaching institutes to give pro-rata refunds anytime a student requests it would fix much of this problem.

Extract tests its students frequently and circulates cumulative ranks to the students. Students get moved to higher or lower ranked batches based on their cumulative rank. However, the selection test is a strong indicator and it is unlikely that a student who scored near the top in the selection test consistently performs poorly in subsequent test and gets relegated to a bottom 150 student classroom. There is a wide disparity in faculty skills and pay as well. The top faculty only teaches the top-ranked batches. I agree with the institutes giving their most promising students the best resources, but this should be disclosed upfront.

At issue are not just the fees. Students who have finished 12th grade face a choice between dedicating a year to IIT-JEE prep and joining a 2nd tier engineering school. Many may have done well on the AIEEE and been admitted to a NIT. These students who rank between 4000 and 13,500 have a less than 1 in 30 chance of making it to IIT. If they knew that upfront, most families would take a pass on sending their kids to Kota. Extract's revenues would drop by over 50%.

Secondly, these kids are relocated to Kota at a very precarious age and, for the most part, have no adult supervision. Very quickly the overwhelming majority these students get depressed and dejected. They know they will not make it to IIT. They can't go back as the fees have been paid and their parents have been sold the same bag of goods that Dakshana was with Shashank. The result is a very high rate of teen suicides in Kota. On any given nite Kota's internet cafes, video game arcades and other teen hangouts are chockfull of students who have given up on IIT and simply party it up for their year or two at Kota.

India's tightly regulated education market actually aggravates the situation. Extract and the other IIT-JEE coaching institutes are actually good at imparting knowledge and doing intense and thorough testing. They should be allowed to setup engineering colleges and grant degrees. Since they'll capture the revenue anyway, they would counsel the folks who have no chance of making it to IIT to simply join their college.

The Extract students fall into three broad categories. Students can join Extract after finishing 10th grade and go through 2 years of IIT-JEE preparation along with their 12th grade board exam preparations. This category constitutes roughly 45-50% of the total Extract student body. One can also prepare for the IIT-JEE after finishing 12th standard and taking a year off to prepare. This category constitutes roughly 40-45% of the total Extract student body. And finally Extract admits students after 11th grade as well for 1-year of IIT-JEE preparation. This category comprises the smallest minority of students.

Preparing for the IIT-JEE along with the 12th board exams is quite challenging. The boards are held 2-3 weeks before the IIT-JEE. One also has to prepare for and clear the practical exams and non IIT-JEE subjects like English and Biology. One needs to focus fully from January through March on the board exams and practicals. Then it's back to the IIT-JEE preparations.

Students who have finished 12th grade have already been taught the entire curriculum and can focus 100% on IIT-JEE. For a student starting at Extract after completing 11th grade, the odds of success at IIT-JEE are stacked against them. The coaching starts in April and comes to an end in December so students can prepare for board exams, practicals etc.

I suspect the IIT selections from Extract's 11th grade pass 1-year program are vastly lower than the other two programs. It is simply a money maker for Extract with an ultra-low success rate. The major lessons we learnt are:

1. Never take on a Dakshana Scholar after 11th grade for 1-year of IIT- prep.
2. Never take on a Dakshana Scholar because they have cleared any IIT-JEE coaching institute's selection test. It does not mean much without the detailed scores, ranking and past history.

There are some wonderful folks in the IIT-JEE coaching industry and this industry has built some really solid capabilities. It would be wonderful if the laws were changed so that many more colleges opened up and these capabilities can be fully leveraged to create a win-win for the institute, the student, the employer and India. An emerging nation like India should not be wasting its very limited per capita human resources in this manner.

Lunch with Warren Buffett

In June, 2007 Harina & I were delighted to win the annual charity auction to have lunch with Warren Buffett. You'll recall Dakshana contributed \$433,400 to The Glide Foundation towards this missive.

Well, on June 25, 2008, Warren sat down for three uninterrupted hours and broke bread with Guy Spier, his wife Lory, my family and me. It was the experience of a lifetime and I was very thrilled to share it with Harina and my daughters. Warren arrived with large bags of gifts for both the girls. It included custom M&M's with his picture on them!

I had sent Warren a copy of Dakshana's 2007 Annual Report, asking him to try to browse it before the lunch, if his schedule permitted. I wanted Warren to be fully aware of Dakshana's background, so I could get right into the guidance and direction I was seeking. He had read the report cover to cover before we met. Said he loved it so much that he sent copies to Bill Gates and Charlie Munger. Warren liked everything about Dakshana and was very helpful in guiding me with some "fork in the road" kinda issues related to Dakshana. Here are a few media links related to the lunch:

Interview on CNBC: <http://www.cnbc.com/id/25376299/>

Article in TIME Magazine: <http://tinyurl.com/5zh42k>

NPR Interview: <http://tinyurl.com/mqoutm> and <http://tinyurl.com/mxr6ek>

Lunch with Charlie Munger

When Harina and I met Warren Buffett for the Glide charity lunch last year, he offered to arrange for us to break bread with his partner, Charlie Munger. Needless to say, we were elated to get this unexpected bonus from Warren. The Munger lunch took place on June 9, 2009 in Los Angeles and we had a wonderful time with Charlie. Both Warren and Charlie were surprisingly warm, incredibly gracious and amazingly generous with their precious time. At 3 hours and 17 minutes, the Munger lunch went on for even longer than lunch with Warren. The topics at both meals covered the waterfront.

I feel incredibly blessed. I happen to be alive when my heroes are alive. Neither lives very far from me. And one of them was willing to accept a bribe to meet up and share a meal. The second one cannot be bribed, but agreed to while away an afternoon with us anyway. Lunch with Warren and Charlie will always be among the most exciting experiences I've had. The boy from Bandra in Mumbai never expected life to turn out so well.

“Entrepreneurs recognize and pursue opportunity without regard to the resources they currently control. They find creative ways to acquire the resources to achieve their goals.”

- Robert Reiss

The Road Ahead

We will be experimenting with Distance Learning for the first time. The idea is to keep getting better. We now know that through the JNV system at least 1000-2000 kids a year can make it to IIT if they are properly identified and coached. We have highlighted this to the highest levels of the Indian government and working on creating a platform that sends thousands of kids a year to IIT from JNV. I am very confident that within a few years this will be reality- even though our present resource constraints suggest otherwise.

“Gentlemen, make no little plans; they have no magic to stir men's blood ... Make big plans ... aim high in hope and work.”

- Daniel H. Burnham, Urban Planner for The City of Chicago
(1846 - 1912)

I am very excited to set a stretch goal for ourselves: **2020 by 2020**. In the Year 2020 I'd like to see at least 2020 JNV grads be accepted by the IITs. They need not come through Dakshana. Indeed, Dakshana may have a totally different focus by then. They could be coached for free by other coaching institutes. JNV themselves may be doing IIT-JEE prep on a large-scale at dedicated campuses. Some JNV students may have leveraged distance learning and a few lower middle-class ones may even have paid for coaching. Regardless, when we add up the numbers we want to be above 2020 in the year 2020 entering IIT from the JNV system. When we accomplish this, one in every 5-8 IITians will be a rural transplant from the JNV system.

*“But of the best leaders,
when the job is done,
the task is accomplished,
the people will say:
We have done it ourselves.”*

- Lao Tzu

Dakshana's role in all this is not worth fixating upon. We do not seek to be recognized or to even serve as a conduit to make it happen. We would have been most successful if 2020 go to IIT in 2020 and we are not involved at all. Dakshana also does not have anywhere near the resources today to make this happen. But happen it will. One has to start with a dream. A journey of a thousand miles starts with one step - and we have taken a great first step.

I can already see the resources being brought to bear to make this happen in a few years. JNV students are already being prepped for free to go to IIT without Dakshana being explicitly involved. FIITJEE now runs a Fantastic Forty program for free IIT-JEE coaching that they freely acknowledge was inspired by Dakshana and Super 30. Resonance has just committed to coaching 40 JNV students for IIT at no charge. They studied our model closely. Career Point, TIME and others have expressed a keen interest in offering free IIT-JEE coaching and working through Dakshana to make it happen. All of this is fantastic.

The IIT-JEE coaching industry will be gifting over \$400,000 worth of IIT-JEE coaching a year from 2010 onwards -100% focused on the most promising JNV students. While some of this will be channeled through Dakshana, I believe virtually all of it was inspired by Dakshana (and ultimately by Super 30).

A few decades of sending thousands of kids a year from the JNVs to the IITs would completely transform India and the world in ways we cannot imagine today. This army, whose strength will be in the tens of thousands, will nestle the future heroes we will all look up to. Jai Hind!

Warm Regards,

A handwritten signature in black ink, appearing to read 'Mohnish Pabrai', with a long horizontal stroke extending to the right.

Mohnish Pabrai
Founder & Catalyst

July 20, 2009
Irvine, California.

Team Dakshana

Founders & Trustees

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Chairman, Founder & Catalyst
Managing Partner, Pabrai Investment Funds

HARINA KAPOOR

Founder and Secretary

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AMITABH SINGHI, Director, Amrit Capital

Dakshana Fellows

REEMA MUKHERJEE

Administrative Staff

SIRAJUDDIN ALI, Office Assistant

SANJAY HARICHAND, Chauffeur

Active Volunteers

Ashis Chatterjee, Lt. Colonel P. N. Devikar, Ruchi Durlabhji, Shachindra Gautam, Anurakt Jain (IIT Delhi), Meena Karle, Ashish Kashikar (IIT Kharagpur), Sreedhar Kona (IIT Bombay), Lt. Colonel Ajit Kumar, Karuna Malhotra, Paras Malhotra (IIT Delhi), Manu Midha (IIT Kharagpur), Anand Prakash (Student, IIT-BHU), Inderdeep Singh, Fatima Sayyed Mohammed Ali Shah, Himanshu Tripathi (IIT Bombay), Prashant Tripathi, Rao Tummalapali

Note: Because the IITs are such a critical aspect of the Dakshana ecosystem, we've identified the IIT grads and students among the members of Team Dakshana.

• **Raju A.**, Nizamabad, Andhra Pradesh (JNV Bagalur, IIT-JEE 2009) • **Sebin A.J.**, Kannur, Kerala (JNV Bagalur, IIT-JEE 2009) • **Basav Adhav**, Buldana, Maharashtra (Faridabad Hostel, IIT-JEE 2009) • **Sushil Aherkar**, Beed, Maharashtra (JNV Pune, IIT-JEE 2009) • **Varsh** • **Hasnat Ahmed**, Goalpara, Assam (Faridabad Hostel, IIT-JEE 2009) • **Khurshid Ahmed**, Poonch, Jammu & Kashmir (JNV Ludhiana, IIT-JEE 2009) • **Ankit Anand**, Banka, Bihar (JNV Ranchi, IIT-JEE 2009) • **Kishor C.** Angade, Belgaum, Karnataka (JNV Bagalur, IIT-JEE 2010) • **G** • **Aniket Argade**, Pune, Maharashtra (Faridabad Hostel, IIT-JEE 2009) • **Gampala Babji**, East Godavari, Andhra Pradesh (JNV Bagalur, IIT-JEE 2009) • **Shailendra Singh Baghel**, South Nagar, Madhya Pradesh (JNV Cuttack, IIT-JEE 2009) • **Kuldeep Bair Banjara**, Nagaur, Rajasthan (Faridabad Hostel, IIT-JEE 2009) • **Anil Baraiya**, Amreli, Gujarat (JNV Pune, IIT-JEE 2010) • **Chandan Kun** • **Prajna Parimita Behera**, Bhadrak, 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