

Annual Report 2005

Kashf's Vision

.....Financial services for all!

Kashf's Mission

.....is to alleviate poverty by providing quality and cost effective microfinance services to low income households, especially women in order to enhance their economic role and decision-making capacity.

Table of Contents

President's Message

Compared with the previous year, the market for microfinance has undergone a rapid shift. There has been a marked increase in the number and the typology of players, particularly in terms of the entry of four new microfinance banks. However, despite this new development, scale continues to be a major challenge for the market. An analysis of the Punjab market has revealed that the total number of potential households that can access microfinance is about 5.6 million, with 1.6 million in the urban areas and 4 million in the rural areas. At the same time, the overall market penetration in the Punjab is 12%, implying that 88% of the market is still untapped. Given this scenario, we will continue our efforts to demonstrate scale with sustainability in the sector and ensure access to finance becomes the rule rather than the exception.

This analysis is further exacerbated when one reviews women's access to financial services, in Punjab only 40% of the total clients that are provided access to microcredit services are women; this figure would be much lower if Kashf's numbers were taken out of the estimate. This trend is in stark contrast with other countries of the region, where women are the fore runners of the microfinance movement. We will continue to play a pioneering role in the area of financial services that target women by offering a range of innovative and women focused products. As a result of our commitment to ensuring gender equity in financial services, we were awarded the AGFUND International Prize in Microcredit for 2005.

Our research during this year has highlighted that clients incomes are enhanced with each additional loan provided, in other words the longer the client stays with the programme the greater the impact on poverty. There is an imperative on all MFIs in the sector to ensure long term access to microfinance facilities – however, this is a tall order to fulfill in the sector today. Pakistan's microfinance industry is marred by one of the lowest yields on portfolio any where in the world, which has a direct link to the sustainability of MFIs. Even today Kashf is the only sustainable microfinance institution in Pakistan. Globally there is a concensus that scale and sustainability must go hand in hand and we will continue to adhere to this mantra today and tomorrow.

Furthermore, we will continue our commitment to consumer protection by ensuring that clients are educated about loan features and costs, along with

providing them cost effective and quality services. Client drop outs was a challenge for this year, however, with new innovations and the introduction of flexibility in policies this trend is expected to change over the next year. We also hope to remain at the forefront of ensuring high business and corporate ethics in the sector.

Last but not least, 2005 was also the year of management transition for Kashf, when the organization successfully introduced two new positions, that is, the Chief Executive Officer and the Chief Financial Officer. For me personally this is a great source of pride and I hope that this benchmark of leadership development will become a pioneering opportunity for other MFIs to emulate and will strengthen Kashf as it gears itself for exponential growth in the future.

Roshaneh Zafar, Founder and President

CEO's Message

The microfinance revolution which started in the mid 70's has spread all over the world, demonstrating how people can lift themselves from poverty with tiny loans. It represents an innovative business model to address problems related to poverty. In Pakistan, access remains limited with millions in need of financial services – including credit, savings, insurance, pension and other instruments.

At Kashf, our focus has been on building economic self sufficiency amongst the low income households through providing access to financial services. There were many challenges in the initial years starting with the most basic: making sure that the money disbursed came back on time, to accessing funds and bigger challenges of designing customer friendly products, strong and robust systems, strengthening people and increasing scale of operations. It has been an exciting journey with memorable moments and tremendous learning.

In the year 2005, an array of initiatives were undertaken to focus the organization towards providing sustainable finance to low income households. These included automation of Kashf branches, strengthening of internal audit, development of skills and understanding of staff particularly middle management and introduction of a new financial product for micro entrepreneurs, the Business Sarmaya Loan. Technology will contribute to serving greater number of clients effectively. It will also allow sophisticated analysis and better decision making.

A review of products and services was undertaken taking into account the client's needs, the changing market and flexibilities were introduced. Win Back client initiative was launched to improve customer retention and build loyalty. We will continue to look at ways of improving business effectiveness to ensure an affordable service to our clients. To carry forward our empowerment vision, we completed a review examining our experience and identifying key challenges. Systematic initiatives have been identified including interactive theatre, setting up of gender councils and leadership trainings amongst others to achieve this tall goal.

As we successfully complete ten exciting years and continue our journey with renewed resolve, we are committed to providing quality financial services by keeping our clients as the most valuable asset. We aim to enhance our clients trust in Kashf as a reliable, responsive and the organization of their choice.

With the support of our management team and staff, Kashf intends to reach over 600,000 clients in the coming years. There are plans to start operations in Karachi and to develop new financial products including those for the rural population. Beyond increasing the members of the Kashf family, there is a strong commitment to make lasting impact on our client's life and building a culture of integrity, team work and service. Continuous training and learning are

other core priorities. To meet our challenging goals, plans for the future include development of Kashf's own learning centre.

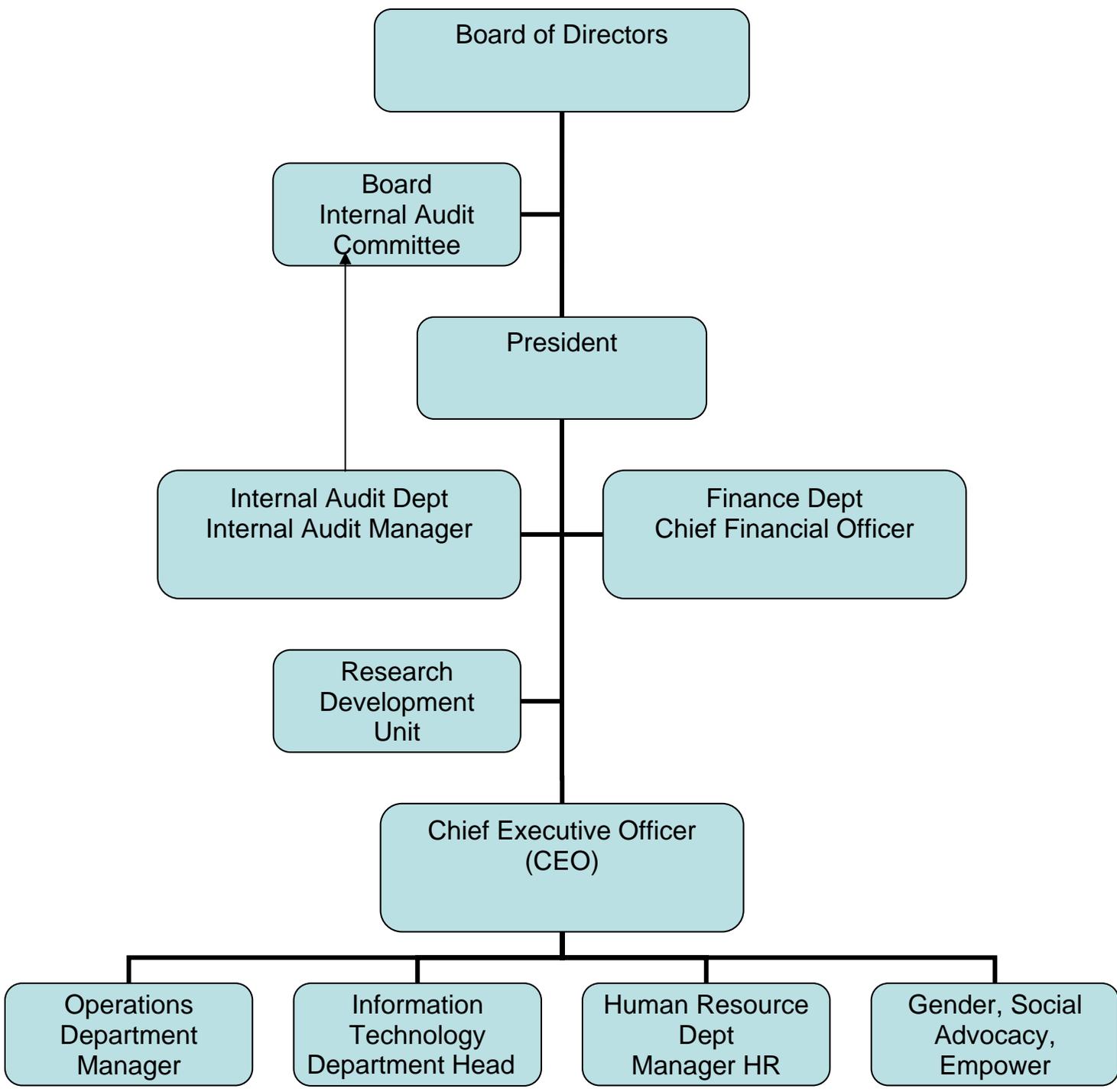
As we continue our mission to achieve bigger milestones I would like to extend my appreciation to our President for her continued support, faith and encouragement. Our board of directors for their guidance and governance in helping Kashf grow from a two room operations to a leading microfinance organization in the region. Our management team and staff for their commitment and their will to make a difference.

Organization Information

Board of Directors	<p>President Emeritus Mr. S. M. Zafar</p> <p>Mr. Khawar Ansari Chairman</p> <p>Treasurer Mr. Asim Zafar</p> <p>Ms. Wahbina Waheed Secretary</p> <p>Director Dr. Attiya Innayatullah</p> <p>Ms. Rabia Khan Director</p> <p>Director Mr. Ahmed Bilal Mehboob</p> <p>Ms. Manizeh Bano Director</p> <p>Director Mr. Farrukh Rizvi</p> <p>Ms. Sadia Khan Director</p> <p>Director Ms. Roshaneh Zafar</p>
Organization Heads	<p>President and Founder Ms. Roshaneh Zafar</p> <p>Ms. Sadaffe Abid Chief Executive Officer</p> <p>Chief Financial Officer Mr Khalid Kabeer</p>
External Auditors	<p>A-F FERGUSON AND COMPANY</p> <p>Chartered Accountants</p>
Legal Advisors	<p>Mandviwallah and Zafar Advocates</p>
Registered Office	<p>19 Aibak Block New Garden Town</p> <p>Lahore Pakistan</p>

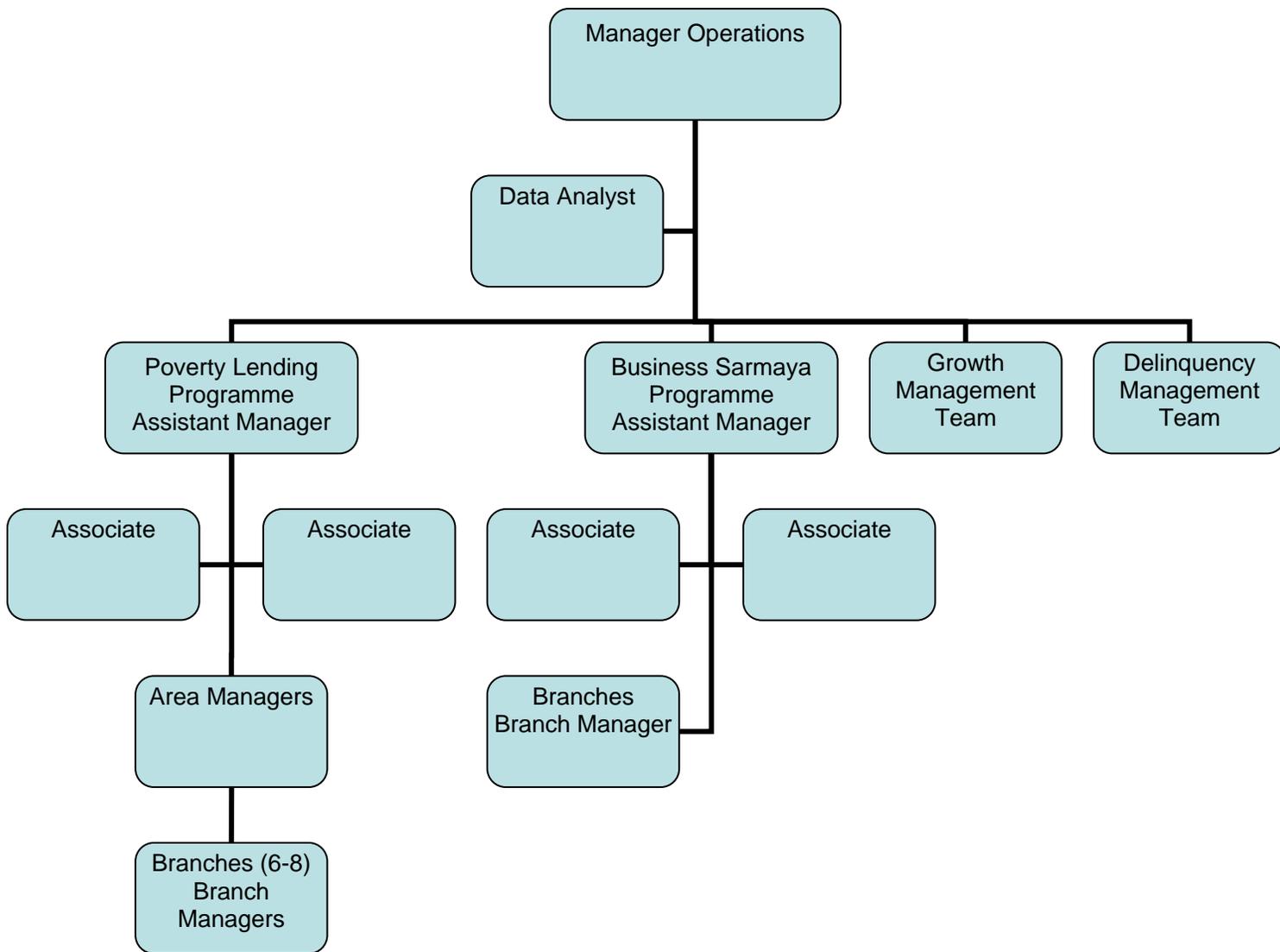
Kashf Foundation Organizational Structure

Figure 1.0



Operations Structure

Figure 2



Areas under Operations

Figure 3.

Only include a map here with Kashf's branches highlighted.

Kashf Foundation: An Overview

Kashf Foundation is a specialized microfinance institution (MFI) providing credit, savings, micro-insurance and social advocacy support to households that have no prior access to formal financial services. The Kashf model is predicated on reaching out to households below or at the poverty line, through women focused and women friendly financial products in both urban and semi rural communities. In other words, the centerpiece of Kashf's methodology is the alleviation of poverty by greater investment in gender empowerment. Currently, Kashf is one of the few microfinance institutions in Pakistan that exclusively focuses on women.

Kashf began as an action research programme in 1996 with support from the prestigious Grameen Bank. The initial two years were spent in understanding the market and the needs of clients in peri-urban and urban settings. The importance of standardized products, systems and policies, the simplification of procedures and reporting requirements, along with the significance of focusing on client satisfaction and developing clear cut financial performance indicators was highlighted.

The action research phase was followed by a more focused approach to manage growth in the years 1999 – 2001. The main aspect of this phase was to make the branch structure more lean and efficient; an aspect which was critical for ensuring the long term viability of the programme, along with setting up a cashflow model which would ensure the sustainability of the branch within a set time period.

In the years 2001-2004 the main strategy was to enhance outreach and deepen product offerings through cost effective and sustainable Kashf branches. Growing with quality was emphasized, adequate controls were established and the collection system was revamped. Kashf followed a lateral growth path by entering new markets and managing dispersed units. Throughout this period sustained improvements in policies, systems and procedures were undertaken to ensure client satisfaction. In other words, Kashf managed growth by widening outreach and deepening access by pioneering new products like micro-insurance.

Today, true to its meaning, Kashf is an organization that has become the means of a 'miracle' or a 'revelation' for its clients. Clients have overcome their destitution by discovering that poverty is assailable through

determination and enterprise and that dependence on hand outs and charity is not the option for sustaining their livelihoods. The organization has been able to grow rapidly and currently caters to thousands of clients involved in various enterprises including petty trade, services, food manufacturing and processing, manufacturing and cottage industries and small scale agro-based activities. By December 2005, Kashf had cumulatively provided 405,000 loans and disbursed Rs 3 billion to almost 250,000 families.

A study was conducted to determine the effect of microfinance on the productivity of the businesses of Kashf's clients and their ability to service their loans. The study showed that not only does microfinance increase the productivity of the businesses in the short run it also enhances business sustainability in the medium run by helping generate higher returns. The table below shows the eight most popular businesses of Kashf clients and their net profit margins, excluding all loan payments.

Table 1

Kashf's clients 8 most popular Businesses		
Sr.No	Type of Business	Net Profit Margin
1	Plastic Moulding	51%
2	Running Grocery Shop Vegetable and Fruit	48%
3	selling	45%
4	Shoe Making	41%
5	Tailoring	35%
6	Hand Embroidery	22%
7	Running Beauty Parlors Artificial Jewellery	13%
8	Making	11%

2005 At a Glance

The year 2005 has been a year of institutional strengthening and consolidation. Over this year, the organization has concentrated on maintaining a strong portfolio quality, propelling portfolio growth by focusing on repeat clients, adhering to best practices, transparency and business ethics and catering to the needs of its clientele by offering them a wider range of even more flexible services.

- Irshaad Bibi, a Kashf client for 6 years received the Global micro entrepreneurship Award of 2005, while profiles of Kashf clients were aired on the Pakistan Television Network in recognition of their hard work.
- Kashf's success and best practices were recognized by the Government of Pakistan and the President and Founder of Kashf Roshaneh Zafar was awarded the Tamgha-i-imi'iaz by President General Pervez Musharraf.
- Kashf Foundation was awarded the AGFUND International Prize for Microcredit 2005 by HRH Prince Turki of Saudi Arabia in a ceremony held in Cape Town.
- The programme's outreach now extends to 76,170 clients and the outstanding portfolio is Rs.778 million with a portfolio at risk of 0.32%.
- Total revenue from Loan Portfolio has risen by over 22%. Operational self sufficiency and financial self sufficiency remained high at 180% and 137% respectively.
- The total work force has increased from 275 to 331 over the one year with the greatest relative increase in the field staff. Gender ratio is 56% males to 44% females.
- The President of Kashf participated in the World Economic Forum 2005 along with heads of state and leaders of major international organizations and also represented the organization at the India World Economic Forum.

- In the aftermath of the devastating earthquake that hit the northern areas of Pakistan, Kashf actively coordinated and implemented relief efforts for the victims by disbursing over Rs 5.5 million in funds.
- The research phase and market segmentation study for the Behtar Ghar Loan (Home Improvement Loan) was completed in this year.
- A cash management system was implemented in order to integrate Kashf with the formal financial system and to bring more transparency in the flow of information on a daily basis, while an accelerated pilot was continued for automating all Kashf branches.

BOX-1**Gender Empowerment & Social Advocacy (GESA)**

In accordance with Kashf's mandate for social empowerment, GESA is part of the consolidated approach towards capacity building. The social aspect of this programme is to build social capital among clients through greater awareness of women rights, social interaction and networking. The GESA team actively participates in various projects and holds trainings in order to effectively disseminate information on a multitude of social issues.

Trainings related to leadership are arranged which focus on team building, decision making and conflict resolution. Gender trainings explore important issues related to the role of women in Pakistani society, violence against women and labor specialization. Reproductive trainings are held to provide primary information regarding pre-natal and post-natal care and to raise preventive health and nutrition awareness. Various theater plays are staged on themes related to gender empowerment and other societal evils such as spread of aids, in order to raise awareness among the clients and address the need to bring a positive change in society.

An annual social theme booklet is designed by GESA which focuses on 24 different community related issues. At the centre meetings, the loan officers discuss various social issues with the clients such as importance of education, cleanliness and immunization, harmful effect of drugs etc. Loan officers also help clients identify various income generating activities for socio-economic development.

Kashf's Methodology

Like other Grameen-style replications, Kashf Foundation offers collateral-free loans and strives toward the empowerment of women through the creation of peer groups. The process of selecting beneficiaries at the grassroots level is done by the clients who are assisted by loan officers, after a process of door to door mobilization has been completed.

Once members are selected according to a strict poverty criteria, centres of 20-25 members are formed. The members are given a loan on the basis of their absorptive capacity. In the absence of any physical collateral, the recovery is based on the premise that each member will be responsible for the other in case of emergency or non-payment. Repayment installments, their amounts and dates of recovery are pre-ascertained and group members are informed of all relevant details at the beginning of the loan disbursement. In addition, 1 centre manager and 4-5 group leaders within each centre ensure discipline and information dissemination by forming a credit committee.

Kashf's Services

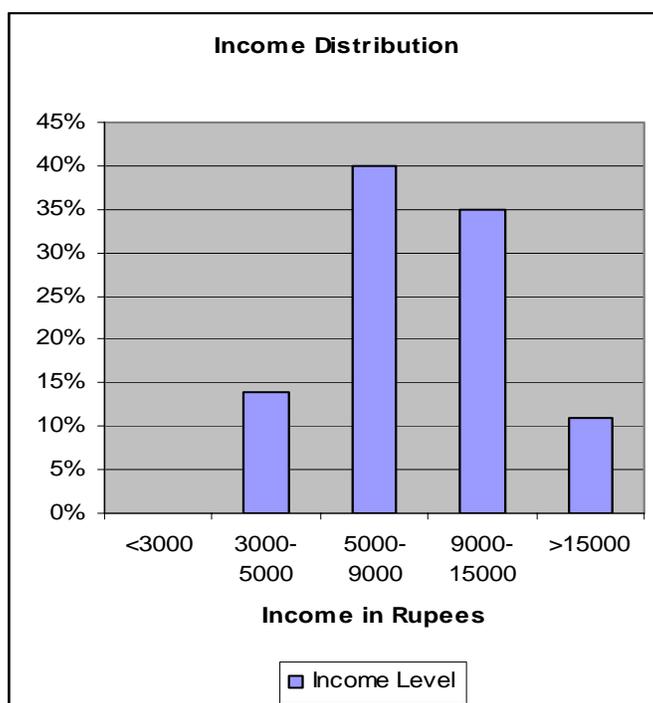
Table 2

Product	Purpose	Range	Terms
Loans			
General Loan	Income Generation Consumption or for any other emergency including payment of school fees or utility bills	Rs 10,000-35,000	Service charge:20% Loan Term: 1 year Repaid: Bi-monthly
Emergency Loan	Entrepreneurial Activities	Rs 4,000	Service charge:20% Loan Term: 6 months Repaid: Bi-monthly Service Charge: 18%
Business Surmaya Loan	Entrepreneurial Activities	Rs 40,000-100,000	Loan tem: 1 year Repaid: Monthly
Savings			
Voluntary Savings	Voluntary	Voluntary	Voluntary deposit
Insurance			
Life Insurance	Compulsory with the General Loan	Covers outstanding amount of loans and a funeral payout	1.5% of the Loan amount

Kashf's clients

The bulk of Kashf's clients are women from low income households with an average per capita disposable income varying from US\$0.55 to US\$0.9 per day, as can be seen in Figure 4. They manage 2-3 simple meals everyday for a family of seven people, comprising of five children. Most of the clients live in their own houses with a land area varying between 50 to 125 square yards.

Figure 4 - Income distribution of Kashf Clients

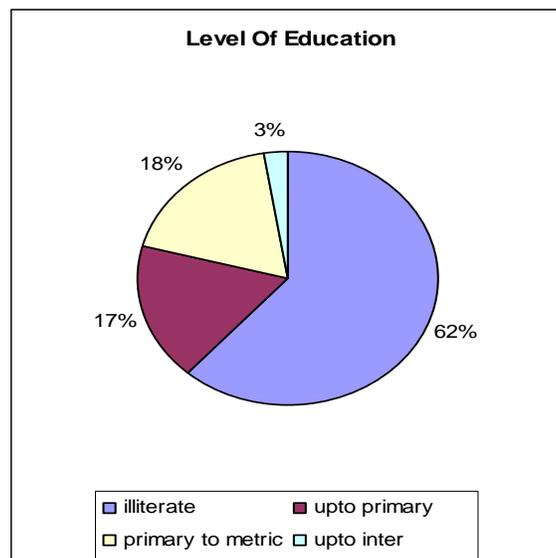


The above income distribution of clients reveals that the largest percentage of the clientele fall in the Rs. 5,000-9,000 income bracket i.e. US \$ 83 to US \$ 150 per month. In other words, 40% of Kashf's clientele are spending \$ 0.55 per day per head while 14% of Kashf's clientele spend \$0.3 per day per head for daily family needs¹. Furthermore, 35% of the clientele are spending US \$ 0.9 per day per head, and only 11% spend more than US\$ 1 per day per head, implying 89% of Kashf's households are within the \$1/day poverty level. It must also be mentioned that these statistics fail to reflect the

¹ Formula: Average of the two income level divided by 30 (days) further divided by 7 (number of stove sharers) to give an income equivalent of per day per head.

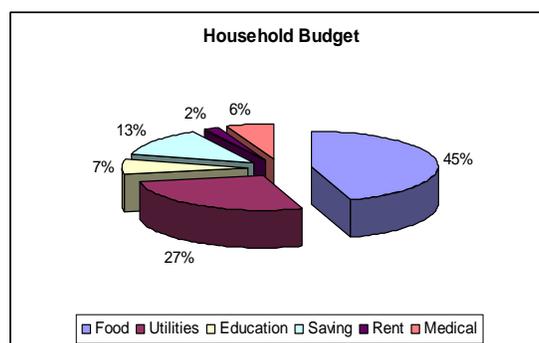
seasonality and vulnerability of these income sources, which further exacerbates the economic insecurity of such households.

Figure 5 - Education level of Clients



Additionally, only 38% of the clients are literate as can be seen in the figure above. Their houses are sparsely furnished while electricity and piped, potable water are available in most cases. Most of the urban clients live in homes with closed sewerage systems inside the house and open drains outside, amplifying environmental health related factors. Almost all of the clients suffer from back aches, blood pressure and, in older women, diabetes. Health service facilities near the homes only provide relief from minor ailments such as cold, cough and fever, whilst treatments for major diseases such as hepatitis, gastroenteritis, typhoid are expensive and out of reach.

Figure 6 - A typical Kashf Household Expenditure



BOX – 2

Shamim Baji: A Case Study

Shamim Baji lives with her husband and four children – two daughters and two sons in a three-room house. Her youngest daughter is studying in grade six in a nearby school, while her two sons are working as a cable operator and a motor mechanic respectively, while her husband is a Carpenter. Three years ago Shamim’s family was in dire straits. Her two sons were unemployed and the meager Rs 4,000 income of her husband was unable to sustain the family. She recalls those days with a frown on her face, “We were in debt. We had to borrow money from friends and family for basic commodities such as clothing and shoes for the children.”

It was at this juncture that Shamim Baji took her first loan worth Rs. 4,000 from Kashf. She used this money to buy a cow. With each subsequent loan she started expanding her business by buying more livestock and by selling cow dung cakes that are used for fuel. She also used this money to build two additional rooms and a bathroom in her house. Currently Shamim earns Rs. 3,500 – 4,500 profits every month. According to Shamim, the profit margin is enough to compensate for the returning of the loan installments and meet household needs at the same time.

Shamim says that over the last three years phenomenal changes have taken place in her life style. Not only has her life improved considerably she is also able to provide for the needs of her children. Moreover she has a greater sense of self-respect and dignity. She says, “Now I don’t have to worry about borrowing from my relatives and work with dignity and live peacefully. My relatives also look at me with admiration and know that I’m no longer destitute.” Shamim has recently bought new gold earrings which she proudly wears all the time. Shamim says, “A couple of years ago I could not even have thought of purchasing these earrings.” Shamim’s story reflects her determination and resilience in the face of tough circumstances.

Kashf's Impact on Clients and their Families

Every two years, Kashf has undertaken impact assessment studies in order to evaluate the social and economic impact on women and their families and improve programme practices with respect to its clients.

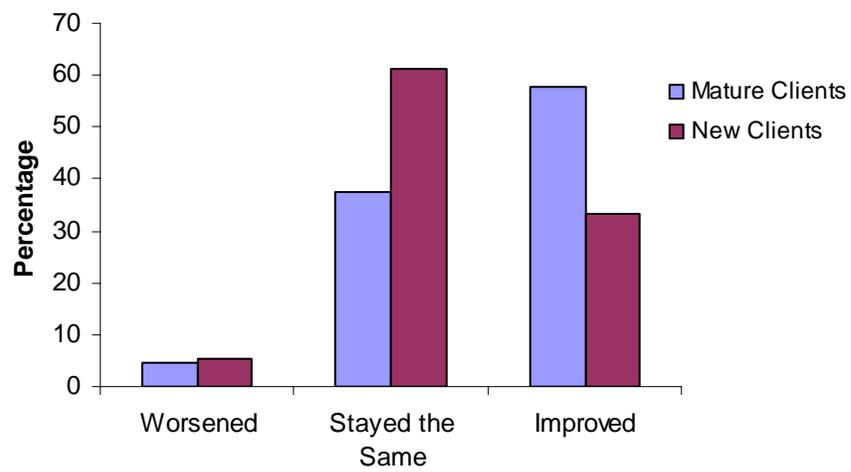
The impact assessment for 2005 shows that Kashf has had a positive impact on clients' income levels, when mature clients are compared with new clients. The following table reveals that on average mature clients' income is 51 percent higher than that of new clients. The longer a client is associated with Kashf, the higher their income levels implying that with time the impact increases and income vulnerabilities are further reduced.

Other manifestations of positive impact were in terms of better diet, fewer food shortages and better access to health. Figure 7 highlights the fact that most mature clients stated that their diet had improved, while a majority of new clients felt that their diet had stayed the same. Furthermore, it was seen that mature clients also have more expensive moveable assets such as washing machines, refrigerators and mobile phones.

Table 3 - Impact Assessment 2005 Results

	Average Monthly Household Income (Rs)	Average Daily Income Per Person (\$)
Mature Clients	12,412	1.27
New Clients	6,095	0.53

On the social side the impact seems to be less but the overall responses were optimistic. Kashf aims to increase decision-making capacity of women, but research shows that a large number of women are already taking part in household decisions. The impact assessment positively revealed that about 68 percent of women are directly contributing to household income through small supplemental income generating activities, while 20 percent are using the loan themselves and are thus able to contribute a significant amount to their family income.

Figure 7: Impact on Household's Diet

Growth during 2005

Kashf's commitment to ameliorating poverty in Pakistan can be evaluated in terms of the increase in the scale of its operations plus the degree of financial deepening it is able to offer. The scale refers to the extent of the outreach of the programme and financial deepening takes into account the variety of innovative services that can be offered to cater to the evolving needs of the clients. Kashf is not only committed to extending financial services to the maximum number of financially constrained households, but is also committed to providing a wider set of services to the poor, keeping in view its vision of "*Financial Services for All!*".

Outreach

Over the past 10 years Kashf Foundation's outreach has expanded substantially to provide thousands of low income households access to credit and opportunities to overcome their fiscal constraints. Overall the programme grew from a mere 15 clients in 1996 to 76,170 clients in 2005, implying a cumulative membership of 250,000 families.

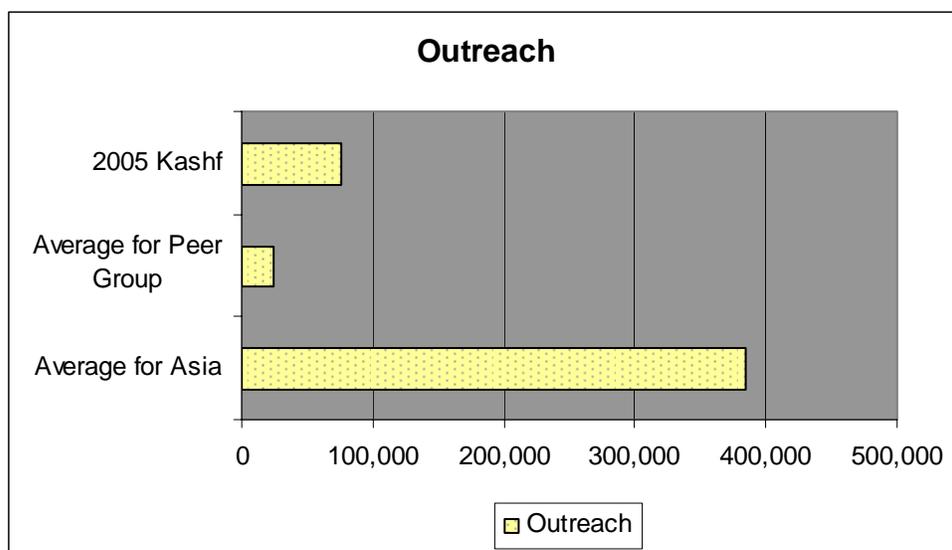
Table 4

	2003	2004	2005	% change
Outreach	59,418	67,552	76,170	12.7
Dropouts	5,259	16,022	24,153	50.7
Client Attrition Rate	8.85	23.72	31.7	33.7

The Programme has not indicated a significant increase in the client base during the year 2005, which is reflected in the slower growth of 12.7% over the previous year. During this year focus was given to consolidating existing outreach, streamlining the existing systems and gearing up for the next phase of growth, along with focusing on improving client attrition. Furthermore, importance was also given to maintaining portfolio quality and focusing on strong policy compliance. The slower branch opening was another reason for Kashf's modest growth since most branches had reached full servicing capacity and only three new branches were added this year bringing the total branch numbers to 34.

As can be seen in the table above, customer attrition rate has increased by 8% over the previous year and has been a source of concern during 2005. According to a client exit survey, it was found out that majority of client exits comprised of voluntary exits. The survey revealed that voluntary exits included households who no longer needed loans or had migrated from the area. The remaining had been cancelled from the programme due to strict policies norms such as non-availability of national identity cards. Additionally, three branches were closed because of delinquency and low demand, which further exacerbated this figure.

Figure 8 - Outreach



Relevant figures have been taken from the Pakistan microfinance network PIR 2005 and the Mix Market Bulletin March 2005.

Even though growth this year has been 12.7%, Kashf's outreach exceeds that of its peers in Pakistan, while it is much lower than the average for Asia.

Products and Services

General Loan (GL)

Table 5

	2003	2004	2005	Cumulative	% Change
GL Amount (Rs)	557,924,000	793,771,200	1,093,546,433	2,712,715,983	38
GL Number	58,013	64,637	74,992	246,127	16
ALS (Rs)	9,617	12,280	14,596	11,022	19

Given Kashf's minimalist delivery model in which a few standardized products are provided to clients, the GL constitutes about 87% of the product wise share. The General Loan (GL) is utilized by clients for investing in existing or new income generating activities and includes a range of small enterprises such as vending, manufacturing and services. Findings of various client case studies conducted by the programme show that it is utilized both by women who aspire to establish a small business for themselves and those who plan to invest it on behalf of their husbands/sons to diversify their sources of income. The overall ratio for this is 20/80, that is 20% of clients use the GL directly.

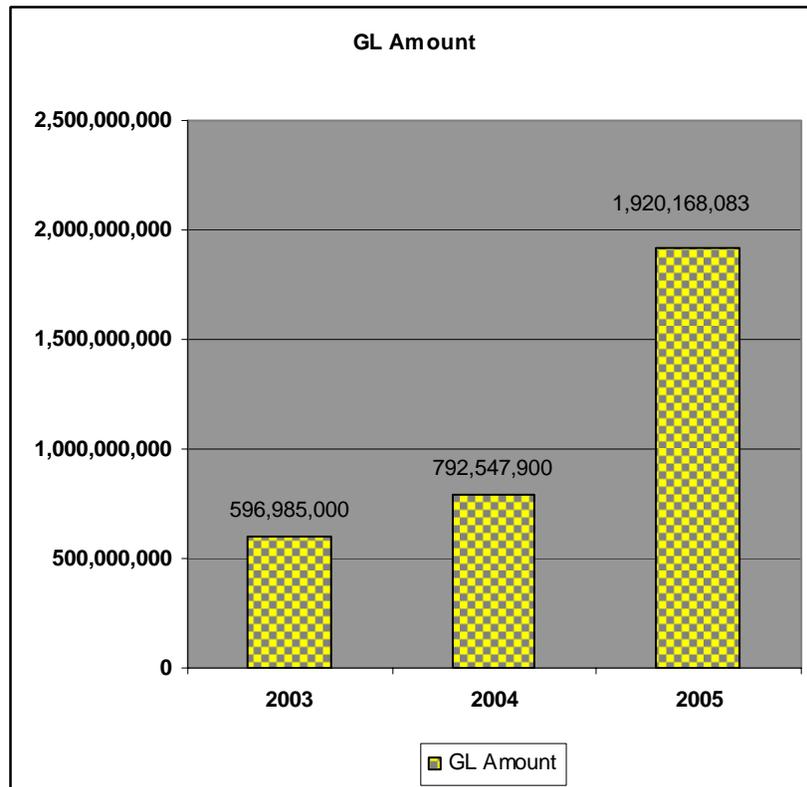
Disbursement of the GL showed a marked increase over 2004, with the total amount disbursed over this period increasing from Rs 793 million to Rs 1.0 billion, bringing the cumulative disbursement to Rs 2.7 billion. Over this period, the 38% increase in GL disbursement has resulted from the increase in the average loan size of 19% and in the client outreach of 12.7%.

The ALS for the year 2005, that is, Rs 14,290 is significantly higher than that of the average for its peer group in the country (Rs 8,754)² and twice as high as the average for the region (Rs 6,100). The increase in the ALS can be attributed to the fact that the programme has been targeting repeat clients who are entitled to larger loan sizes and whose greater absorptive capacity

² Pakistan Microfinance Network, PIR 2004

enables them to take higher loans. Additionally, given the greater competition in the market it was considered expedient to increase the entry loan amount compared with the previous years.

Figure 9



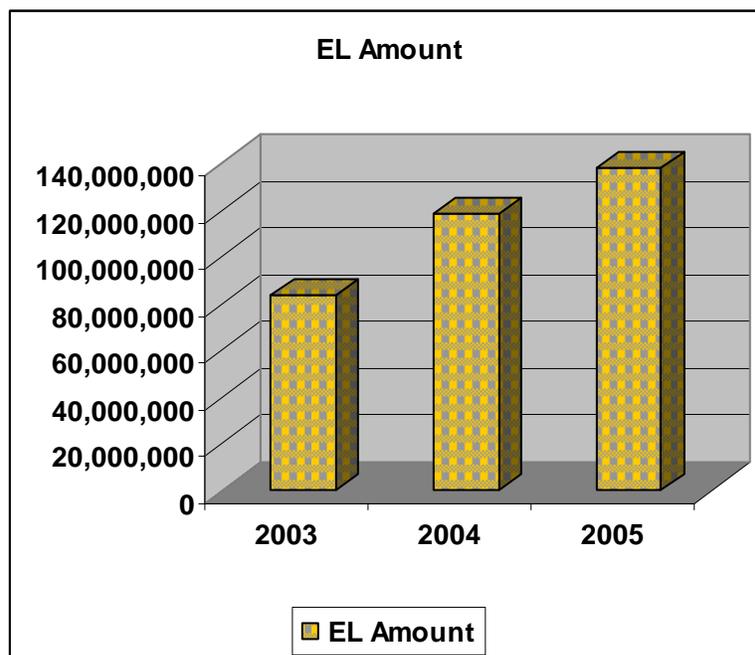
Emergency Loan (EL)

Kashf clients who have acquired the GL are also eligible for the EL. The purpose of this loan is to serve emergency or consumption needs of the clients and to equip clients to meet their personal needs on an immediate basis. Research has shown that it is a high priority product for the clients and has a very strong women's focus.

Table 6

	2003	2004	2005	Cumulative	% Change
EL Amount (Rs)	83,775,500	118,452,300	138,279,476	371,786,669	17
EL Number	42,400	50,370	48,518	159,773	-4
ALS (Rs)	1,976	2,346	2,695	2,327	15

The amount of emergency loans disbursed has undergone an increase of 17%, while the ALS has increased by 15% over the previous year. However, the number of emergency loans disbursed this year has decreased by 3.6%. This can be attributed to the fact that during the year 2005 disbursements were stopped in three of Kashf's branches due to overdue problems.

Figure 10

Programme's Recovery

The programme's best practices can be illustrated by the fact that a recovery rate of 100% has been maintained for the past three years. The following table shows the trends of the outstanding portfolio and the portfolio at risk (PAR):

Table 7

<i>Year</i>	2003	2004	2005
Outstanding-GL/EL (Rs)	344,894,944	480,089,713	767,581,933
Outstanding-BSL (Rs)	0	0	10,024,934
Total Outstanding (Rs)	344,894,944	480,089,713	777,606,867
<i>PAR at 1 day late</i>	0.18%	0.61%	0.32%
<i>Recovery rate %</i>	100%	100%	100%

The programme experienced higher disbursements in year 2005 as compared to the previous year which has resulted in an increase of 62% in the outstanding portfolio along with a decrease in the PAR from 0.61% to 0.32%, implying that the organization was able to maintain an extremely healthy portfolio over this period. The outstanding portfolio growth resulted from higher average loan sizes, along with a focus on repeat clients.

Savings

Kashf also offers a voluntary savings product which due to its flexibility and accessibility is an especially woman focused product. Clients are encouraged to save small amounts in multiples of Rs 10 and these can be withdrawn at any point at the center meeting or from the branch office during office hours.

Table 8

Year	2003	2004	2005	% Change
Active Savers	57,048	67,715	75,194	11
Amount Saved (Rs)	10,660,945	7,110,102	5,968,287	(-)16
Average Deposit Size (Rs)	187	136	79	(-)42

During the year 2005, active savers have increased by 11% while the amount saved and the average deposit size have both declined by 16% and 42% respectively. The decline in the saving amount and the average deposit size could be attributed to the features of the savings product including open withdrawability and the way the product is being marketed in the field. In comparison with the GL and EL therefore savings is not rated as an outstanding product. In fact, small deposits of savings have entailed enhanced costs both for the institution and the client due to time management and operational costs of mobilizing small deposits. Despite all the above facts the savings product has been preserved as an option for clients as it encourages credit discipline.

Insurance

In addition to the mitigation of economic risk through loans, life insurance at minimal cost is available to all Kashf customers and helps to ameliorate the death risk faced by Kashf's clients. The amount charged is 1.5% of the loan amount dispersed. Life insurance covers the amount of Kashf outstanding loans at the time of death plus Rs. 7,500 in funeral benefits for the family.

During 2005 the number of insurance claims manifested a substantial decrease since only the client of the household had been insured, as compared with the previous years. As portrayed by the table below the insurance claims constitute barely 0.3% of the total client base.

Table 9

Year	Number of Customers	Premium Collected	Number of Claims	Claims Paid
2005	75,725	16,159,920	224	3,923,650
2004	64,576	8,259,410	455	6,691,385
2003	45,331	6,507,100	265	3,390,425

Business Sarmaya Loan (BSL)

The Business Sarmaya Loan is intended for the missing middle of the market i.e. both men and women with running businesses who demonstrate a financial need for working capital and/ or fixed assets. Small entrepreneurs are provided with access to capital in addition to advisory support for their respective ongoing businesses that can include trade, production and services.

The BSL product focuses on clients with higher monetary needs than those engaged in the group lending programme as well as male micro entrepreneurs. Therefore not only is the Business Sarmaya loan an inducement for existing customers involved in group lending to maintain a suitable credit history and to abide by the procedures of the programme, but it also targets new clients.

The starting loan size is Rs 40,000 and the ceiling is Rs 100,000 while the loan is payable in monthly installments. This product was successfully launched this year by the establishment of 2 specialised branches in the Lahore district.

Table 10

Business Sarmaya Loan	Year 2005
Number of customers	326
Amount outstanding (Rs)	10,024,934
Amount disbursed (Rs)	12,965,000

Product Innovations

Kashf has grown from a lending organization offering one loan product, a general loan to be used for income generating purposes, into a provider of financial services, offering their clients access to credit, a place to save and insurance to protect clients from life's shocks.

Innovation and discipline have always been hallmarks of Kashf's methodology, allowing the organization to maintain a recovery ratio of 100% and a portfolio-at-risk of below 1%, two indicators that make Kashf a leader in microfinance, not only in Pakistan, but in the industry as a whole. Today this commitment to innovation and discipline has proven even more important as competition among microfinance providers increases, particularly in Pakistan's urban areas.

Increased competition has led Kashf to renew its already strong commitment to providing quality services and this commitment coupled with its bent towards innovation have brought about several new initiatives in the area of product development, among them research into a home improvement loan designed to offer Kashf's existing clients the financing to make changes to their homes or add on additional rooms, thereby increasing their wealth; review of models to establish a health insurance scheme; the development of a micro-leasing product targeted at businesses requiring investment into equipment such as rickshaws, lathes and copying machines;

BOX-3

Increased Efficiency and Productivity makes it possible to sustainably Increase Outreach to the poor.

Kashf automated MIS

The Kashf management information system (MIS) offers:

- Accurate and user friendly information systems that records the loan application process efficiently
- Tracks clients loan cycles
- Increases staff productivity, Provides accountability for funds and generates reports for effective and efficient management and decision making

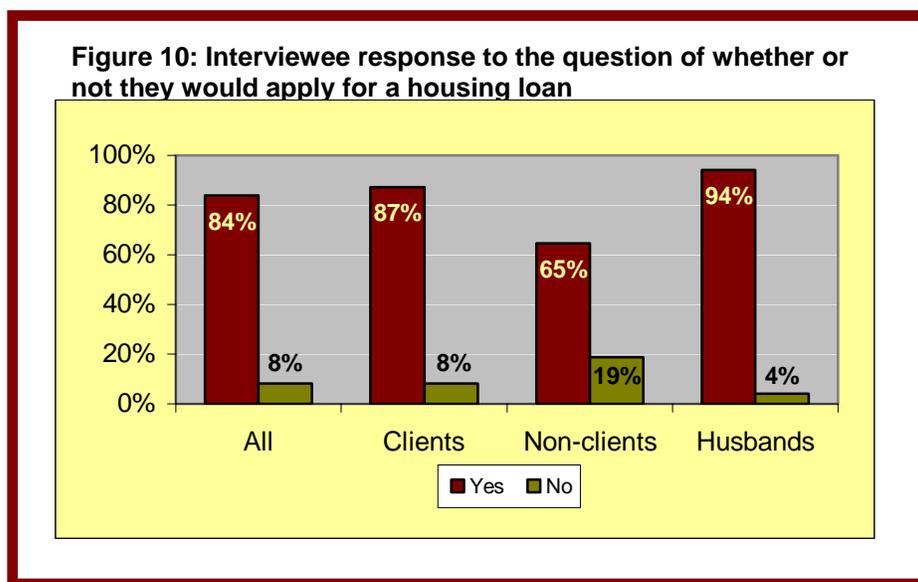
New Products

Home Improvement Loan

Research into home improvement first began in the summer of 2004 with an initial enquiry into property rights and client preferences. Surveys and focus group discussions were held with clients in order to get feedback from the market regarding client's current housing conditions and future needs. This initial investigation demonstrated enough interest in the topic to merit further research and in June of 2005 a full-fledged investigation began.

A base-line survey was conducted in order to determine the demand for a housing product, the target market's capacity to carry additional debt, and any risks posed by a lack of property rights and/or mobility patterns. The results of this survey indicated that housing is a priority for many of Kashf's customers, as can be seen in Figure 10, 84% of those surveyed demanded a home improvement loan. This was further corroborated by the finding that housing is the leading use to which households dedicate their savings and was the most requested category mentioned when participants were asked what other types of loan products Kashf should offer.

Figure 11



Although the survey looked at all types of housing products, new home construction, new home purchase, and land acquisition, in addition to home improvement, it soon became apparent that a home improvement loan offered the best entry into this new market. With demand for the product firmly established, Kashf proceeded to design and price a product that satisfies the needs of its clients while covering its own costs.

Hepatitis C Pilot Project

Hepatitis C is increasingly being recognized as a prevailing public health problem around the world and its incidence in Pakistan is alarming. The World Health Organization estimates that 3% of the World's population is infected with Hepatitis C virus (HCV), whilst at least 5% of Pakistan's population suffers from the disease. In Lahore, the prevalence rate of HCV infection has alarming proportions – at least 13 – 16 % of the city's population is infected with the virus.

Kashf Foundation intends to launch a Hepatitis C therapy project that provides treatment for clients diagnosed with Hepatitis C. The genotype of Hepatitis C prevalent in the vast majority of cases in Pakistan is the easiest to cure with conventional therapy, which consists of a six month treatment of Interferon injections and antiviral capsules. If diagnosed and treated early, a patient can easily continue to work while under treatment and remain a productive member of his/her family.

Health Insurance

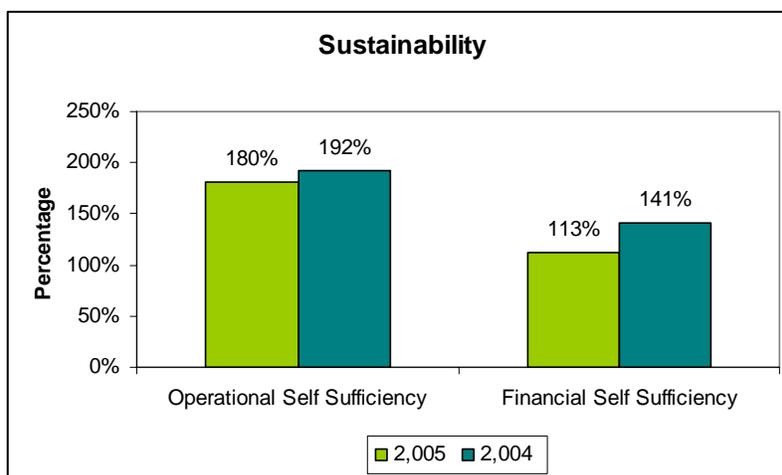
Kashf offers lending and credit facilities to over 70,000 women. The condition of health care in Pakistan especially for women and children is lacking in many aspects. Health care facilities are inadequate and have limited outreach. Traditional methods of health care dominate the contemporary ones and most women are denied access to proper health care facilities in the face of limited or no money or illiteracy. Kashf is conducting research on health insurance and the objective of this study is to design a health insurance product for Kashf Foundation. Health insurance is as yet an untapped area and Kashf aims to extend micro-insurance facilities to its clients. This study will map the designing, marketing and servicing of health insurance as a financial product for Kashf clients.

Financial Sustainability

Kashf emphasizes growth via a financially sustainable business model. It focuses on building capacity to serve large numbers of clients through implementing efficient operational processes, developing innovative management systems, maintaining perfect portfolio quality and providing high quality service to its clients. As a financially sustainable institution, Kashf can continue to provide low income households with a permanent and consistent source of financial services.

Since its inception in 1996, Kashf Foundation has endeavoured to remain at the cutting edge of best practices in the microfinance industry and to maintain financial sustainability and transparency. To date Kashf is the only sustainable MFI in Pakistan, one out of a dozen sustainable MFIs within Asia and one out of the 200 sustainable MFIs in the world. The following figure highlights that the programme has consistently improved its operational and financial sustainability over the past year.

Figure 12



Efficiency indicators are integral to gauge the performance of an MFI since they reflect whether existing resources are being utilized efficiently and effectually, and relate to simplifying core functions, standardizing key delivery practices along with streamlining policies in order to perform basic functions more effectively. In order to maintain its status in the microfinance industry as a market leader, over the past year Kashf has attempted to incorporate flexibility through decentralization along with the inclusion of

other procedures that ensure client satisfaction and efficiency. A decentralized and innovative approach has put loan officers and the field staff at the fore front of all operations, and the productivity of the branch unit has enabled Kashf to expand its outreach efficiently by effectively targeting and screening clients, reducing down time at all levels and ultimately catering to a growing and evolving clientele.

The following graphs indicate that Kashf has continued to achieve high levels of financial performance over this period:

Figure 13

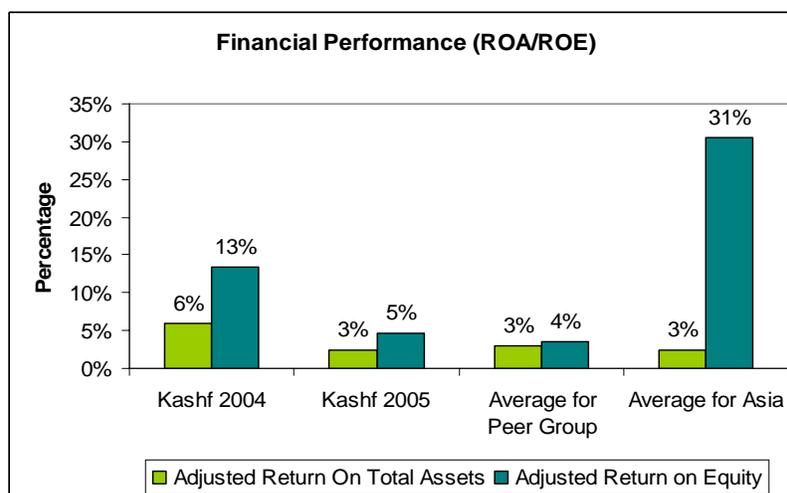


Figure 14

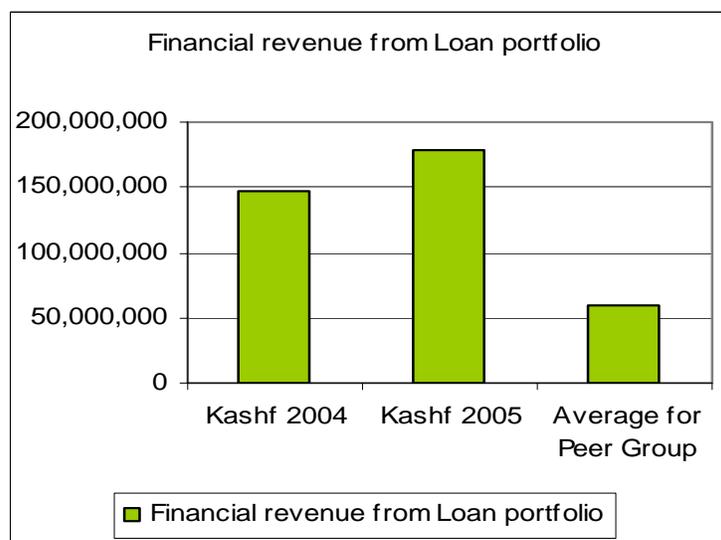


Figure 15

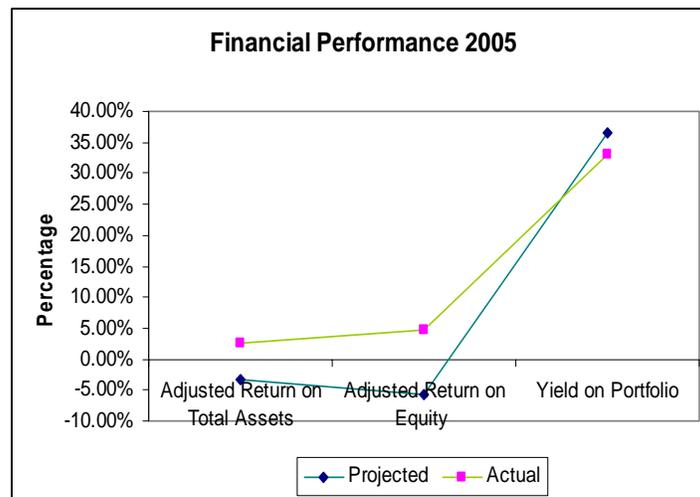
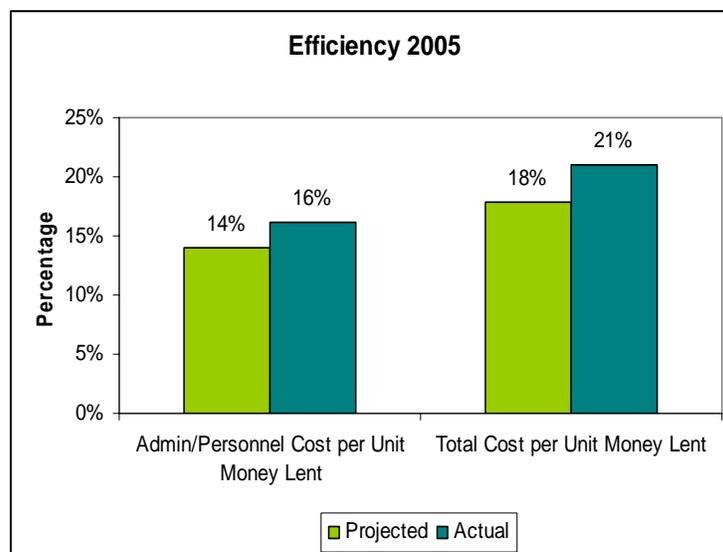


Figure 16



Corporate governance

Kashf endeavors to comply with the best standards of corporate governance and can be compared with any good organization in the corporate sector. The organization is run by a highly qualified, diversified, interactive and voluntary board of directors who meet bi-annually. The structure of the board is three tier, with executive, non-executive and specialist board members.

Since its inception in 1996 and registration of the organization under Society's registration Act 1860, Kashf Foundation has strived to remain on the cutting edge of best practices in the microfinance industry. In order to acquire and maintain financial transparency the organization got credit rating done by an independent rater in years 2004 and 2005 and achieved an investment grade of [A-3/BBB] which represents a strong financial position. Kashf's financial statements comply with international accounting and financial reporting framework and are audited by the top audit firms.

Kashf also posts its financial and non financial data on the MIX market. The MIX market is a global, web-based, microfinance information platform. Kashf was given a 5 diamond status on the MIXMARKET website. This signifies highest standards of disclosure of quality information. Kashf is the only_un-regulated MFI to achieve this level of transparency and disclosure among a total of 98 such programs. Besides Kashf there are only 40 NGO MFIs who have achieved this status, out of which only 4 are in South Asia. Given its continuing emphasis on financial transparency, Kashf was also considered eligible for the "transparency award" by CGAP, and has also received a high ranking certification from the Pakistan Centre for Philanthropy.

Our Supporters

The Department for International Development (DFID)

The Pakistan Poverty Alleviation Fund (PPAF)

The Grameen Foundation USA (GF-USA)

The Acumen Fund

The CGAP Rating Fund

Awards/Acknowledgements for 2005

Irshaad Bibi (Kashf's client for 6 years) received the Global Micro entrepreneurship Award of 2005

Tamgha-i-imtiaz by the Government of Pakistan to the President, Kashf Foundation Ms. Roshaneh Zafar -2005

AGFUND International Prize - 2005

Eligibility for Financial Transparency Award by CGAP – 2005

Certification by Pakistan Center for Philanthropy

Financial Statements