



(A Company set up under Section 42 of the Companies Ordinance, 1984)

Kashf Foundation

"Financial Services for All"

QUARTERLY REPORT

January- March 2009

Table of Contents

Overall Growth	3
Strategic and Operational Strategy	3
General Loan and Emergency Loan Outreach	5
Financial Sustainability	6
Overall performance	6
Efficiency Ratios.....	7
Life Insurance	7
Human Resources	9
Staff Recruitment and Gender Balance	9
Internal Trainings: January - March 2009	10
New HR Initiatives.....	11
Research and Business Development	12
Gender Empowerment and Social Advocacy (GESA)	13
Image Building Campaign.....	14

Overall Growth

There was very little growth in the portfolio in Q-1 due to increased prudence in making new disbursements. The increased prudence was an active policy choice by Senior Management, and a new disbursement policy has been formulated which was communicated in March. Growth is thus, expected to increase in the next quarter. Considerable time, effort and research has gone into enhancing the new credit methodology in the light of recent changes in the market and the overall environment that microfinance operates under. The overall changes to the methodology include relying on individual responsibility rather than building centers that promote joint liability, focusing on groups as a unit of transaction, introducing detailed business appraisals, promoting women's direct use of loans, enhancing financial literacy aspects of the programme, along with introducing client and loan exclusion lists. This has been further combined with a complete revamping of organizational structure and staff training in order to ensure a more effective and better trained work force.

The number of active clients decreased to 300,168 in March 2009, from 319,212 in Dec 2008 due to exit of clients upon loan completion, and increased prudence in disbursements. Consequently, the exit rate has also increased in this quarter compared to last quarter.

Strategic and Operational Strategy

In the current quarter to mitigate operational risks the following 6 pronged strategy was followed and implemented, which will continue to be followed during the upcoming quarter as well:

1. Developing a strong contact with external stakeholders including the politicians, the administration and media through a proactive PR strategy

2. Strengthening relationship with client through continuous contact and through the introduction of a flexible recovery option given the straitened economic circumstances being faced by clients. The key aspects of the flexible recovery track are as follows:
 - a. Extension of loan period without any penalty or service charge in case of difficulty in payment
 - b. Introduction of a monthly installment instead of bi-monthly installment
 - c. Waiver of 50% of last installment in case of regular payments (applicable to clients having 3 bi-monthly or more installments outstanding)

3. Revising the credit methodology in order to ensure stronger and improved due diligence on loan transactions. The core features of the new lending methodology include:

Previous	New
<ul style="list-style-type: none"> ■ Self Selection ■ Group/Center Responsibility ■ 25 Center Group ■ Credit Committee ■ Pipelining to Family members ■ Character analysis + poverty focus ■ Simple documentation 	<ul style="list-style-type: none"> ■ LO detailed assessment & 100% BM screening/100% AM screening ■ Individual responsibility ■ 5 member group for ease of transaction ■ Women run businesses (70%) & business appraisal and business utilization check ■ Client exclusion and loan exclusion list ■ Legal Documentation & Post Dated Cheques

4. Restructuring of organizational set up by reducing work load on LOs, BMs, AMs and RMs and enhancing monitoring circuits of all tiers, along with introducing and strengthening the compliance and internal audit functions

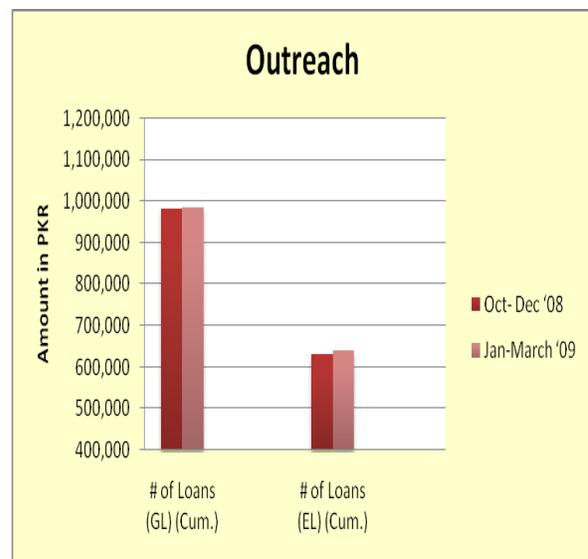
5. Retraining and re-assessing all staff at all tiers and devising clear training plans, including a revitalization of the consumer protection code combined with the introduction of staff incentives.

6. Financial management and efficiency by reducing overall costs to 30% and managing liquidity effectively to ensure high returns.

General Loan and Emergency Loan Outreach

In this quarter, 3,342 General loans were disbursed, and 10, 233 Emergency loans were disbursed. As discussed earlier, very few new disbursements were made in the quarter due to re-evaluation of the disbursement strategy and process. Additionally, historical operational trends also show that growth in terms of disbursement is always slowest in the first quarter.

Outreach		
	Oct- Dec '08	Jan-March '09
Active Clients GL (cumulative)	319,121	300,168
# of Loans (GL) (Cum.)	981,502	984,844
# of Loans (EL) (Cum.)	631,209	641,442



Financial Sustainability

Overall performance

Besides continuous efforts on recovering loans, the current quarter's key financial objective was to maintain higher liquidity and focus on increasing efficiency through yield on investments and cost effectiveness. At the end of the quarter the total investment portfolio went up to 1.28 billion (compared to December 2008, wherein it was 1.13 billion).

The sources of finances remained the same in the first quarter of 2009 (compared to the last quarter), and on lending funds were met through PPAF funds. The average Cost of Funds (COF) for the quarter is 12.62%.

	Oct – Dec '08	Jan'09-Mar'09
Cash to total assets%	15%	17%
Short term Investments & cash to total assets (%)	29%	34%
Cash to current liabilities	2.7x	3.6x
Return on investments	16.30%	15.43%

Income from Financial Services	Oct'08-Dec'08 (In Rs.)	Jan'09-Mar'09 (In Rs.)	Share (%)
Service Charge	270,599,241	86,913,211	54%
Investments	89,520,864	71,794,993	45%
Other Income	19,510,530	818,564	1%
Total Income	379,701,366	159,019,675	

The decrease in service charge income is due to the current repayments issue, because the service charge income is recognized on receipt basis. However, the investment income is consistent as in previous years and is expected to show increasing trend in coming months. The 'Other Income' head includes insurance premium income, and has decreased since very few new disbursements were made in the

quarter.

Efficiency Ratios

There has been an increase of 0.83% in the administrative cost, which shows that the company's administrative efficiency has declined over this quarter. The reason for declining administrative efficiency is because of the incremental costs on static portfolio and a break in further growth.

Efficiency Ratios		
Efficiency Ratios	Dec '08	Mar'09
Administrative Efficiency	14.75%	15.58%
Operating Efficiency	31.44%	54.29%
Operational-Self Sufficiency (OSS)	124.00%	46.00%
Financial Self Sufficiency (FSS)	96.00%	43.00%

The operating expense ratio has gone up to 54.29% in the present quarter (compared with Dec'08; wherein it was 31.44%). The major reason for the increase in operational costs is because the loan loss reserve has been kept over 10% to meet possible contingencies.

For the current quarter, the OSS was 49% (compared to Dec'08, wherein it was 124%) and FSS for this quarter was 43% (from 96% in Dec. '08). The decrease in both indicators can be associated with the decrease in the income from service charge which has fallen due to the recovery crisis.

Life Insurance

The table on the right shows the number of life insurance clients during the last quarter of 2008, and the first quarter of 2009. Life Insurance follows disbursement trends, and has consequently shown a decrease compared to the previous quarter.

Insurance-Enrollment		Oct-Dec'08	Jan-Mar'09	Total
Premium Received	Lives Covered	98198	6684	104882
	Amount (In Rs.)	32,788,360	1,137,070	33,925,430
Cumulative Lives Insured		650246	656930	656930
Claims Received	No. of Claims	593	355	948
	Amount (In Rs.)	9,662,584	5,845,672	15,508,256

The total number of lives insured cumulatively in the GL program is about 656930. The total number of claims for the quarter was 355 totaling to a payout of 5,845,672. The premium collected decreased by 96.5% since there were no new disbursements in the quarter.

Human Resources

HR Trend Analysis for Jan-March 2009		
Jan-Mar 2009		
Total Permanent Staff	1,535	
Total HO Staff	131	
Total Field Staff	1,404	
Gender	Male	Female
Ratio	59%	41%
Number	907	628
Total Staff (Trai+Perm)	1712	
Total Staff (HO)	138	
Total Staff(Field)	1574	
Gender (Trai+Perm)	Male	Female
Ratio	61%	39%
Number	1043	669
Total Staff Recruited	187	
Total Staff Recruited(HO)	4	
Total Staff Recruited(Field)	183	
Gender Recruited Staff	Male	Female
Number	146	41
Turnover (Quarterly)	Voluntary	Involuntary
Number	62	72
Overall Turnover	9%	
Number	134	

Staff Recruitment and Gender Balance

- A 1.5% increase in staff strength was registered this quarter, taking the total staff count to 1,535. The recruitment team has continued to identify and employ talented and committed staff. 187 new employees were inducted during the quarter.

- The female gender ratio at the organizational level currently stands at 39% (first quarter of 2009). A total of 183 employees were recruited in the field, out of which 22% were female and a total 4 employees were hired for Head Office positions, out of which 25% were female.

Internal Trainings: January - March 2009

Activity	# of Trainings	# of Participants
TLO Orientation	6	116
CO Orientation	3	31
Teller Orientation	1	7
TBM Orientation	2	14
Session on new policies by Management for all field staff including Karachi Staff	25	1729
Kashf 2 Disbursement training By MD and Ops Head	1	30
Total	38	1927

- A total of 38 in-house/field trainings were conducted covering over 1927 staff in January-March 2009. Major trainings in this quarter included, Orientation, and trainings on new policies including new disbursements.
- A new initiative was taken by the entire Kashf Management Team to get involved in staff trainings. And trainings were conducted by members of the Management Team in the Learning Centre, and in-field trainings.
- A Module was prepared in the 1st Quarter on “Newly Introduced Policies” by the Learning Team.
- The Learning Team also worked with crises management task force in the field.

New HR Initiatives

- A recovery-based incentive scheme for field staff were introduced and implemented at the field level for the first time at Kashf Foundation.
- A revised employee loan scheme was introduced with minimum service charges@ 1% pa.
- A revised grading structure was implemented with improved minimum salary ranges.
- Training modules were developed on Recovery Planning Guidelines, KCR handling Process, Relationship Building Techniques and the objectives of introducing incentives.
- The internal HR Quarterly Newsletter has been converted into a monthly newsletter since February.
- A Karachi specific helpline was established in January 2009 (021-5386492).

Research and Business Development

The Research and Business Development department has been providing logistical support to all departments in the organization vis-à-vis the current repayments challenge.

Communications Taskforce

The R & BD team members along with the GESA team have been part of the communications taskforce that was involved in designing flyers for disseminating information regarding KF policy changes, outcomes of legal actions and general clarifications regarding Kashf Operations.

Free Eye Camp

Keeping in mind the need to provide the community with essential non financial services, a free-eye camp was organized by the Research and Operations team in February, for the clients of Ravi Rayon Branch. This eye camp was arranged in collaboration with the Eye to Eye Trust Lahore. A team of four doctors conducted an extensive 8 hour camp on the Ravi Rayon branch premises, in which 150 deserving patients were examined and provided with free medicines. This camp was seen very positively by clients and residents of the Ravi Rayon area.

Causation Research

An internal causation research was carried out by the Research Department to examine the recent delinquency crisis in Punjab. This research was carried out in the areas of Jallo and Muridke, and revealed that the delinquency was a result of involvement of activists and politicians.

External Consultants

In this quarter, Kashf Foundation was visited by two external consultants Mr. Saif-ul-Islam (WWB), and Professor Sukor Kasim (Grameen Foundation). The Research team played the role of an enabler for both these consultants and provided logistical and technical support to them.

Ravi Rayon Special Assignment

In the month of March, the R & BD team members conducted a special exercise in the Ravi Rayon branch under the guidance of Grameen Foundation's consultant Professor Sukor Kasim from Malaysia. Upon the basis of the two week long consultancy, a taskforce comprising of the Research and Operations team was set up to carry out a new approach for dealing with delinquency in the Muridke area. The new approach is centered around transforming Kashf's relationship with its clients.

Gender Empowerment and Social Advocacy (GESA)

In the first quarter of 2009, GESA focused on strategic planning to provide nonfinancial services, public relations and media activities.

Children's Naat Competitions

In lieu of the occasion of Eid-Milad-un-Nabi GESA and the Research Department planned Naat competitions to be held in all areas where Kashf operates. Naat competitions were held in February and March in collaboration with the Area teams.

Every branch selected 3 participants aged 10-14 from the pool of client's children. After this initial round of branch level selections, an area level competition was held in each area. These area level competitions were attended by the district Nazims, parents, and Area Members. After the competition souvenirs and prizes were distributed to the participants.

Local communities, clients, and participants really enjoyed these competitions. Kashf field staff found these competitions very useful in reaching out to their clients, and creating a better relationship with them.

Image Building Campaign

Television Commercials

GESA along with the research team has put together an image building campaign, a major feature of which has been a television commercial strategy. Four thematic TVCs were made, and have been aired on cable TV in Kashf's areas of operation. Client response to these TVCs is being monitored by the Compliance Department.

Theater Program

GESA developed a new image building theme for theatre performances, and trained the theater team on the new theme. In this play two parallel stories of positive and negative clients were projected, and the importance of paying back loans was impressed upon.

16 theater performances were conducted in different districts of Punjab including Hafizabad, Sargodha, Jhang, Gujrat, Lahore, Multan, FSD, Sialkot and Gujranwala. A total number of 2885 clients were covered by the theatre groups.

Clients were also shown the TV interviews of the Managing Director on the multimedia projector before the theatre performance.

These image building sessions were successful in all areas, and helped clearing out misunderstandings of clients, and providing them with information about microfinance and Kashf Foundation. Branch teams also appreciated the theater and image building sessions and shared that these sessions were very helpful to build better relations with clients and most cases they asked for more theatre performances in their areas.

Financial Literacy Module

In this quarter, GESA designed a financial literacy module to educate clients on financial matters. The Financial Literacy Module consists of training on Budgeting, Saving, Debt Management, and Financial Negotiations. Along with educational material on these aspects of financial literacy, the

module has practical exercises that can be undertaken with the clients to elucidate the different aspects of financial literacy to them.

Media Coverage and Press Conference

A special media cell was formed in this quarter to streamline Kashf's relationship with the media. This media cell organized 13 press conferences in different districts of Punjab including Sialkot, Gujranwala, Faisalabad, Khanewal, Multan, Vehari, Sahiwal, Kasur, Sargodha, Pattoki, Rawalpindi and Jhang.

A Media directory was formulated and contact was established with print and electronic media officials. The media cell also maintains a record of in the media library of all media related activities.