



Annual Report 2007

# UNVEILING EMPOWERMENT

Including Women in the Economy

**Unveiling Empowerment: Including Women in the Economy**

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# Unveiling Empowerment

Including Women in the Economy



## About this report

Since its inception in 1997 as the first specialized microfinance institution in Pakistan, Kashf Foundation has continued to innovate by creating client-driven products, by demonstrating that women in Pakistan are active economic agents and by ensuring that poor households are bankable.

This report offers a window of information into Kashf's rapidly growing family of clients, services, products and achievements for 2007 with special focus on women's empowerment as part of Kashf's guiding philosophy.

Kashf Foundation remains committed to establishing sound business standards and to offering innovative pro-poor financial services.



## Our Vision

Financial services for all!

## Our Mission

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.

# Organization Information

## BOARD OF DIRECTORS

President Emeritus Mr. S. M. Zafar  
Chairman Dr. Ishrat Hussain  
Treasurer Mr. Asim Zafar  
Secretary Ms. Mahbina Waheed  
Director Mr. Khawar Ansari  
Director Dr. Attiya Inayatullah  
Director Ms. Rabia Khan  
Director Mr. Ahmed Bilal Mehboob  
Director Ms. Manizeh Bano  
Director Ms. Sadia Khan  
Director Ms. Roshaneh Zafar

## ORGANIZATION HEADS

President and Founder Ms. Roshaneh Zafar  
Chief Executive Officer Ms. Sadaffe Abid  
Chief Financial Officer Mr. Khalid Kabeer

## EXTERNAL AUDITORS

A.F. FERGUSON AND COMPANY  
Chartered Accountants  
Legal Advisors  
Mandviwallah and Zafar Advocates

## REGISTERED OFFICE

19 Aibak Block, New Garden Town Lahore  
Legal Status Licensed under Section 42 of  
the Companies Ordinance 1984

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As I begin to reflect on 2007 and visualize the way forward for our institution in 2008, I am reminded of the importance of humility; humility that comes from a deep and innate sense of knowing our weaknesses and understanding our strengths. The year 2007 has been a truly exciting one for Kashf Foundation, where we have been able to more than double our outreach and establish a foot print in many new markets. Our staff strength has grown considerably. However, exogenously 2007 has been replete with some difficult circumstances, which include the heightened security problems and the growing economic crisis, and yet the virtue of humility teaches us to forever remain positive about the potential of our community and our people.

To emphasise my point, I would like to share a story of Baji Parveen, who believed self respect was far more important than accepting hand outs to meet adverse circumstances. Baji Parveen taught me how important it is to say "no" to hand outs and to be able to assert one's sense of self reliance. Baji Parveen's husband committed suicide as he was unable to face the growing indignities of poverty and his inability to provide for his family. As a result, Baji Parveen was not only left with the social stigma of her husband's suicide but with the responsibility of providing for her young children. She learnt about Kashf Foundation's loan programme and quickly enrolled herself as a member of Kashf's credit group, which catapulted her into starting her own business as a trader in fabric.

Today, Baji Parveen has not only built her own house, but, most importantly has been able to

prepare her children for a better future by giving them a good education. As an addendum to this year's Annual report we are celebrating the voices of our clients in a publication titled, the "Songs of Freedom".

Human dignity and its restoration is one of Pakistan's biggest challenges for 2008. Kashf Foundation is committed to preventing poverty-related suicides through bringing low income families within the fold of Pakistan's economic system so that economic rights are available to all. At Kashf Foundation, our focus is on reducing financial risk; risk that has increased over the years owing to mounting inflationary pressures and increased inequity. The solution to combating inequity does not lie in offering subsidies to the poor, but in providing the poor with market-based solutions where the poor can become active economic agents. In 2008, Kashf Foundation will combine its efforts with a sister entity - a microfinance bank - which will bring deposit services to the door step of low income clients, in order to enable such households to manage economic vulnerabilities.

At Kashf Foundation, we always listen to the voices of our clients for they are the best teachers, who know best how to combat the growing scourges of poverty, inequity and economic disenfranchisement. Our aim is lofty and ambitious: we intend to reach out to 1 million female clients by 2010. We also intend to venture into rural markets, as well as increasing our presence in the urban areas. At the same time, however, we want to increase the user-friendliness of our products and services by scaling up other innovative services like the home improvement loan and health insurance products.

I thank our Board, the entire Kashf team and our supporters for their commitment, dedication and purposefulness in helping us achieve our goals.

May Allah be with us on this journey!

Warm wishes,

A handwritten signature in black ink, appearing to be 'Roshaneh Zafar'.

**Roshaneh Zafar**

Founder and President,  
Kashf Foundation





2007 was an exciting year for microfinance in Pakistan, with growth over 40% and outreach increasing to 1.4 million borrowers and 1.5 million savers. Kashf demonstrated strong commitment to the growth of microfinance and opened 85 new branches, closing the year with 295,275 active clients. Besides going into 11 new districts in Punjab, greater investment was made to reach out to low income families in Karachi. The market poses high security and political risks, however Kashf believes in providing quality access to the people of Karachi who live in some of the largest slums in South Asia and moving forward to reach out to communities in Sindh.

This year has involved greater reflection on understanding Kashf's impact on our clients particularly women. We believe it is important to hold our selves responsible for our social performance along with operational and financial results. For this, Kashf will be running a pilot of the PPI with GF support. We will also be leading a study jointly with WWB to deepen understanding of gender dynamics, intra household resource allocation and capacity of women to grow their businesses. We will be reviewing how Kashf's service delivery mechanism can be modified to better empower women. Furthermore, gender workshops have been kicked off for all tiers of staff to build greater understanding and consciousness on gender issues and champion women's empowerment through out the organization. An organizational gender audit is planned to analyse organization policies, systems and procedures to support women's leadership opportunities.

I believe our talented people, dynamic management team and value based culture is what defines us as an organization. At Kashf, our focus remains on developing and growing our people and building the right culture. This is a tremendous challenge when ethics and values in our society seem to be on a decline. However, we see this as an opportunity to foster a culture based on respect, integrity and excellence. We strive to be a role model for the communities, for each other and for our fellow citizens. To build greater management depth, we have launched a middle management development plan where we are partnering with LUMS to develop future leaders. Furthermore, we are setting up systems for mentoring and developing our young talent.

It is a privilege to contribute to our mission of empowerment and poverty alleviation. Every day is a reminder of the fortunate life that I have and the precarious lives the majority of the world lives in. My engagement with Kashf has made me discover the tremendous potential and hard challenges that a woman from a low income family faces. We need to explore ways of making a difference in the next generation i.e. our clients children and increase their pool of opportunities. Lessons from microfinance should be applied to other development fields in terms of assuring quality and reaching scale. The challenge for us is to build an enduring institution, an institution that would enable its people and clients to grow and bring sustained results in the future. With all sincerity, i thank our board, President, donors, supporters and my management team for their active support to the Kashf mission.

*Sadaffe Abid*

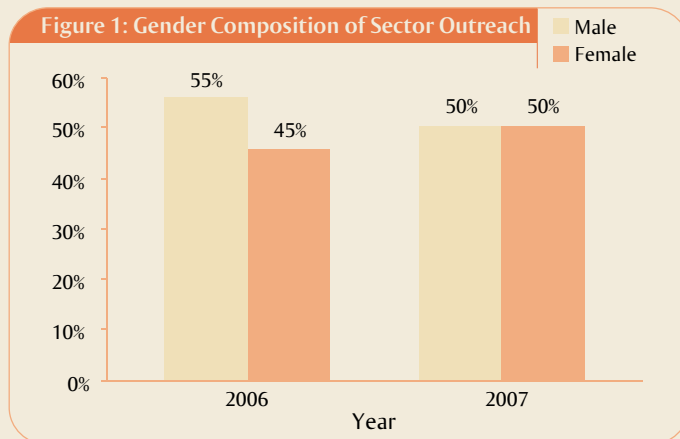
**Sadaffe Abid**  
CEO, Kashf Foundation



SECTION ONE

## Empowering through Customer-centric Products

Kashf Foundation's approach towards designing products involves continuous inputs from clients and an ongoing and detailed market read of popular demand. A thorough understanding of existing as well as potential clients' needs is formed after engaging them on a regular basis. Intensive research supported with a learning framework allows close monitoring both at the pilot stage as well all throughout the product's lifecycle and results in affordable, gender friendly, reliable and accessible services. Branches are conveniently located within the target market and services are extended through a team of well trained loan officers, who ascribe to the belief that the most important visitors to Kashf Foundation's branches are its clients. The sensitivity to gender roles continues through out the relationship from loan appraisal to client screening processes which have been structured around simplified documentation and proactive solutions.



Source: PMN Microwatch Issue 06: December 2007

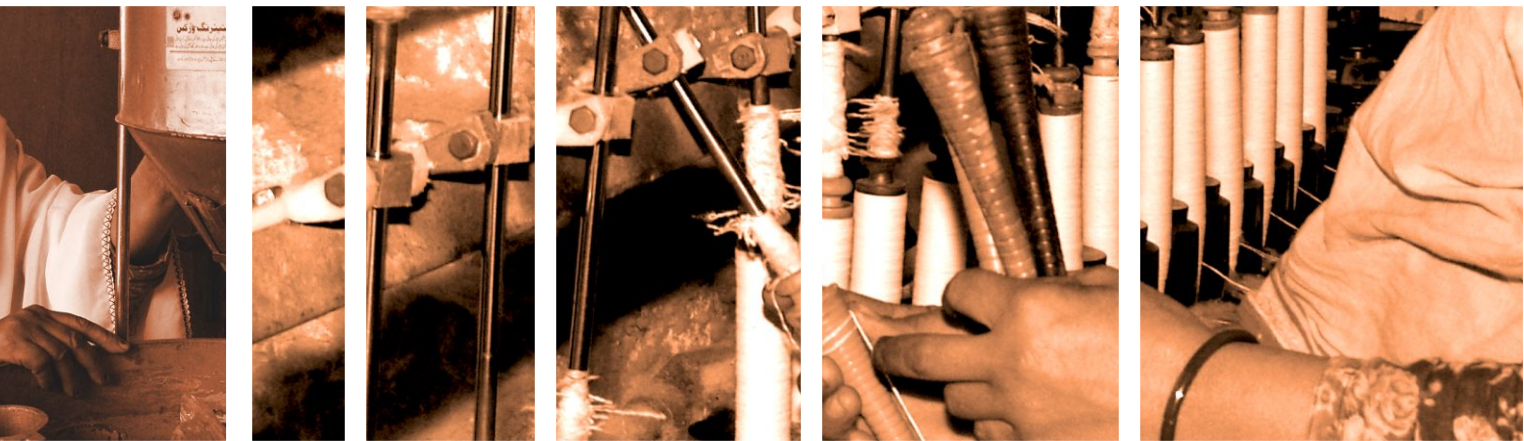
**TABLE 1: PERFORMANCE IN 2007**

	Target 2007	Actual 2007
Active Clients	315,000	295,396
Female Clients Ratio - Poverty lending	100%	100%
Female Clients Ratio - Small	15%	3%
Enterprise Lending - Number Of Branches	157	154
Number of Districts	22	22
Client Exit Percentage	6%	8%
Portfolio at Risk (PAR) %	<1%	0.74%
Outstanding Portfolio (Rs billion)	3,095	3,048

Gender mainstreaming lies at the heart of the Foundation's mission. Kashf Foundation has proved beyond doubt that women form an essential part of the economy contrary to conventional wisdom. However, data from the sector provides a different picture since women form only 50% of the overall clients in the sector, a number that has slightly improved over the previous year (Refer to Figure One). Kashf Foundation's role in providing women space within the microfinance sector cannot be emphasized enough and continues to influence key stakeholders in the sector to further improve women's access to financial services.

**TABLE 2: PRODUCTS AND SERVICES**

FEATURE	GENERAL LOAN	EMERGENCY LOAN	HOME IMPROVEMENT LOAN	BUSINESS SARMAYA LOAN	INSURANCE	HEALTH INSURANCE
	(GL) "Growing opportunities together!"	(EL) "Financial services whenever, wherever!"	(HIL) "A better home for you!"	(BSL) "Grow your business with Kashf Foundation!"	"We are with you always!"	(HI) "Planning for a healthier future!"
Loan Purpose	Income generating	Consumption	Asset Enhancement/ Home Improvement	Small & Medium Enterprise Development	Loan Insurance	In patient hospitalization coverage to a maximum of Rs 25,000 per annum
Amount Per Loan	Rs. 10,000 - Rs. 35,000	Rs. 4,000	Rs. 50,000 – Rs. 70,000.	Rs. 30,000 - Rs. 100,000	1.5% of loan size	350 per person per annum
Period of Repayment	1 year	6 months	4 years	1-2 years	Linked to loan	Linked to Loan
Service Charge	20%	10%	15%	18%	None	None
Number of Instalments	24 (Fortnightly)	12 (Fortnightly)	96 (Fortnightly)	12-24 (Monthly)	Upfront Payment	Upfront Payment
Eligibility Criteria	Household Income of Rs. 3000 - Rs. 10,000	Must be an active GL client	Must be an active GL client	Business operational for a minimum of 2 years	Must be an active GL client or BSL client	Must be an active GL client



## Innovating Change

Ground-breaking and unique products, based on clients' needs and the organization's mission of reaching out to low income female clients, has been Kashf Foundation's hallmark. In 1996, Kashf was the first specialized MF programme in Pakistan offering a simple productive income generating loan. This was soon followed by a new innovation in the sector by the introduction of the "credit card for the poor", that is the Emergency loan to meet small unplanned contingencies. The organization pioneered the first micro insurance product of its kind in Pakistan, followed by another first in piloting an individual lending product targeting micro and small entrepreneurs in 2005. Listening to its clients' high priority for home improvement expenditures, the Foundation has also introduced a home improvement loan in 2006. Additionally in 2007, Kashf Foundation began a pilot for a health insurance product with plans of adding more options such as maternity and family coverage in the future.

TABLE 3: TIME TO MARKET - PRODUCT TIMELINES

Product	1996	1998	2001	2005	2006	2007
General Loan						
Emergency Loan						
Life Insurance						
Business Sarmaya Loan						
Home Improvement Loan						
Health Insurance						

## Products & Services

### GENERAL LOAN (GL):

The GL continues to be Kashf Foundation's flagship product and has created sustainable financial opportunities for thousands of poor families across Pakistan. The essence of the product is to strengthen peer-based alliances through building groups of 25 women from a given locality. As part of the loan process, men and women within a household negotiate and agree on the purpose of the loan, thus establishing gender parity vis-à-vis financial decision-making. Kashf Foundation ensures a speedy client processing period of 15 days for new and 1 day for repeat clients.

TABLE 4A: GL PRODUCT OUTCOMES

PRODUCT: GL	2006	2007	Cumulative	% Change
Active Clients	133,363	282,396	–	112%
GL Amount Disbursed (Rs.)	2,030,972,183	4,040,298,000	8,762,681,166	99%
# of Loans Disbursed	133,489	282,549	660,558	112%
GL Amount Outstanding (Rs.)	1,338,923,784	2,536,387,421	–	89%
Average Loan Size (ALS)	15,214	14,299	13,266	-6%
Product wise PAR	0.08%	0.30%	–	275%

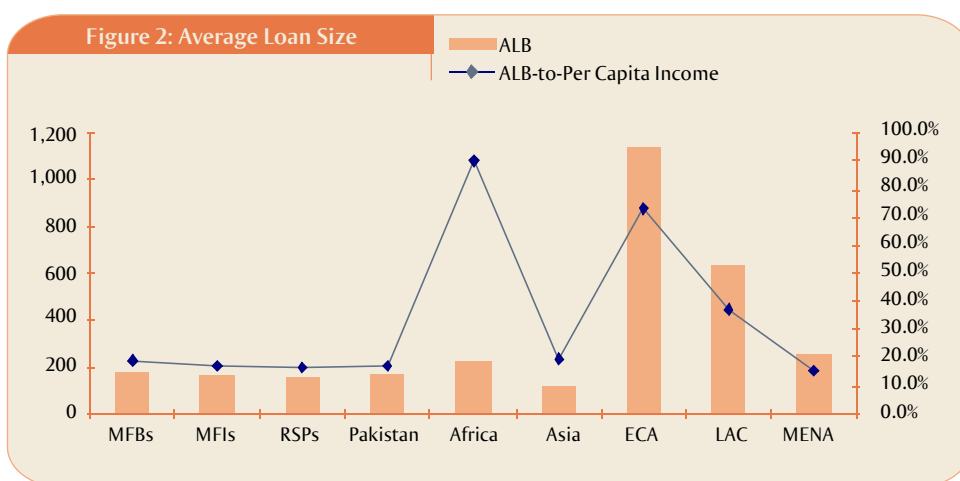
*“With an increase in the general loan amount each year we have been investing our money in a diversified set of enterprises. With the first loan, my husband established a fruit stall so that he could become self sufficient; two years later I used the amount to set up a small snack making venture for myself and this year with the amount of Rs 50,000 I shall enable my son to earn a decent living through a cloth store.”*

Kishwar Baji

In 2007, Kashf Foundation has pursued an expansion strategy with a vision to establish a sustained footprint in new markets. Over this year, the Foundation has entered 11 additional districts in Northern, Central and Southern Punjab thus strengthening its market position from 11 districts in 2006 to 22 districts in 2007, along with substantially growing its portfolio in Karachi.

Kashf Foundation's overall market share<sup>1</sup> has increased from 14% in 2006 to 20.1% in 2007, thus making it the third largest provider of microfinance in the country, while in Karachi it has now become the first provider of choice for low income clients.

In terms of clients, the total number of GL clients has grown from 133,363 to 282,396, implying an overall annual increase in clients of 112%, compared with an annual growth rate of 80% in 2006. Total amount disbursed has also increased from Rs 2,030 billion to Rs 4,040 billion while the number of loans increased from 133,489 to 282,549 in the current year. In other words, GL has performed well in terms of all indicators, including the outstanding balance, which has grown 89% since 2006.



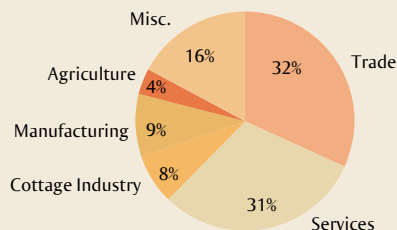
Source: Pakistan Microfinance Review 2006 (PMN). ALB: Average Loan Balance

<sup>1</sup> (Formula Calculation) Kashf Market Share: Kashf's Outreach in Pakistan/ Total Industry Outreach in Pakistan. Numbers for Outreach have been taken from the Micro Watch PMN, Issue 02: December 2006 and Issue 06: December 2007.

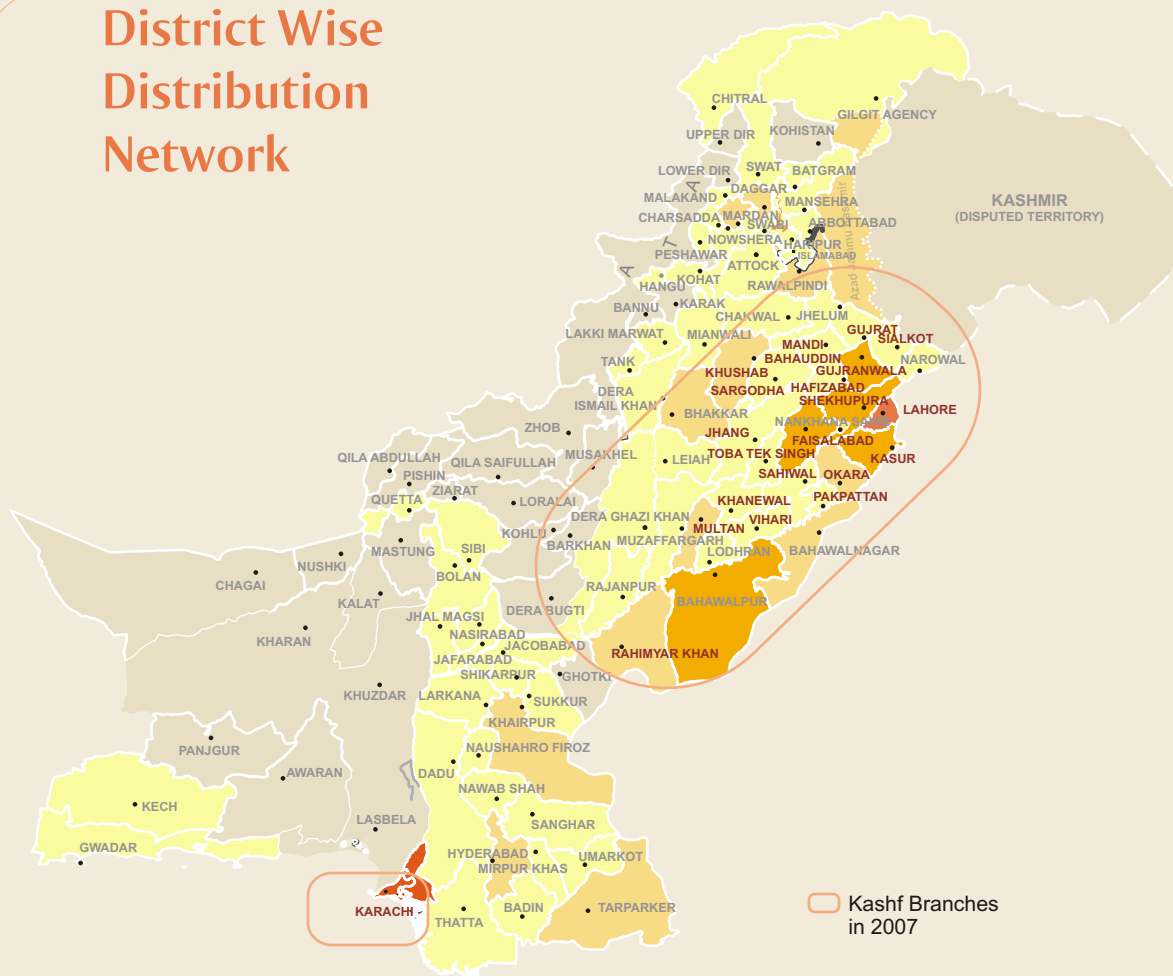
The average loan size (ALS) is a good benchmark for determining the ability of an organization to reach out to poor clients. As the ALS grows, it suggests that either a greater percentage of clients are moving into higher loan cycles or that the microfinance provider is focusing on a different market niche. In 2007, Kashf Foundation's ALS has slightly declined in the light of its strategy to reach out to new clients in new markets and its continuing focus on targeting low income and vulnerable communities. In terms of the sector, Kashf Foundation continues to be at the forefront of targeting low income clients, since its ALS is in line with the general loan size trends in the rest of the Asian region, as can be seen in **Figure 2**.

Another interesting trend to analyze is the sector wise distribution of loan use by clients as can be seen in Figure 3. First, and more importantly, it bears testament to the breadth of clients' entrepreneurial spirit and their resolve to work in a mixture of urban and semi-urban settings in order to provide economic sustenance and a better social standing for their families. Second, it shows that Kashf Foundation is investing in a diversified portfolio, ranging from manufacturing to trading in a variety of geographical environments, thus effectively managing the risk of its portfolio.

Figure 3: Sectoral Distribution of Loans



## District Wise Distribution Network



Source: PMN Microwatch Issue 06: December 2007

*“The emergency loan with its ease of access saves us from the embarrassment of asking our friends and relatives for money in times of a financial crunch.”*

Sakina Baji

### EMERGENCY LOAN (EL):

An innovation within the GL product, the EL is an open ended offering with regards to its purpose. With its bi-annual availability, this loan is specifically geared towards providing funds during a financial emergency. Even with careful planning, household budgets sometimes tend to inflate, and expenditures such as utility bills and children's educational fees demand immediate payment. For thousands of clients over the years, EL has served as a timely relief to bridge the financial gap as well as save customers from the discomfiture of requesting their friends and relatives for assistance, who often themselves have limited resources. Furthermore, the EL's gender friendly features are valued highly by Kashf Foundation's women clients.

TABLE 4B: EL PRODUCT OUTCOMES

PRODUCT: EL	2006	2007	Cumulative	% Change
EL Amount Disbursed (Rs.)	341,261,000	641,918,400	1,354,548,069	88%
# of Loans Disbursed	92,627	170,359	422,649	84%
EL Amount Outstanding (Rs.)	107,502,593	189,434,870	–	76%
Average Loan Size (ALS)	3,684	3,768	3,205	2%
Product wise PAR	0.003%	0.02%		567%

The amount of EL disbursed in the year has grown from Rs 341 million to Rs 641 million, implying an overall annual growth rate of 88%, while the total number of loans disbursed has also grown from 92,627 to 170,359 over the same period. Like the GL, the EL has also shown strong performance in terms of numbers over 2006, with the outstanding amount for the product growing at 76% over the year. The key drivers in sustaining the rapid growth in the size of the EL portfolio continue to be its ease of access and pro-client features.

*“Kashf has always designed their product around our needs. Moving from the General Loan towards the Business Sarmaya Loan, we have found increasing flexibility in the product design: the increased credit amount, monthly installment and early repayment option make the BSL a first choice for an entrepreneur who wants to grow his business.”*

Hameeda Baji

### BUSINESS SARMAYA LOAN (BSL):

The BSL was introduced to meet the financial needs of micro and small entrepreneurs in 2005. This particular market segment is considered to be the missing middle of the financial markets. Mainstream commercial financial institutions have typically shied away from catering to such clients, while MFIs consider them to be slightly above their current target market. The BSL primarily targets small businesses that have a fast turnover through a unique loan appraisal methodology and credit scoring model. The BSL focuses on experienced entrepreneurs, who have been running

businesses for a minimum of 2 years, and, employs alternative collateral mechanisms like the inclusion of a reputable and credible personal guarantor to ensure that clients who qualify are able to get a BSL in less than 5 days.



TABLE 4C: BSL PRODUCT OUTCOMES

PRODUCT: BSL	2006	2007	Cumulative	% Change
Active clients	2,434	12,470	–	412%
BSL Amount Disbursed (Rs.)	97,745,000	474,895,000	584,780,000	386%
# of Loans Disbursed	2,478	12,788	15,602	416%
BSL Amount Outstanding (Rs.)	75,834,922	293,326,099	–	287%
Average Loan Size (ALS)	39,445	37,136	37,481	-6%
Portfolio at Risk (PAR) %	0.74%	4.97%		572%

The first two years of the BSL provision, that is 2005 to 2006, were essentially the pilot phase for the product, where the core features and attributes of the product were aligned to the needs of the market. 2007 has been the year of scaling up the product and ramping up outreach, which can be seen in terms of the phenomenal increase in numbers, where the overall clientele has grown from 2,434 to 12,470 clients, translating into an annual growth rate of 412%. At the same time, the amount disbursed has also increased substantially with an annual increase of 386%, while the outstanding portfolio has grown from Rs 75 million to Rs 293 million from 2006 to 2007. The main challenges for scaling up the product relate to improving the quality of client appraisal along with reaching out to more female entrepreneurs. Furthermore, the current gender ratio of this product is very low, as at the close of 2007, only 364 out of the total clients were women, that is a mere 3% of overall outreach.

*“I always felt the need to raise the floor of my house considering that each year Monsoon rain swept through inundating every inch of my house, however I never had the money to make this investment. However, given the appropriate features of the HIL particularly its small installment size, I was able to manage cash-flows to fit appropriately with our construction plans. I am now paying my installment without putting too much strain on my business.”*

Rihana Baji

### HOME IMPROVEMENT LOAN (HIL):

Housing construction and home repair costs are identified as a key financial concern by clients, who often dedicate a significant proportion of their savings to meeting this need. Keeping in view the evolving needs of clients, Kashf Foundation began to pilot a home improvement loan in late 2006. The main purpose of this was to enable clients to enhance the asset value of their dwellings and at times to also improve and diversify their sources of income. Delivered through the same distribution network as the GL, the HIL is marketed along with the other products to loyal and credible clients who have a demonstrated history with the organization.



TABLE 4D: HIL PRODUCT OUTCOMES

PRODUCT: HIL	2006	2007	Cumulative	% Change
HIL Amount Disbursed (Rs.)	14,680,000	20,956,519	35,636,519	43%
# of Loans Disbursed	215	315	530	47%
HIL Amount Outstanding (Rs.)	22,221,702	23,048,814	45,270,516	4%
Average Loan Size (ALS)	68,279	66,529	67,239	-3%
Portfolio at Risk (PAR) %	0%	0.17%		

During the pilot phase of the product several important lessons emerged; generally it was seen that investments in the home were linked with an enhanced social status of the households especially improving women's position in the household, most HILs were utilized for the purpose given, overall repayment capacity for the product can be linked to the number of years the client has been with the Foundation, to name a few. The next phase of the home improvement loan shall focus on testing the scalability of the loan in a more diversified setting.

*“This is a bonus feature with the primary loan product and gives us a great sense of security that our families shall not be burdened with the loan installments in case I or my husband passes away. This has enabled me to confidently apply for higher loan amounts in successive loan cycles”*

Naila Baji

## Other Services

### CREDIT FOR LIFE INSURANCE:

The credit for life insurance coupled with the GL product has provided a unique benefit for the Foundation's clients. Requiring only a nominal one-time premium, this service frees the family of the deceased clients from any further loan repayment liabilities in case of the demise of the client or her spouse, besides providing assistance for burial related costs.

TABLE 5: INSURANCE PRODUCT OUTCOMES

PRODUCT: INSURANCE	2006	2007	Cumulative	% Change
Number of Lives Covered	277,448	593,454	870,902	114%
Premium Collected (Rs.)	40,178,873	86,423,668	126,602,541	115%
Number of Claims	578	1,788	2,366	209%
Claims Paid	10,904,448	28,973,380	39,924,828	166%

As shown in the product timelines, Kashf Foundation was the first MFI in Pakistan to offer a simple life insurance product to its clients, because of which today over 781,440 clients are provided coverage in the sector as a whole<sup>2</sup>. The overall coverage for the 2007 grew from 277,448 to 593,454 lives, which translates into an annual growth rate of 114%. Over the past year, the claim ratio has been at 33%, which has been an industrial norm in the sector.

<sup>2</sup>PMN Microwatch December, 2007.



*“I initially balked at such a high cost of Rs.700 which I thought was a waste of my valuable resources however 2 months later when my husband fell sick I realized the value of paying out this amount.”*

Shehnaz Baji

## HEALTH INSURANCE

Low income households often confront problems of low nutrition and unhygienic living conditions. Such conditions tend to lead to diseases that require hospital care. Lack of resources force low income households to treat patients at home or seek medical care from “quacks”, often, leading to recurring diseases or in a large number of cases to mortality. In other words, both prolonged illness and the death of a bread winner can bring low income households to square one. In 2007, Kashf Foundation began to pilot a health insurance scheme with the support of the Aga Khan Agency for Microfinance (AKAM) and the New Jubilee Insurance (NJI). The health insurance product provides hospitalization expenses up to a maximum of Rs 25,000 and is currently being offered to the client and her spouse. However, in the future the product will be revised to reflect the needs of the family and women in particular.

## Gender Empowerment and Social Advocacy (GESA)

*“The theatre performance enacted a story where a father was going to sell his daughter to an older man. Faced with this dilemma the performers asked us whether it was the right thing for the father to do? We all unanimously said the father should not take this step. This kind of activity has made us realize that we should express our opinion when we believe someone is not doing the right thing!”*

Rukhsana Baji

Kashf Foundation has maintained its focus on women's empowerment and social capital generation through its GESA activities. The GESA unit was established with the view to addressing and raising consciousness concerning social issues, such as, violence against women, importance of girls' education, family planning and healthcare and gender discrimination. GESA uses a portfolio of reinforcing activities to strengthen the Foundation's mission which includes holding gender information forums, forming community gender councils and conducting theatre performances. In addition GESA provides leadership skills to women entrepreneurs by delivering leadership development trainings. GESA also conducts gender trainings for the Kashf Foundation staff in order to create greater ownership of gender issues within the organization.

## Delivery Methodology

Kashf Foundation uses solidarity groups as a distribution channel to deliver financial services to low income households. Solidarity or "Peer Group Lending" not only lowers the administrative costs associated with screening and managing loan collection, it also eliminates the requirement of physical collateral which may be difficult for such households to arrange. The approach relies on already existing "social networks" in urban and peri-urban communities. The power of solidarity lending can be seen through the 14,435 vibrant and dynamic Kashf Foundation centers where loan transactions are regularly completed and the 14,435 women centre leaders who are the fore front of financial decision-making for their centers.

TABLE 6: KASHF FOUNDATION DISTRIBUTION NETWORK

GL NETWORK STRUCTURE	2006	2007	% Change
Number of Districts	11	22	100%
Number of Regional Offices	1	4	300%
Number of Area Offices	10	20	100%
Number of Branches	63	139	121%
Number of Centers	5,411	14,435	167%
Number of Center Managers	5,411	14,435	167%

## Counting to Inclusion in the Future

Although Kashf Foundation's focus has been primarily on urban and peri-urban areas, devising and designing an appropriate methodology to access rural markets is a key strategy in the future. This will involve looking at a new product line to meet the critical needs of rural households, especially women, including agriculture and livestock products combined with a more appropriate and cost effective delivery model. This will also include looking at other service innovations like mobile banking which can potentially lower the overall operational costs, especially in the context of more dispersed populations.

Kashf Foundation will continue to work ceaselessly in making its current set of products more women and poor friendly and will consistently under take gender audits of its policies and procedures in order to make them more women driven. Additionally, the Foundation also intends to undertake extensive research in designing a financial strategy for the extremely vulnerable and disadvantaged households, who would normally not be considered bankable by MFIs. These graduation schemes would enable such households to enhance their credibility and ultimately link up with MF programmes.

Other innovations will include the introduction of a solar energy pilot which will enable Kashf Foundation's clients to overcome the existing and growing energy crisis in the country. Kashf Foundation also believes that transformation over the long run can only happen with the increased educational status of the children of Kashf families. With time, the Foundation intends to introduce a scholarship programme for deserving students of its clients.

The Kashf family will grow with the introduction of a group of financially inclusive and mutually reinforcing companies, including the Kashf Foundation and a microfinance bank in the future. The mutual alignment of the two entities will ensure that the Foundation along with its sister entity can offer savings to its low income clientele in a demand oriented and cost effective manner. Research has shown that there is a high latent demand for savings amongst Kashf Foundation's particularly for goal oriented long term savings, which can have a long term impact on poverty alleviation and women's empowerment. Through this mutually reinforcing and synergistic environment, the Foundation and the microfinance bank intends to reach out to over 1 million low income depositors.

SKOLL AWARD

TOP  
50 MFIs

FINANCIAL  
RETURN

EFFICIENCY

PAR at 0.73%

SUSTAINABILITY

SECTION TWO

## Building Sustainable Relationships

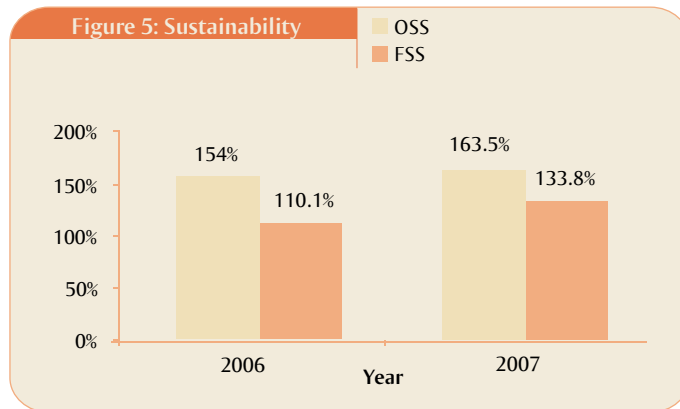
During the year 2007 Kashf Foundation was ranked amongst the Top 50 Microfinance Institutions (MFIs) of the world by Forbes and MIX market. Kashf Foundation's world class performance highlights that not only can a microfinance institution targeting low income female clients be sustainable; it can also be a leader and a pioneer in the field. Furthermore, the Foundation also received a financial award from the Skoll Foundation for its commitment to serving low income female clients. Keeping this in view, most financial indicators for this period have been exceptional. One indicator however that is worth mentioning up-front, given the recent economic crisis faced by poor households in Pakistan due to the growing food inflation and the increasing energy prices, is the loan performance ratio. Throughout this period, Kashf Foundation's portfolio quality has been stellar with portfolio-at-risk (PAR) at 0.73% at the close of 2007. The strong portfolio performance of the Foundation continues to be one of the key financial drivers for the overall performance of the organization. It also underscores that Kashf Foundation's clients value long-term and sustainable relationships with the organization.

Fig 4: Forbes Top 50 MFIs

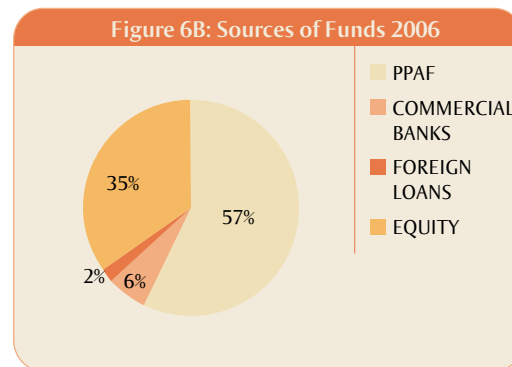
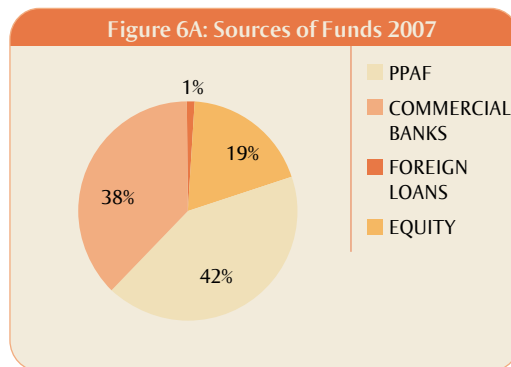
32	MI-BOPOS TUZLA	Bosnia and Herzegovina	128	120	283	1
33	Fundacion Para La Promocion y el Desarrollo	Nicaragua	173	89	171	100
34	Kashf Foundation	Pakistan	123	194	219	1
35	Shakti Foundation for Disadvantaged Women	Bangladesh	170	221	151	1
36	Enda inter-arabe	Tunisia	198	90	257	1
37	Kazakhstan Loan Fund	Kazakhstan	120	118	320	1
38	Integrated Development Foundation	Bangladesh	300	134	140	1
39	Microcredit Organization Sunrise	Bosnia and Herzegovina	114	103	341	17

Source: Taken from The 50 Top Microfinance Institutions.  
[http://www.forbes.com/2007/12/20/microfinance-philanthropy-credit-biz-cz\\_ms\\_1220microfinance\\_table.html](http://www.forbes.com/2007/12/20/microfinance-philanthropy-credit-biz-cz_ms_1220microfinance_table.html)

# Sustainability



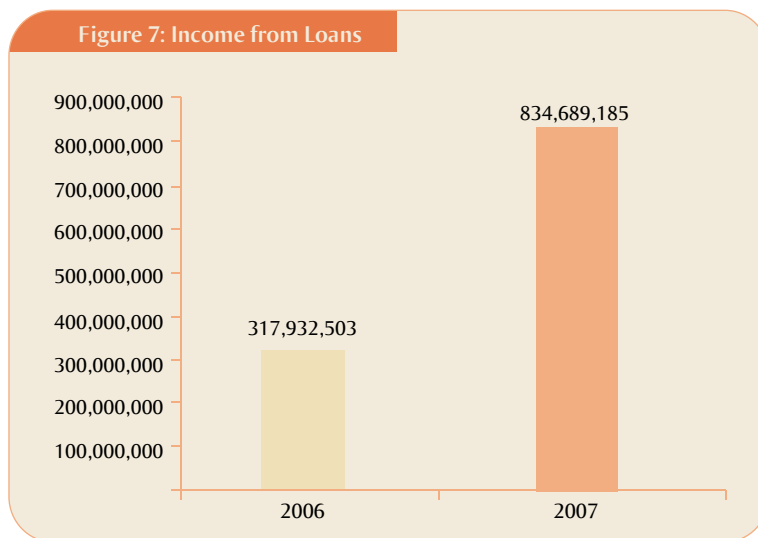
The figure above illustrates that operational self-sufficiency (OSS) increased from 154% to 163.54%, witness to the fact that Kashf Foundation continued to expand aggressively during this year as well. OSS illustrates the ability of the program to cover its operational costs from income generated. Financial self-sufficiency (FSS) ratios have also increased from 110.05% to 133.80% due to a lower cost-of-funds (COF) adjustment for this year as compared with 2006, as a greater portion of on-lending funds were sourced from commercial entities (Please see Figure 6A and 6B below), since FSS values the income of the MFI against expenses adjusted for all subsidies. This has been combined with better liquidity management and cash management practices throughout the organization, which have drastically reduced the amount of financial float in each branch.



During 2007, Kashf Foundation has built strong and long term relationships with multiple financial entities and has begun to rely more critically on commercial sources of credit, thus considerably diversifying its sources of funds. During this year the Foundation was able to close two ground-breaking deals with different financial providers worth US\$ 24 million, thus placing the Foundation amongst the pantheon of commercially reliant microfinance institutions globally. Over the past year, the sources of credit have changed from 57% of funds coming from PPAF loans in 2006 to a more balanced portfolio mix with 42% of funds from PPAF, 38% from commercial banks and 19% from internally generated equity. Cognizant of best financial practices, the Foundation has maintained a healthy debt-to-equity ratio for 2007 at 1.8, thus providing adequate cushion to raise further debt in 2008. Furthermore, during this period Kashf Foundation has also continued its strong focus on reducing cash as a percentage of overall assets in order to enhance its investment income over the year. Cash as a percentage of overall assets has been maintained at 3% in 2007,

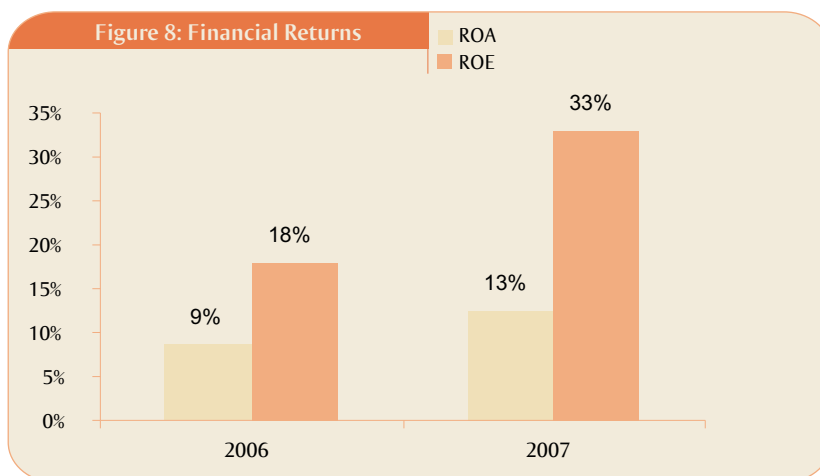


while income from investment grew from Rs. 32.3m in 2006 to Rs 46.4 million in 2007, implying an overall increase of 43% in investment income realization. Over this period, income from loans has also grown considerably from Rs 318 million in 2006 to Rs 834 million in 2007, implying a 162% increase income over the previous year (See Figure 7 below).



## Financial Returns

The organization's equity rose to Rs 1.45 billion compared to last year's equity of Rs 932 million. The growth of Rs. 494 million in equity resulted from increased revenue generation from loans as analyzed in the previous section, along with stronger treasury management practices. Furthermore, the total asset base grew to Rs 4.0 billion from 2.0 billion last year, thus enhancing the ability of the entity to generate income at a higher rate, as mentioned earlier. This was combined by a large expansion in the customer base, improvements in the yield on portfolio along with tight budgetary controls, which also helped to sustain and improve financial returns. Hence, the changes in all these indicators reflected positively on Return on Assets (ROA) and Return on Equity (ROE) for the year 2007, which grew from 8.72% to 12.53% and 18% to 33% respectively, implying that the Foundation has been able to apply its assets effectively to generate a solid return.



## Efficiency

**TABLE 8: EFFICIENCY AND PRODUCTIVITY**

EFFICIENCY INDICATORS	2006	2007
Cost per Loan	Rs. 1,018	Rs. 1,067
Cost per Borrower	Rs 1,713	Rs. 1,682
Client per Loan officer	421	427
Client exit ratio	6%	8%
Operating Efficiency	23.96%	25.47%
Administrative Efficiency	17.88%	14.37%

Efficiency indicators are integral to gauge the performance of an MFI since they reflect whether existing resources are being utilized efficiently to maintain the quality of its portfolio and to service its target market. During 2007, operating efficiency increased from 24% to 25.5% and is strongly affected by the 63% increase in personal expenditures over last year, along with the increase in the cost of funds (COF) for the year, which grew from 4.33% to 7.38% from 2006 to 2007. The increase in COF can be attributed to the greater reliance on commercial sources of funds. However, it is important to note that administrative efficiency which measures the overall personnel and administrative expenses over the average outstanding portfolio, substantially improved over this period from 17.9% to 14.4%, respectively. This has resulted from improvement in deploying funds faster to the field and ensuring quick and low transaction time to service repeat clients. These measures have in turn ensured that the client exit ratio over the year was maintained close to that of 2006, that is, in 2007 client exit rate was kept at 8%. All the above have been combined with regular monitoring of annual budgets and rationalization of key expenses. In terms of clients per loan officer, vis-à-vis 2006, 2007 saw a minor increase in clients per loan officer. Due to the aggressive growth strategy of the Foundation, a large induction of staff took place. As a result, although the case load of loan officers in mature branches increased, it was offset heavily by the lower productivity of new branches.

## Transparency

Kashf Foundation's has committed itself to abiding by high standards of information disclosure. This entails provision of public documents in a timely, accurate and consistent manner such as quarterly and annual reports which are made available to all stakeholders and are also available on the Kashf Foundation website. Furthermore, standards of reporting cater to internationally established norms of integrity. Regular data is sent to various external agencies such as the Pakistan Microfinance Network (PMN) which continuously reviews and reports on the microfinance sector through their publications such as the Micro Watch and the Pakistan Microfinance Review (PMR)<sup>1</sup>. Mix Market's 5 Diamond Evaluation of Kashf Foundation clearly indicates Kashf's commitment towards this end. Kashf Foundation has also been consistently ranked in a high tier of credit rating by the JCR-VIS. Being rated BBB since 2004 with regards to medium and long term, the entity achieved an upgrade to BBB+ during this year. Besides providing regular updates, a variety of controls, for example, regular internal audits and external audits are put in place to ensure greater credibility. Additionally, a range of donor audits are also held during the year. By setting high benchmarks of accountability Kashf Foundation is promoting transparency and a good governance structure, which underscores consistent management, cohesive policies and state-of-the-art processes.

## Truth in Lending

Kashf Foundation believes in truth and integrity in lending. Keeping this in view, the Foundation has been at the forefront of educating clients and improving their awareness regarding lending policies and procedures. The threshold of client education begins the day loan officers get in touch with potential clients and start an initial conversation. The critical features and elements of the loan products are discussed with both the female clients and their families, thus initiating a process of financial literacy and awareness. This open and transparent relationship is the basis of all future interactions between the client and the Foundation. Prior to disbursing any loans, clients are provided all the details of documentary requirements and charges, and once loans are disbursed each client is given a passbook, which includes the details of the loan amount and all charges, along with providing the installment size and details of the loan tenure. The passbook is regularly updated to account for the amount paid and the amount outstanding for each client, thus building relationships that are strong, healthy and transparent.

<sup>1</sup> Previously published as Performance Indicators Report (PIRs)







SECTION THREE

## Providing Equal Opportunities through Peer Learning

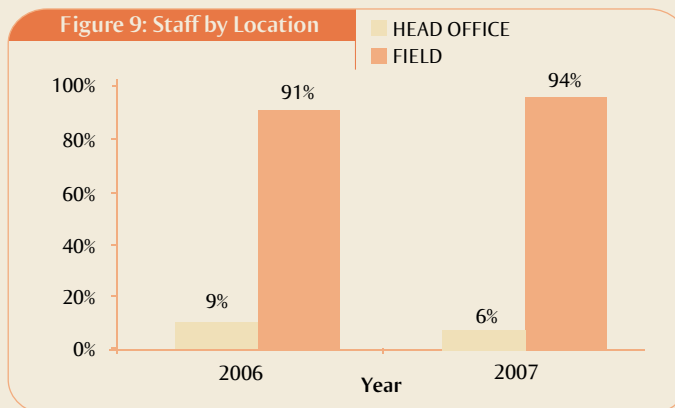
Kashf Foundation is committed to creating a professional and inclusive environment for its employees through proactive and staff friendly policies. Human resources, their management and their long term strengthening, continue to play a very important role in helping the Foundation realize its long term goals. This is further enforced by building a strong culture of corporate ethics which is supported by a clear focus on performance based management. The HR strategy involves working closely with all departments to accurately determine personnel needs and design efficient people's solutions that will achieve business goals.

The rapid expansion of Kashf Foundation in the year 2007 in terms of geographic distribution of its branches and outreach to an ever-growing number of clients, has led to an overall increase of 70% in the employee strength. At present, Kashf Foundation is a growing family of 1,565 people, with 902 staff recruited over this period. To accommodate the increase in the number of Kashf clients, more field staff was hired over this period. The ratio of field staff to the head office staff increased as the total number of field personnel grew from 847 personnel in 2006 to 1,477 personnel in 2007 (See Figure 9, on next page).

*“The experience I have had of working at Kashf has deepened my understanding of humanity. During my time here, I have realized that not only the lives of our clients have been changed phenomenally, but our lives have also been transformed for the better. Nothing can be more gratifying than the feeling that I make the world a better place just by going to work everyday!”*

Shahla Sattar, Finance Department

Figure 9: Staff by Location



Kashf Foundation involves recruiting and building talent across the board and is led by the following team of dynamic functional heads and leaders:

**President and Founder, Roshaneh Zafar:**

Ms Zafar is a development economist who was greatly inspired by Professor Muhammad Yunus of the Grameen Bank to start her own Foundation in 1996, in order to replicate the Grameen Bank in Pakistan.

**Chief Executive Officer, Sadaffe Abid:**

Ms Abid joined the Foundation in 1997 as a research associate and has worked in several positions including Operations and Research Manager and Chief Operating Officer and has been the CEO of the Foundation since 2006. She has a bachelors in Economics and International Relations from Mount Holyoke College, U.S.A.

**Chief Financial Officer, Khalid Kabeer:**

Mr. Kabeer is a Chartered Accountant and he completed his articleship with Ferguson's. He joined the Kashf Foundation team in 2003 as Manager Finance and since then, has spearheaded many innovations in financial risk management within the organization.

**Head of Operations, Kamran Azim:**

Mr. Azim is a Chartered Accountant by profession and has worked with KPMG (an audit firm) and Total Parco Pakistan (an Oil Marketing Company). He brings a strong financial and market based vision to the management team.

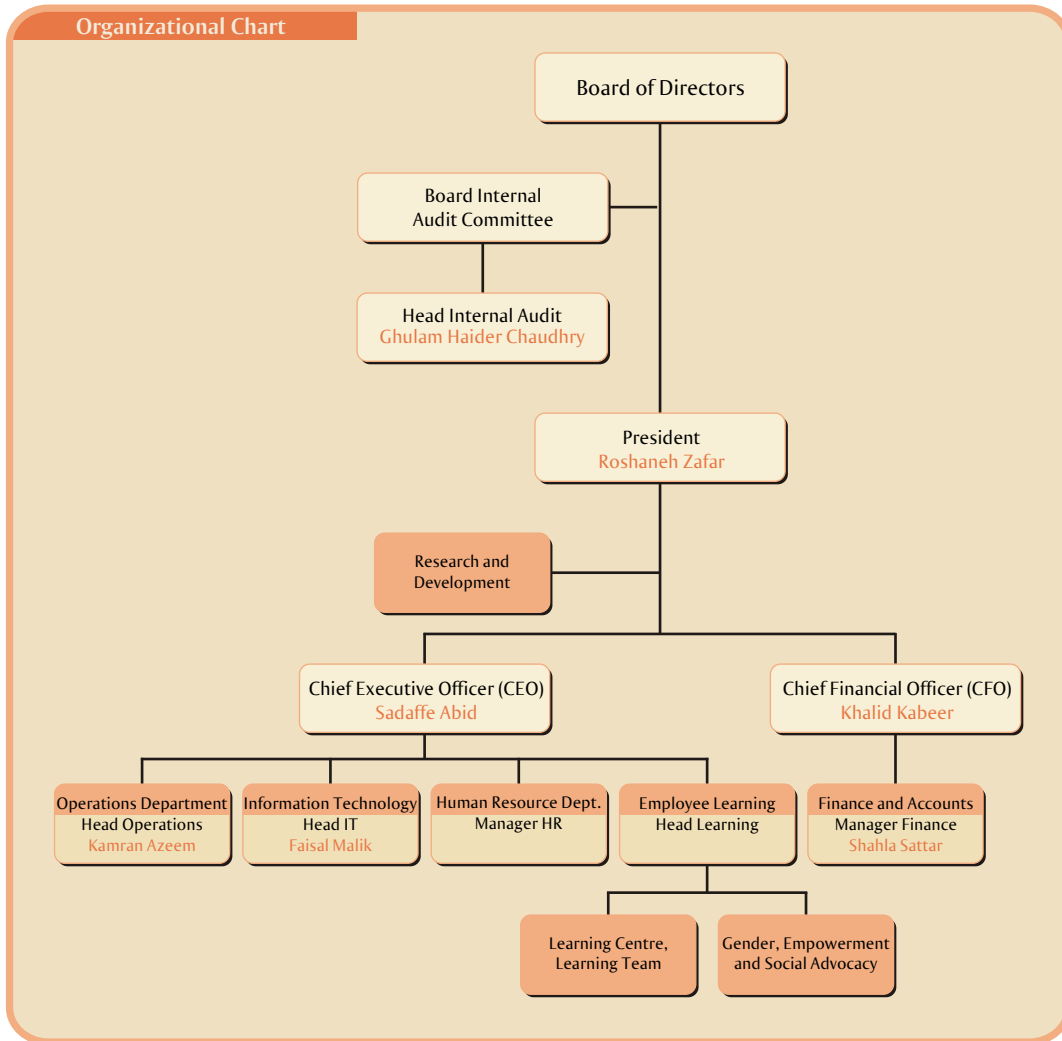
**Head of IT, Faisal Malik:**

Mr. Malik brings a unique combination of Technology and Management Consultancy. Prior to joining Kashf in 2003, he spent his professional career with Ernst & Young and Sprint where he specialized in project management and advisory services.

**Head of Internal Audit, Mr. Ghulam Haider Chaudhry:**

Mr. Chaudhry has more than twenty-five years of audit, accounting, financial management and administrative experience at responsible positions in different national and multi-national organizations, including Saadullah Khan & Brothers.

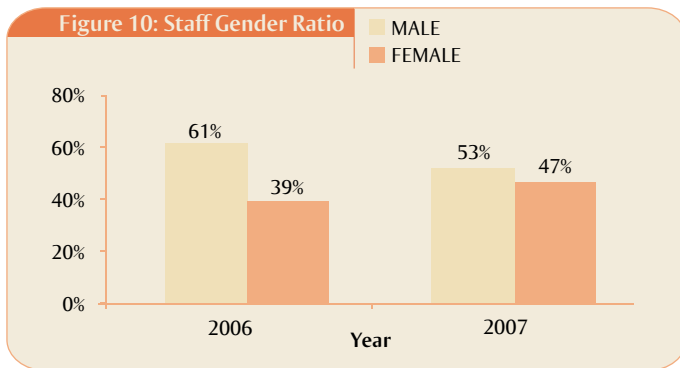
## Organizational Chart



*"I have been working in Kashf Foundation for the past four years, first as a loan officer and now as a branch manager. Everyday, I come across women of extraordinary courage and strength. They are my teachers; through interaction with them, I have understood the meanings of hard work, perseverance, and believing in one's dreams."*

Abid Majeed, Branch Manager, Jora Pul Branch

In the year 2007, 89 team members were internally promoted. This reflects the organization continuing employee focus and the growth opportunities provided to all staff. The Human Resource department is committed to upholding two critical human resource principles; merit and equal opportunity. As a result of its consistent focus on ensuring gender equality, the female gender ratio at the organizational level has increased from 39% in 2006 to 47% at the end of the year 2007. The graph below depicts the improvement in the gender balance in the year 2007 as compared with the gender balance ratio of 2006.



However, employee retention rate fell by 7% at the end of the year 2007 as compared with last year. The year-end employee turnover rate was 17% for 2006, but rose to 24% in 2007. The turnover was highest at the loan officer tier as most of them left the Foundation in the initial six months of their joining the organization, mainly due to poor performance and incompatibility with job criteria. This comprised of 72% of the overall field staff turnover figure for the whole year. More emphasis needs to be placed on improving recruitment procedures, such as screening, staff placements, transfers, confirmation, etc. Future trainings of field staff, in essence, will be focused on providing a better understanding of job responsibilities, team management skills and showing a clear growth path.

**TABLE 9: STAFF TURNOVER RATIO**

YEAR	2006	2007
TURNOVER	17%	24%

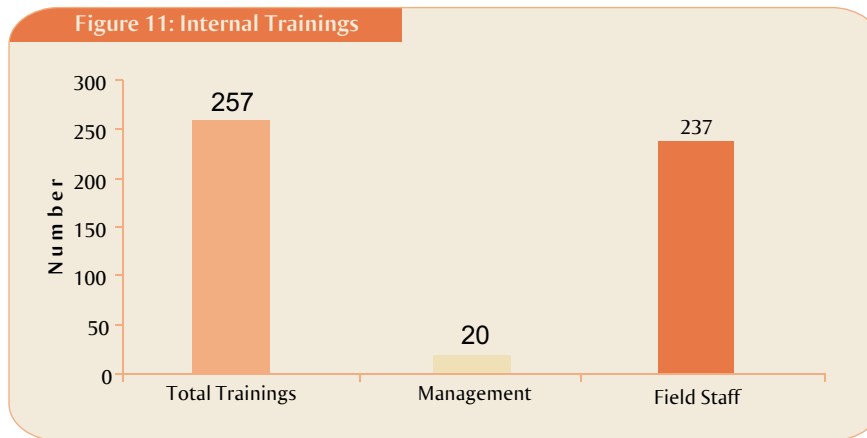
## Learning Centre

*“My experience at Kashf has enabled me to realize that we are all different in the way we perceive the world and we must use this understanding in order to communicate effectively with each other.”*

Arooj Saba, HR Department

Kashf Foundation strives to inculcate a strong desire of personal growth and enhance productive efficiency of its employees, in order to foster a spirit of tenacious creativity and initiative. The Learning Centre at Kashf Foundation facilitates its staff and senior management by continuing to be a source of information to fulfill their ever-changing needs and creating a healthy learning culture. The trainings focus on imparting management and functional skills to the employees, which are in tandem with the needs of the organization and the microfinance sector as a whole. A total of 30 external and 257 internal trainings were held for almost all employees within the organization, from the top management to the field staff. Majority of internal trainings focused on policy refreshers, delinquency management, and customer care and fraud management and were aimed at enhancing skills of field staff (Please see Figure 11). Where as, external trainings laid emphasis on exposing the managers to prevailing practices in the microfinance sector in other parts of the world. The trainings seek to orient employees with the Foundation's mission and goals, and to raise their motivation and performance levels. Overall, 2069 participants were covered through the year with both internal and external trainings.

Figure 11: Internal Trainings







## Managing Exposure through Effective Risk Mitigation

### RISK GOVERNANCE

The risk management activities of Kashf Foundation are integrated and holistic, involving oversight by the Board of Directors and active involvement by senior management where the board governs and the management oversees. The structure is as follows:

NAME OF AUTHORITY	ROLE
Board of Directors	Oversight, Approves Risk Management Objectives, Strategies, Policies and Procedures
Senior Management Level	Active involvement, communicating, establishing sound process for executing all elements of risk management by implementing appropriate policies, limits, procedures and Effective MIS for risk reporting and decision making
Middle Management Level	Implementing Risk Management Guidelines, Monitoring and Controlling, Quality Assurance
Branch Management Level	Direct Monitoring and Controlling, Quality Assurance

### RISK MANAGEMENT COMMITTEE

The term “risk management” is shorthand for “risk and reward management” that is, are the risks aligned and appropriate to the expected rewards and returns. To answer this question and in order to bring all levels and functions into the risk management loop and make the function effective, a risk management committee has been formulated at the management level with the President, CEO, CFO, Head of Operations, IT and Audit Head to look at specific risk factors on an ongoing basis and come up with strategies to address them.



# Enterprise Risk Management

Kashf Foundation has always ensured that an adequate system of controls with appropriate checks and balances is in place. The controls comply with applicable regulatory and internal policies and procedures and take into account the integrity of risk management processes.

These include:

1. An Emergency and Contingency Plan:
2. Integration of Risk Management
3. Risk Measurement
4. Utilization.
5. Management Information Systems

## Risk Philosophy

Kashf Foundation's risk philosophy addresses the establishment and execution of organization wide criteria for the acceptance, monitoring, control and management of risks by ensuring the Foundation adheres to the following concepts:

- Identifying, understanding and measuring risks at all levels in the organization
- Ensuring risk decisions are clear, transparent and consistent with the Foundation's strategic objectives
- Maintaining a risk-reward balance at all times
- Managing risks within the institution's pre-agreed tolerance levels as set by the Board of Directors

## Categories of Risk

Some of the major risks faced by Kashf Foundation include the following:

CATEGORIES OF RISKS	THEIR MITIGATES
Credit Risk	Proper and innovative selection, review, approval and monitoring procedures are designed.
Interest Rate Risk	Adherence to the Fund Management and interest rate risk policy both of which are independently reviewed
Liquidity Risk	Adherence to the Fund Management, Interest Rate Risk Policy and an investment policy also reviewed by an Independent Party
Operational/ Transaction Risk	Comprehensive system of internal controls, infrastructure of robust systems, employee integrity and operating processes
Compliance Risk	Foundation's comprehensive compliance program
Reputation Risk	In addition to mitigates pointed out in operational/ transaction risk they are managed through the use of conflict of interest and code of ethics policy, the privacy policy and the customer complaint policy.
Strategic Risk	Personnel policy, the annual review and approval of the strategic plan
HR Risks	Proper and merit based hiring criteria, provide sufficient and continuous training, provide clear career paths, develop depth of management in key senior and middle management positions, establish targets and incentives for retention of high performers, maintain statistical information on turnover and reasons for leaving, hold standardized exit interviews and analyze results

## Our Supporters

The Foundation would like to thank the following organizations for their continuing generosity and commitment:



**Acumen Fund** is a non-profit global venture fund that uses entrepreneurial approaches to solve the problems of global poverty. Investments focus on delivering affordable, critical goods and services – like health, water and housing – through innovative, market-oriented approaches.



**Consultative Group to Assist the Poor (CGAP)** is a consortium of 33 public and private development agencies working together to expand access to financial services for the poor in developing countries. It is a resource center for the entire microfinance industry supporting innovative products and delivery mechanisms, cutting edge technology and providing novel solutions to the challenges of expanding microfinance.



**The Department for International Development (DFID)** is the part of the UK Government that manages Britain's aid to poor countries and works to get rid of extreme poverty. In addition to its work as a bilateral donor to individual countries, 43% of total DFID development assistance funding goes through multilateral agencies.



**Grameen Foundation (GF)**, a global 501(c)(3) non-profit organization works to replicate the Grameen Bank microfinance model around the world through a global network of partner microfinance institutions. Grameen Foundation's mission is to empower the world's poorest people to lift themselves out of poverty with dignity through access to financial services and to information.



**Pakistan Microfinance Network (PMN)** is a network of organizations engaged in microfinance and dedicated to improving the outreach and sustainability of microfinance services in Pakistan. The network has built greater awareness among policy makers, launched comprehensive capacity building initiatives, and established standards and benchmarks for transparency in MFIs.



**The Pakistan Poverty Alleviation Fund (PPAF)** represents an innovative model of public private partnership. Sponsored by the Government of Pakistan and funded by the World Bank and other leading donors the PPAF provides financial and non-financial support to civil society organizations on a long-term basis.



SHOREBANK INTERNATIONAL

Founded in 1973, **Shorebank International (SBI)** is America's first and leading community development bank. A pioneer in profitably lending to underserved urban and rural communities, ShoreBank has grown to \$2 billion in assets and has affiliates across the United States and international consulting projects around the world.



**Women's World Banking's** mission is to expand the economic assets, participation and power of low-income women entrepreneurs by helping them access financial services and information. It supports a global network of more than 50 microfinance institutions and banks in 29 countries throughout Africa, Asia, Eastern Europe, Latin America and the Middle East, offering them a full menu of advisory services and veteran leadership in the mission to bring financial empowerment to poor women entrepreneurs.



**The Skoll Foundation's** mission is to advance systemic change to benefit communities around the world by investing in, connecting and celebrating social entrepreneurs. By identifying the people and programs already bringing positive changes to communities throughout the world, the Skoll Foundation empowers them to extend their reach, deepen their impact and fundamentally improve society.



**The Citigroup** is an umbrella of companies providing various forms of financial and advisory services. Citi is organized into three major business groups - Global Consumer, Institutional Clients Group, and Global Wealth Management.

**The Citi Foundation**, another company in the Citi Group is committed to enhancing economic opportunities for underserved individuals and families in the communities where we work throughout the world. Globally, the Citi Foundation is focusing on Microfinance and Microentrepreneurship, Small and Growing Businesses, Education and the Environment with a focus on sustainable enterprises that generate jobs and stimulate economic growth while preserving the environment.

## KASHF FOUNDATION

(A company setup under section 42 of Companies Ordinance, 1984)

### BALANCE SHEET AS AT DECEMBER 31, 2007

	Note	December 31, 2007 Rupees
<b>Assets</b>		
<b>Current Assets</b>		
Cash and bank balances	5	499,514,034
Short term investments	6	25,979,992
Micro-credit loan portfolio	7	3,008,778,012
Advances, deposits, prepayments and other receivables	8	91,753,260
Capacity building grants	9	66,910,955
		3,692,936,253
<b>Non-Current Assets</b>		
Long term deposit		620,000
Long term portion of micro-credit loan portfolio	7	72,163,303
Long term investments	10	116,695,452
Operating fixed assets	11	177,282,955
Assets subject to finance lease	12	4,309,834
		371,071,544
		4,064,007,797
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Current portion of		
Liabilities against assets subject to finance lease	13	1,402,604
Borrowings	14	1,141,812,088
Finances under mark-up arrangements	15	9,925,803
Borrower's security deposits	16	9,121,857
Creditors, accrued and other liabilities	17	178,371,900
		1,340,634,252
<b>Non-Current Liabilities</b>		
Long term portion of borrower's security deposits	16	3,577,320
Liabilities against assets subject to finance lease	13	2,483,648
Borrowings	14	1,259,449,608
		1,265,510,576
<b>Contingencies and commitments</b>	18	2,606,144,828
<b>Net Assets</b>		1,457,862,969
<b>Represented by</b>		
Donated funds		364,613,468
General funds		1,060,906,715
Grants related to fixed assets		31,362,794
Fair value reserve		979,992
		1,457,862,969

The annexed notes 1 to 27 form an integral part of these financial statements.

  
CHAIRMAN

  
PRESIDENT

## KASHF FOUNDATION

(A company setup under section 42 of Companies Ordinance, 1984)

### STATEMENT OF INCOME AND EXPENDITURE FOR THE PERIOD FROM FEBRUARY 15, 2007 TO DECEMBER 31, 2007

	Note	February 15, 2007 to December 31, 2007 Rupees
Service charges on micro-credit loans to borrowers		747,950,822
Capacity building grants recognized as income	9	122,442,353
		<u>870,393,175</u>
<b>Less</b>		
General and administration expenses	19	(263,807,368)
Seminar, workshop, research and staff training expenses		(6,094,380)
Loan loss provision	7.5	(69,172,894)
		<u>(339,074,642)</u>
		531,318,533
Other income	20	57,886,460
Financial Charges	21	(156,962,939)
		<u>432,242,054</u>
Other non-operating expenses	22	(2,838,995)
		<u>429,403,059</u>
<b>Surplus for the period</b>		
Portfolio at risk		<u>0.73%</u>
Adjusted Return on Assets (AROA)		<u>8.31%</u>
Adjusted Return on Equity (AROE)		<u>22.39%</u>
Operational self-sufficiency		<u>163.54%</u>
Financial self-sufficiency		<u>133.80%</u>
Active loan clients		<u>295,396</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

  
CHAIRMAN

  
PRESIDENT

## KASHF FOUNDATION

(A company setup under section 42 of Companies Ordinance, 1984)

### CASH FLOW STATEMENT FOR THE PERIOD FROM FEBRUARY 15, 2007 TO DECEMBER 31, 2007

	Note	February 15, 2007 to December 31, 2007 Rupees
<b>Cash flow from operating activities</b>		
<b>Surplus for the period</b>		429,403,059
<i>Adjustments for non cash items:</i>		
Depreciation on operating fixed assets		7,110,143
Depreciation on leased assets		868,209
Capacity building grants recognized as income		(122,442,353)
Return on investments and bank deposits		(36,901,717)
Amortization of deferred financial costs		4,787,141
Financial charges		152,175,798
Gain on disposal of fixed assets		(989,071)
Provision against doubtful receivables		959,421
Loan loss provision		69,172,894
		74,740,465
<b>Surplus before working capital changes</b>		504,143,524
<b>Effect on cash flow due to working capital changes</b>		
Increase in loan portfolio		(1,574,186,388)
Increase in advances, deposits, prepayments and other receivables		(29,758,525)
Increase in creditors, accrued and other liabilities		62,587,022
Increase in borrower's security deposits		3,509,229
		(1,537,848,662)
<b>Cash generated from operations</b>		(1,033,705,138)
Financial charges paid		(115,516,709)
<b>Net cash used in operating activities</b>		(1,149,221,847)
<b>Cash flow from investing activities</b>		
Fixed capital expenditure		(126,669,994)
Sales proceeds from disposal of fixed assets		1,981,285
Return on investments and bank deposits		31,710,727
Proceeds from investments - net		40,461,453
<b>Net cash used in investing activities</b>		(52,516,529)
<b>Cash flow from financing activities</b>		
Capacity building grant funds		101,062,441
Lease rentals paid		(475,145)
Proceeds from borrowings		2,290,144,890
Transaction cost paid for borrowings		(45,681,244)
Repayment for borrowings		(1,073,997,699)
<b>Net cash from financing activities</b>		1,271,053,243
<b>Net increase in cash and cash equivalents</b>		69,314,867
Cash and cash equivalents transferred from society		420,273,364
Cash and cash equivalents at the end of the year	23	489,588,231

 For  :egral part of these financial statements.

**CHAIRMAN**



**PRESIDENT**

**KASHF FOUNDATION**

(A company setup under section 42 of Companies Ordinance, 1984)

**STATEMENT OF CHANGES IN FUNDS FOR THE PERIOD FROM  
FEBRUARY 15, 2007 TO DECEMBER 31, 2007**

	Donated funds Rupees	General funds Rupees	Grants related to fixed assets Rupees	Fair value reserve Rupees	Total Rupees
<b>Balance transferred from Kashf Foundation (the society)</b>	364,613,468	627,443,789	12,425,592	2,146,219	1,006,629,068
Transferred from capacity building grant funds			22,997,069		22,997,069
Surplus for the period		429,403,059			429,403,059
Grants related to fixed assets utilized during the year		4,059,867	(4,059,867)		
Fair value gain during the year on available for sale investments				1,699,052	1,699,052
Gain realised on scale of available for sale investments				(2,865,279)	2,865,279
<b>Balance as at December 31, 2007</b>	364,613,468	1,060,906,715	31,362,794	979,992	1,457,862,969

*Drw*  
for *Amir Khan*  
**CHAIRMAN**

*VR*  
**PRESIDENT**



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