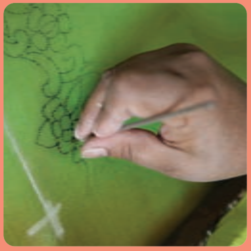



Annual Report 2008

Kashf Foundation

KASHF FOUNDATION

Annual Report 2008

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 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

Managing Director and Founder Ms. Roshaneh Zafar

External Auditors

A.F. Ferguson and Company
Chartered Accountants
Legal Advisors
Mandiviwallah and Zafar Advocates

Registered Office

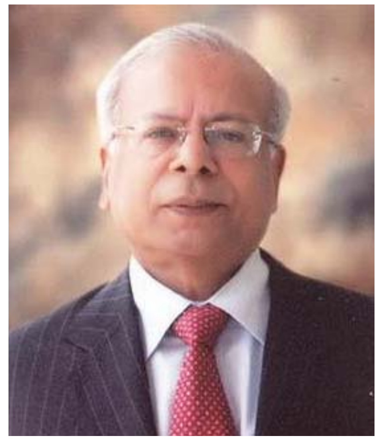
19 Aibak Block, New Garden Town, Lahore
Legal Status: Licensed under Section 42 of the
Companies Ordinance 1984

Photo Credits:

Matthieu Paley <info@paleyphoto.com>
Kashf Foundation Photo Archive

Table of Contents

Chairman's Message



Kashf Foundation believes in enabling women to make the best of their skills, so that they can earn a living for themselves and their families, and can be placed to have a better standard of living. Hence, the Foundation promotes the growth and development of bottom of pyramid users by developing and supporting small businesses, and self employed individuals.

The world has recently experienced a period of economic downturn, which has negatively impacted thousands of individuals the world over. Inequalities have increased, and today, around 4 billion people are living with insufficient resources to lead what is considered to be a dignified life. In such times, the need for microfinance has heightened and so have the risks of providing access to credit to the underprivileged in a hyper inflationary environment. While enhancing outreach of the program is an important element of our strategy, it is the quality of the portfolio that will require special emphasis in the future.

Over the past few years, Kashf Foundation has seen amazing growth and success. From an action program, Kashf Foundation has transformed itself into a leading specialized microfinance provider. Kashf Foundation's economic empowerment program has grown from less than a thousand female clients in June 1999 to over 300,000 female clients in December 2008 with an outstanding portfolio of $42 million and cumulative disbursement of $201 million to approximately a million female clients.

We know that our clients have a growing need for micro-credit and other financial services. Our solutions are carefully tailored, combining industry expertise, intellectual property and a struggle for innovation in a way that the Foundation continues to adapt itself at a time like this. We continually explore, create and adopt new innovations to keep our solutions ahead of the need. Our approach has kept Kashf Foundation at the forefront of our industry for well over a decade.

I am very proud to be associated with this organization, and I congratulate the management and the entire team at Kashf Foundation for their success and commend their hard-work, effort and commitment.

Best Wishes,

Dr. Ishrat Hussein
Chairman
Board of Directors
Kashf Foundation

Managing Director's Message

Looking back at the year 2008, I see a year filled with local and global challenges. The country experienced uncertainty in the socio-economic realm where the local economy shadowed the global economic meltdown. These challenges impacted the local business that trickled down to small and medium entrepreneurs. Consequently, the microfinance sector continued to face challenges, as microfinance clients saw a decline in their capacities to repay, while at the same time there was an increasing need for regenerative capital. Thus, 2008 has been a year wherein the microfinance sector in Pakistan has been re-evaluating its structure, methodology, and services to better cater to a larger number of marginalized communities in a higher risk environment. The challenge is to ensure the mission alignment by inclusion of bottom of pyramid population by building their capacities and financially empowering them.

Investment in women is pivotal for economic and social development, as women entrepreneurs register higher repayment rates, and contribute a higher portion of their income to household development. Therefore, microfinance programs such as that of Kashf Foundation that lend exclusively to women, not only give low income households access to credit, but are a significant contributor to pro-poor development, gender equality, women's empowerment, and civil society strengthening. Female microfinance users from such programs develop an increased ability to earn higher incomes and this economic empowerment eventually leads to increased well-being coupled with wider social and political empowerment. Thus, microfinance programs are one of the best tools for poverty alleviation and social upliftment in developing countries.

The provision of high quality and reliable financial services to a largely financially excluded population has been the raison d'être for the creation and establishment of Kashf Foundation. The challenges brought upon by 2008, allowed the Foundation to re-look at the means through which Kashf Foundation aims to fulfill its mission of providing sustainable financial services to low income households, especially women. Thus, the year 2008 was a year of consolidating our outstanding portfolio, making changes to our products and delivery methodology while giving due credence to client preferences and on -ground realities.

The changes proposed in our methodology will be introduced through the Kashf 2.0 approach with the key focus on increasing the efficacy of Kashf's lending program and enriching the Kashf Foundation's client's experience with a microfinance-plus approach. Thus, the Foundation aims to remain a key innovator in the microfinance sector, and provide a host of services aside from purely financial services such as financial literacy trainings for women and adolescent girls as well as low cost health services. Additionally, Kashf Foundation's sister concern the Kashf Microfinance Bank received its license from the State Bank in 2008. The bank will enable the Kashf group to realize its shared vision of financial inclusion by offering poverty lending clients of the Foundation with affordable deposit services. The Kashf microfinance bank intends to reach out to a million savers by 2012, mainly comprising of low income depositors, especially women.

I would like to conclude by thanking our Board members, our supporters, and the entire Kashf team for their continued support, dedication and renewed vigor in helping us achieve our mission and vision. I would especially like to commend the efforts of our field teams, especially the Loan Officers for their hard work despite the growing security challenges and turmoil in the country.

Roshaneh Zafar
Founder and Managing Director
Kashf Foundation

Chapter 1
Broadening Financial Services

Financial Inclusion

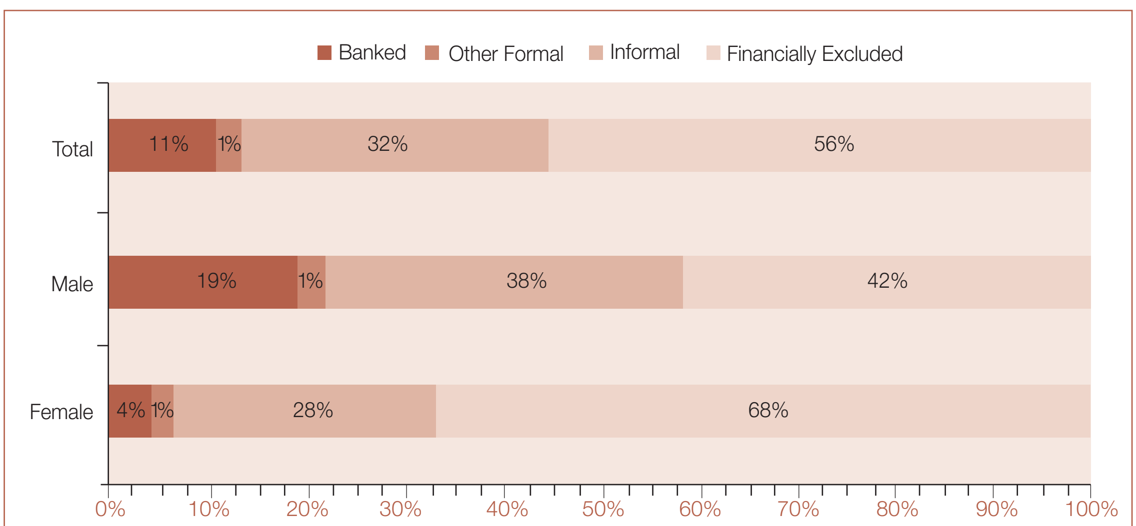


Figure 1: Financial Exclusion in Pakistan

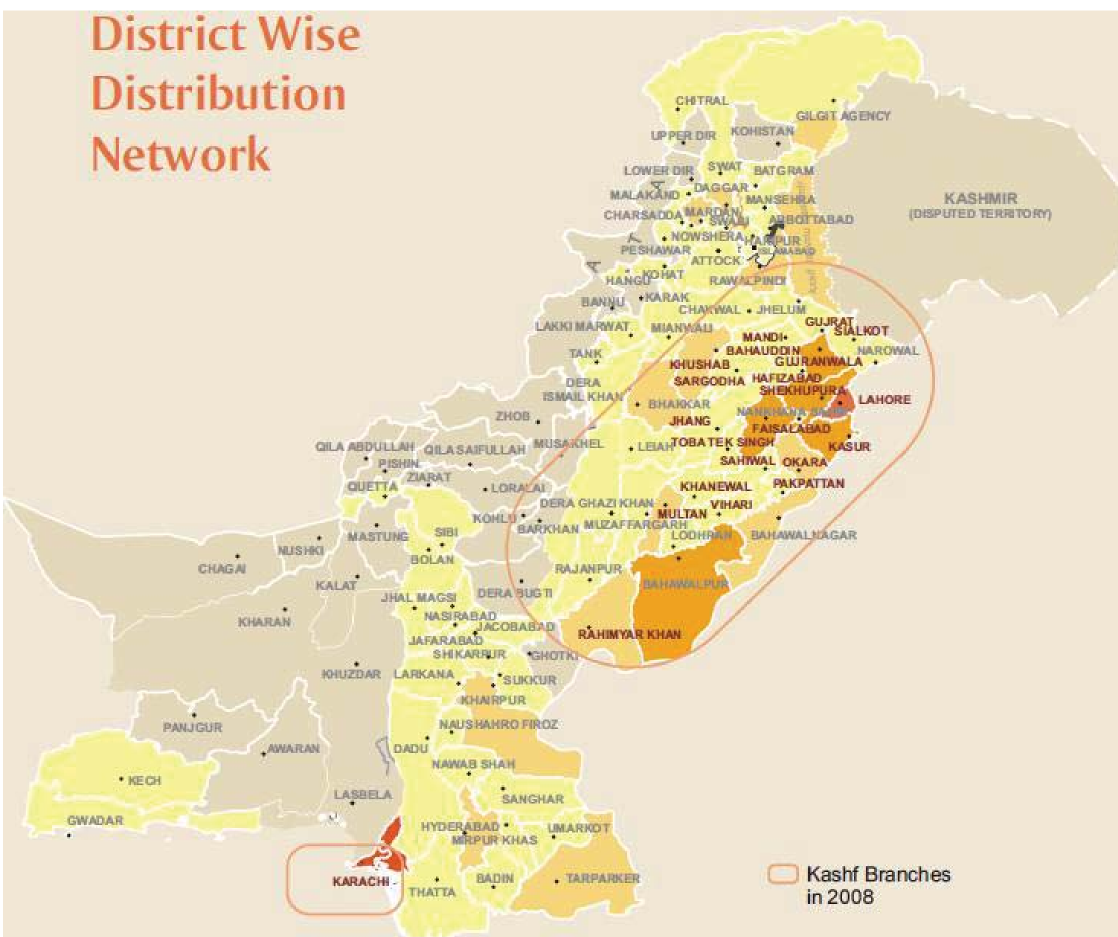
Source PMN, 2008. Access to Finance Study

Financial inclusion indicators for Pakistan show that there is a large chunk of the population which is unbanked. The percentage of financially excluded individuals/families as shown above is around 56% whereas an additional 32% of these individuals access their money informally, showing a huge lag in the provision of financial services to the local populace. These individuals hence get their loans either from money lenders or borrow from shopkeepers to keep their houses running. Comparing figures across gender, we see that females are worse off when comparing access to all kinds of financial services, including formal and informal. Addressing this disparity is a major developmental goal for Pakistan.

Kashf Foundation offers its services primarily to females, and tries to mitigate the access differentials that exist between the genders. Through its program, over the past 14 years Kashf Foundation has extended over Rs. 16 billion in loans to females and has demonstrated a viable business model for targeting women from low income communities within Pakistan's culturally difficult environment.

Kashf Foundation Network Structure	2007	2008
Number of Districts	22	25
Number of Regional Offices	4	5
Number of Area Offices	20	32
Number of Branches	139	154

Table 1:Kashf Foundation Network Structure



Source: PMN Microwatch Issue 10: December 2008

Feature	KASHF KAROBAR QARZA "Growing opportunities together!"	KASHF MADADGAR QARZA "Financial services whenever, wherever!"	CREDIT FOR LIFE INSURANCE "We are with you always!"	HEALTH INSURANCE "Planning for a healthier future"
Loan Purpose	Income generating	Consumption	Loan Insurance	In-patient coverage to a maximum of Rs. 25,000 per annum
Amount Per Loan	Rs. 6,000 - Rs. 50,000	Rs. 4,000	1.5% of loan size	350 per person per annum
Period Of Repayment	1 year	6 months	Linked to loan	Linked to loan
Service Charge	20%	10%	None	None
Number Of Installments	12 – Monthly or 24- Fortnightly	6 – Monthly or 12 – Fortnightly	Upfront Payment	Upfront Payment
Eligibility Criteria	Household income of Rs. 3000 - Rs. 10,000	Must be an active Kashf Karobar Qarza client	Must be an active Kashf Karobar Qarza client	Must be an active Kashf Karobar Qarza client

Table 2: Products & Services

Kashf Karobar Qarza

The Kashf Karobar Qarza is the main product offered by Kashf Foundation. It caters to the business needs of clients and their families. It is quickly accessible with simple procedures and is repayable through equal installments over the 12 month loan tenure. The range of the Kashf Karobar Qarza is Rs. 6,000 to Rs. 50,000; in the first loan cycle clients can take from Rs. 6,000 to Rs. 15,000 from Kashf Foundation, based on their need and repayment capacity. Each year, returning clients can graduate into higher loan amounts.

Client Quote

"I have been taking loans from Kashf Foundation for the past 3 years. I started off with a Rs. 10,000 loan, which I used as a guarantee to pay the middleman who provided me with the raw materials for embroidering clothes that he sold in the market. The following year, I used the Kashf loan to invest in raw materials such as threads and cloth. This year I took Rs. 25,000 from Kashf Foundation. Now, I work with a few other women from the community who I have employed along with my daughters. My husband goes and directly sells my products in the market. This has helped us earn more money and has greatly improved our future opportunities."

Sajida Baji,
Salamatpura, Muridke.

Product : Kashf Karobar Qarza	2007	2008	Cumulative	% change
Active Clients	282,396	319,153	-	13.0
Amount Disbursed (Rs.)	4,040,298,000	5,208,568,500	13,981,226,666	28.9
# of Loans Disbursed	282,549	320,477	981,502	13.4
Amount Outstanding (Rs.)	2,536,387,421	3,115,442,153	-	22.8
Average Loan Size (ALS)	14,299	16,253	-	13.7

Table 3: Kashf Karobar Qarza Product Outcomes

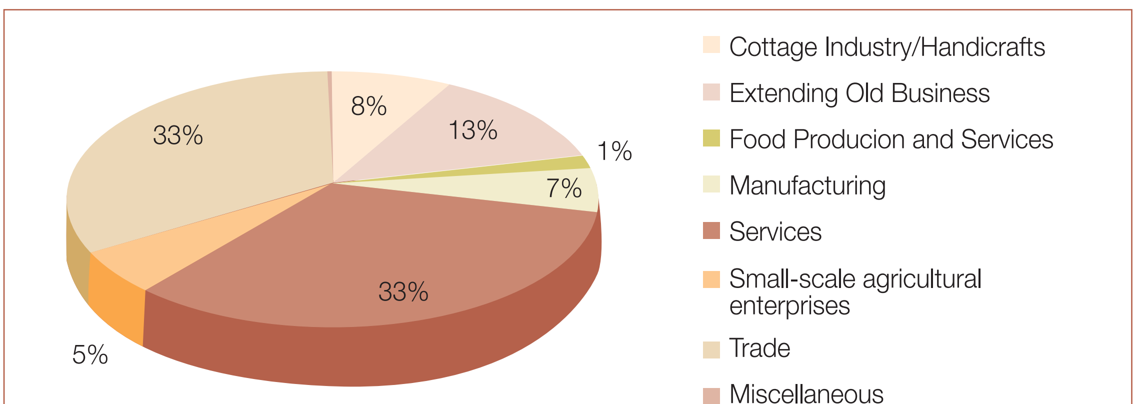


Figure 2: Sector Wise Distribution of Kashf Karobar Loans

Kashf Madadgar Qarza

The Kashf Madadgar Qarza is an emergency consumption loan facility that is available to all Kashf Karobar Qarza clients. This facility aims to provide money for any sudden or emergency expense that the client may have to face. A majority of Kashf Madadgar Qarza disbursements are in lieu of making payments for utility bills, paying children's school fees, and dealing with minor illnesses.

"The Kashf Madadgar Qarza is a very useful service offered by Kashf. With this service we feel a little relaxed as we know that if God forbid we do not have money to pay our children's school fees we do not have to face embarrassment and we can just ask Kashf for this loan."

Shamim Baji
Rawalpindi

Client Quote

Product: Kashf Madadgaar Qarza	2007	2008	% change
Amount Disbursed (Rs.)	641,918,400	782,983,400	22.0
No. of Loans Disbursed	170,359	208,601	22.4
Amount Outstanding (Rs.)	189,434,870	216,766,001	14.4

Table 4: Kashf Madadgaar Qarza Product Outcomes

Credit for Life Insurance

Credit for Life Insurance provides a life insurance cover to all Kashf Karobar Qarza Clients and their co-signatory, removing the liability of the outstanding loan from the client and her family in case of the death of the client or the co-signatory. Additionally, this service provides a payout of Rs. 5,000 to clients and their families for performing the final rites of the deceased.

In 2008, the Industry Outreach for Microinsurance was 2,241,552 (PMN, 2008) for the entire sector. Kashf's contribution to this number was almost 30 percent.

"We used to fear taking loans in the past, as life is so unpredictable and we did not want to bring upon us the bad wishes of our children by indebting them with our outstanding loans. Kashf's Credit for Life Insurance Policy has made us more confident about taking loans, and has empowered us to avail the opportunity to use our skills and become economically active"

Naheed Baji
Hafizabad, Faisalabad.

Client Quote

Year	2007	2008	% Change
Number of Lives Covered	593,454	636,148	7.2
Premium Collected (Rs.)	86,423,668	108,858,833	26.0
Number of Claims	1,788	2,536	41.8
Claims Paid	29,020,380	40,219,976	38.6

Table 5: Kashf Insurance Product Outcomes

Client Quote

"We were initially very wary of using the health insurance, as we did not want to go to the hospital and be disappointed. But our LO encouraged us to call the panel doctor that Kashf has designated, and she talked us through the entire process. We went to Ittefaq Hospital, and did not have to pay even a single penny for my appendix removal procedure. This was like a dream come true."

Safiya Baji
Green Town

Health Insurance

A major challenge in extending insurance to the poor is educating the market and overcoming its bias against insurance. More often than not, the working poor do not perceive tangible benefits in paying for a health insurance product out of deeply constrained household budgets. In order to build the confidence of the market at the bottom of the pyramid (BoP), micro-insurance has to positively answer many of the common criticisms leveled against insurance providers, who are, sometimes, seen as being quick to take one's money, but slow to pay it out. Indeed, micro-insurance needs to develop systems to pay benefits expeditiously, to minimize or avoid claims rejections and to provide a quality of service that earns the trust of a wary market.

Creating awareness about the availability and value of insurance is time-consuming and costly. However, microfinance providers, such as Kashf Foundation, are committed to utilizing effective strategies in order to overcome the apprehension of low-income households regarding insurance. One of the primary ways to achieve this objective is through client education, that is raising awareness among prospective policyholders about how insurance works and how it can benefit them. Equally important, is upholding promises, fulfilling obligations and creating a culture of insurance among the poor by helping them realize the purpose and potential of risk mitigation strategies to cope with losses.

The Kashf Health Insurance product has an annual premium of Rs. 350 with which a client's inpatient procedures of up to Rs. 25,000 are covered for the loan tenure. Kashf has developed this product with the Agha Khan Agency for Microfinance, and New Jubilee Insurance.

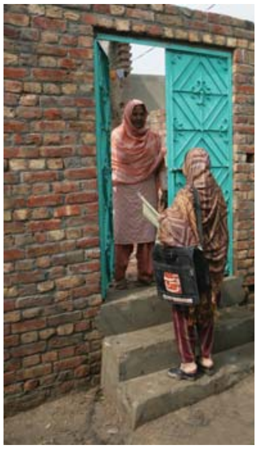
The number of health insurance clients increased manifold in 2008. Most part of the first half of the year was spent on making the clients understand the product better, making the process of claim reimbursement seamless, transparent and less time consuming for clients and setting procedural clarity with the branch staff

Year	Customers enrolled	Claims Paid	Claim Amount Paid
2007	2,223	-	-
2008	11,242	48	532,310

Table 6: Kashf Health Insurance Product Outcomes

The health insurance allowed experimentation not only with the product features some of which were tweaked during the course of the pilot but also with both cashless and reimbursement modes of payment. Since the purpose was to understand the market, a minimalist two person hospitalization-only product was designed included with children not being included during this testing period.

A few key learnings included the low level of awareness amongst clients about the insurance product, BoP unfriendly hospital care and clients' opportunity costs of hospitalization. Another important point was managing client expectations. There was a high level of expectations from the product and clients were not happy with the exclusion of out-patient treatment. Sensitivity to local norms while discussing issues of reproductive health was also felt by male loan officers as there was a genuine hesitation in discussing such issues. Additionally, staff buy-in turned out to be a major driver for the uptake and use of micro-insurance. It was also felt that a formalized health awareness program should be introduced across the network to deal with preventive healthcare, and impress upon the importance of preventing disease and infection before its onset.




Chapter 2
Leading through Market Innovations

The microfinance sector in Pakistan is faced with a complex set of issues which are both inherently challenging and potentially beneficial; the needs and expectations of microfinance clients are changing. Socio-economic relations in the country are affecting the relationship MFIs have with their target communities. Financial aspects are impacting the overall delivery methodology and business model for microfinance while the advancement in information technology is opening up possibilities for new delivery channels and potential alliances. This has been coupled with an evolving risk environment which now in addition to growing credit, liquidity and refinancing risks, includes an additional risk element of political interventions that are contrary to the spirit and ethos of financial inclusion.

Global Financial Crunch

Microfinance has experienced a decade of exceptional growth. However, due to the global financial crisis, microfinance has been impacted in two ways. Firstly, the phase of extraordinary expansion experienced post 2005 has stalled, and secondly, the sources of funding for the sector have become unpredictable. This chapter looks at the effects of the crisis on growth of the sector, while the second theme is discussed in the last chapter.

In 2007, the overall loan portfolio of MFIs reporting to MIX market increased by 47 percent. However, in a recent survey conducted by the CGAP, results show that this period of growth has started to slow down. The survey responses of over 400 MFIs across the world reveal that MFIs and their clients are being hurt by the food and financial crises. Faced with the credit crunch and the economic recession, most microfinance providers are exhibiting signs of stress. In the same study by CGAP, sixty-five percent of MFI respondents reported that their gross loan portfolios were either flat or had decreased over the last six months, while nearly sixty-nine percent respondents are seeing rising delinquency and portfolio at risk (PAR) reflecting clients' increased economic hardships. Sustained high food prices, severe economic contraction, and massive job losses are hurting clients most, according to survey respondents, while many MFIs are finding it harder to access funds.

Situation in Pakistan

Pakistan's history and socio-political environment has been one of tumult, resulting in periods of stability and growth accompanied by instability and economic slowdowns. Pakistan has had an average GDP growth rate of 7.0 percent over nearly half a decade and an increase of approximately 85 percent[1] in per capita income in the past 5 years. However, inflationary pressures especially

1. US$ 586 in 2002-03 to US$ 1,085 by 2007-08 double-digit food inflation, has been a big concern for policy makers. Increasing poverty, an ever growing population, an endemic energy shortage which has slowed production and investment and increasing international fuel prices, have all coupled together to make it much more difficult for Pakistan to weather this storm.

According to official statistics, 22.3 percent of the country's total population (approximately 160 million) currently lives below the povertyline.

Impact of Food Inflation on Clients

By the end of August 2008, food prices in Pakistan had increased by 34% over the previous year. In a survey of 100 clients conducted by Kashf Foundation, 90% of the respondents stated that the current level of food prices was placing an additional financial burden on their families. Clients were using a variety of techniques to cope with the rising food inflation with some clients lowering food intake or channeling more of their available income on food, while many clients who were involved in trading had adjusted their business revenues in light of the higher costs.

Out of the surveyed clients, 29% revealed that they had experienced 1-4 days in a month, over a period of last 12 months, in which they had gone hungry.

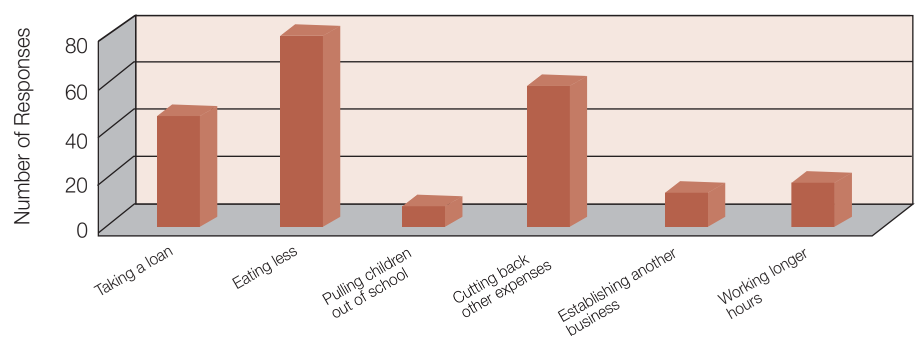


Figure 3: Coping Mechanisms in the Face of Food Inflation

Coping Mechanism	% of Clients
Eat less	78%
Cut back other expenses	56%
Take a loan	42%
Work longer hours	19%
Start another business	16%
Pull children out of school to work	10%

Table 7: Coping Mechanisms in the Face of Food Inflation

Source: Kashf Food Security Survey (August 2008)

Product and Strategy Changes

Against the backdrop of food inflation, Kashf has aligned products and services keeping in view the pressing and immediate needs of clients. Kashf's strategy is to:

o Offer more demand-oriented financial products including savings and long-term pension products through building alliances with the Kashf Microfinance Bank. This will essentially include facilitation of Kashf Foundation clients to open bank accounts with the Kashf Microfinance Bank and to introduce the commitment based savings products that will enable low income households to build up their asset base incrementally.

o Explore how to reduce client transaction costs innovatively. This includes limiting group meeting times and reviewing the appropriateness of group versus an individual lending methodology. In particular, this is focusing on dealing with "group fatigue" as loan sizes increase and clients become wary of taking joint responsibility.

o Broaden product base by offering health insurance products to tackle health-related contingencies that require hospitalization, along with strengthening linkages with other service providers.

o Better tailor overall services to client needs by introducing policy flexibility in processing time, by reducing group sizes and building in measures for strengthening financial inclusion e.g. making bank accounts and computerized national identity cards mandatory.

Despite the wave of changes in the sector, most microfinance users remain removed from the modifications in the supra structure, putting the onus on MFIs to educate and inform clients about the changes made in the operations of MFIs. Simplification of the complex legal and financial system and jargon require significant planning and resource allocation on the part of MFIs. The mandate to instill transparency in their operations becomes a central goal for MFIs to achieve their agenda of increasing financial inclusion and improving access of BoP clients.

As discussed above, changing methodology is a two dimensional process; which includes adapting current processes to evolving needs while simultaneously educating end-consumers about these amendments. These processes require a shift in staff responsibilities and attitudes; impressing upon a sector-wide need for better human resource management and training. Implementing a system of financial inclusion premised on the principles of transparency, respect, and value addition requires staff ownership and buy-in, thus, necessitating a formal covenant between staff and clients to maintain and propagate the mission and vision of microfinance.

Kashf 2.0

Kashf Foundation has always been responsive to changing market demands, and has prioritized the needs of clients while formulating its operational policies. To this end, Kashf has continued to undertake research to determine client demands, and gauge client satisfaction through client interviews. These research projects include Customer Satisfaction Surveys, Exit Client Studies, Impact Assessment, Food and Power Security Studies.

The Exit Client Studies conducted by a market research firm in the markets of Lahore, Faisalabad and in-house for Multan revealed that an overwhelming majority i.e. 80 percent of the clients interviewed, were completely satisfied with their loan experience with Kashf. However, the studies highlighted some changes that the clients wanted to see in lending methodology in the coming years:

- o Clients said that they would prefer monthly meetings, and monthly installments over bi-monthly installments and bi-monthly meetings, as this would protect their monthly working capital.
- o 65% of the exit clients in Faisalabad preferred a smaller centre/group size
- o 50 % of the clients in Faisalabad wanted a change from the Group Guarantee concept to individual responsibility.
- o 36% of the exit clients in Lahore and Faisalabad cited that they would prefer higher loan amounts.

Source: Kashf Foundation, Exit Client Study- Lahore and Faisalabad, November 2008

Keeping in line with findings from the Exit Client Studies and the changing market needs, Kashf is currently working on a 2.0 version of its credit methodology, which includes changes to not just product features and terms, but also product delivery and the process of group guarantee. Financial literacy forms a core component and has been embedded in Kashf 2.0 methodology so that clients are aware of their financial obligations and rights. These changes have been tested in the medium term, and their findings have been incorporated in Kashf 2.0.

The current group and center size and the requirement of frequent meetings with staff is proving to be an impediment to clients, as mentioned previously. The significant changes in the new methodology include changes in group size, transformation of group collateral, more comprehensive loan application forms, changes in loan processing documentation, and commitment to improving the quality and range of services. This shall decrease the effort a client makes in obtaining and servicing a loan, enabling them to conduct transactions swiftly. The built-in financial literacy module will teach clients to conduct basic financial calculations, enabling them to efficiently carry out business transactions.

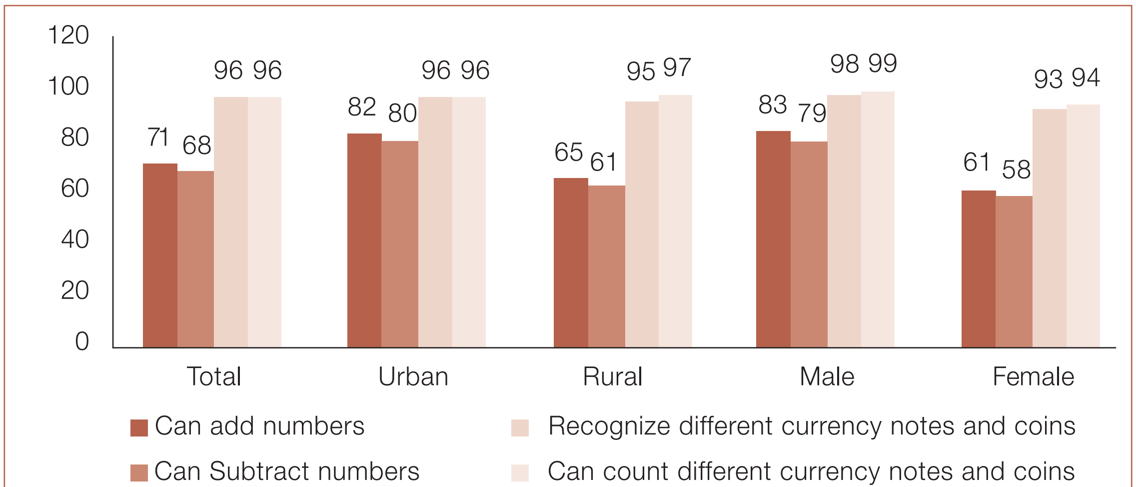


Figure 4: Financial Literacy in Pakistan

Source: PMN, 2009 Access to Finance Study

Kashf Foundation clients will also have access to a variety of savings products through the Kashf Microfinance Bank Limited (KMBL) and will be able to save according to the frequency suitable to the them, hence enabling them to deposit their hard earned money in a reliable, trustworthy and client friendly institution. A majority of the population in Pakistan lacks access to basic financial abilities, including the skills of undertaking fair transactions, budgeting, aligning savings with strategic business expansion goals, and building capacity to deal with shocks. The situation is worse for females, who can be more risk averse and hence deny themselves business opportunities which can lead to better returns. Thus, financial literacy is a key training that MFIs need to undertake along with the provision of microcredit to ensure proper loan utilization, money management and prevent the risk of insolvency. In the longer run, this will enable a client to graduate to microfinance banks and commercial banks to meet her long term credit needs.

Kashf Foundation has formulated a financial literacy and awareness strategy for the short and medium term. The short term strategy is premised around providing financial literacy to clients and their co-signatories through information dissemination campaigns. The basic focus of such campaigns is to emphasise the importance of transparency, legal obligations, and responsibilities for the microfinance provider and the client.

The medium term strategy aims to include a financial literacy module in the disbursement process and forms a significant part of Kashf 2.0. It is based on training sessions with the clients in the beginning of the loan cycle and refresher sessions on a 6 monthly basis. The module itself consists of training material based on Budgeting, Saving, Debt Management and Financial Negotiations. The educational material in the module is complemented by practical exercises that can help clarify to them the aspects of their training.

Increasing Transparency in Operations - Consumer Protection Code

Complementing Kashf Foundation's commitment to bettering the lives of poor people is the vision that all transactions by Kashf staff will be based on solid ethical principles which strongly reflect the social aspects of financial inclusion. The organization aims to uphold the highest service quality, and keeping client contact transparent, respectful and long term. Pursuant to this spirit, Kashf Foundation has implemented a consumer protection code. This code ensures that the dignity and esteem of microfinance clients is upheld at all times; and ascertains that the respect of the client is not compromised in any aspect of client interaction with Kashf Foundation and its staff.

The code of conduct enshrines the following three principles:

- **Truth-in-lending:** To ensure the consumer understands the terms and conditions of all loans, deposits and other auxiliary services she or he might receive. Truth-in-lending practices typically provide clients with accurate, comparable and transparent information about the cost of loans and the returns on deposits.

- **Abusive or inappropriate lending and debt collection practices:** During delivery and recovery of credit, customers are to be treated fairly and their dignity and welfare, is up held and unethical, predatory, illegal or otherwise inappropriate lending or debt collection practices are to be avoided.

- **Customer Satisfaction:** To ensure that all aspects of product design and delivery are client focused in order to provide them with continued access to financial services at an affordable and cost-effective price.

Hence, clients are being given complete, accurate and understandable information regarding the terms of all financial services, including the true costs of borrowing, and, the costs and benefits of other services like insurance and deposits so that they can make informed choices. Kashf Foundation is continuously working to improve procedures for disclosure of all financial services by ensuring that these are provided in simple terms, and in a language that is understood by the clients. Clients are also being educated about their responsibilities towards the organization. By signing the Kashf Code of Consumer Protection, staff members pledge that they will maintain decency and decorum during collection of dues, will never enter a client's house without their permission or when they are not present, and will not in any circumstance take any asset that belongs to the client in lieu of recovery. The Consumer Protection Code also safeguards client confidentiality, and ensures the protection of the clients personal information.

Channels of Client Feedback

To take clients' regular feedback and redress client grievances effectively and on time, an appropriate feedback and complaint system has been designed with a regular monthly reporting of client complaints supplemented by a biennial survey on client satisfaction to gauge the quality of services. The internal audit department has a mandate to audit compliance with the code of consumer protection and submit a report to the Board of Directors at the end of every financial year, detailing the extent of compliance, specifically indicating any deviations from the specified norms.

In order to achieve some of the objectives set out in the consumer protection code and deal with customers in a transparent manner, a client complaint cell has been set up to answer not only queries that clients might have about the Kashf Foundation program but also deal with concerns arising out of policy violations by staff or staff behavior. Individuals can call on the helpline number which is displayed on the notice boards in all branches and also written on the back cover of the client passbooks. Clients may even personally visit the head office.

Total Calls	Region - 1	Region - 2	Region - 3	Region - 4	Region - 5
224	75	36	54	54	5
Total Personal Visits	Region - 1	Region - 2	Region - 3	Region - 4	Region - 5
69	31	10	7	21	Nil

Table 8: Channels for Client Feedback

The major themes from the complaint cell are related to questions regarding policy, especially regarding disbursements, staff behavior and policy violation. For calls related to policy, the individual is given pertinent information to clear-up any misconceptions. For staff misbehavior and policy violations at the field level, the relevant Area Managers and Regional Managers are contacted and asked to give their responses so that the problems can be resolved within a week's notice.

HR Targeting

The new needs of the microfinance sector call upon better use and targeting of the human resources available in the country, so that the high standards envisioned for the industry can be realized. Human Resource targeting comprises of recruitment, training and development, proper compensation, and improved employee engagement.

Kashf Foundation has taken the initiative to ensure that the microfinance sector becomes a sector of choice for potential employees. Providing staff with ample opportunities for vertical and horizontal growth within the organization, Kashf Foundation not only assists in advancing an individual's career and improving lateral thinking but also inculcates and deepens the knowledge that the sector requires. This investment will positively impact the employee, the organization, and the microfinance sector resulting in the creation of a more specific skill-set needed to help the microfinance industry progress forward.

Kashf Foundation maintains regular training and refresher training schedules with current and new staff, and is continuously working towards engaging its personnel. Continuous and consistent effort is put into creating a greater staff buy-in to the mission and vision of the organization. Additionally, Kashf has undertaken efforts to provide compensation and benefits that are competitive with other sectors. Kashf Foundation is trying to work with other MFIs to create industry-wide standards for hiring, and is setting sector-wide benchmarks for employment.

Location	Total Staff as of Dec, 2008	Male	Female
HO Staff			
Permanent	120	87 (72%)	33 (28%)
Trainee	12	5 (42%)	7 (58%)
Field Staff			
Permanent	1,392	785 (56%)	607 (44%)
Trainee	170	125 (74%)	45 (26%)
Total	**1,694**	**1,002 (59%)**	**692 (41%)**

Table 9: Kashf Foundation Staff Head Count and Ratios


آنے والے مہمانوں




Chapter 3
Advocating Social Change

Gender and Economic Activity

With the increase in the cost of living, rising education and awareness amongst women, a greater number of women are being propelled into the labor market as well as in the business arena. Women mainly go into business to meet the financial needs of the household; this can be due to several reasons:

- Increasing inflation often results in a decrease in the purchasing power parity of the household. Thus, the present sources of income can no longer sustain the household's lifestyle.
- Increasing household demands and needs, especially needs relating to children.
- In cases where women become widowed, the husband has an accident, is irresponsible, disabled or cannot/does not work.
- The woman wants an improved standard of living and better future for her family.
- In cases where the alternative to earning a livelihood is begging.

These reasons have increased the number of women who are undertaking economic activity of some sort, whether in the informal or formal sector. However, despite this additional role which requires considerable time and effort, women are still expected to fulfill household responsibilities without any additional support or sharing of responsibility from the male members of the household. 'Double Burden' of housework and income-generating activities causes time crunch with housework, diverting time away from paid work. This hampers the economic role women can play, and usually results in the quality of life enjoyed by women to deteriorate.

Another interesting feature of women's livelihoods is the spending allocation decisions made by women. Research indicates that resulting from an attitudinal difference between men and women, the latter's aspirations are focused primarily on children, business and personal matters. Consequently, women save to provide a better standard of living for the entire household i.e. clothe, educate and wed their children in a reasonable manner. Furthermore, women are also concerned about security in their old age for which they save regularly, so that they can provision not only for an emergency but also the future. Thus, women use the money they earn more sustainably, and invest in the medium to long term development of their families, making women a better target market to meet the aims of poverty alleviation.

In order to reduce the 'Double Burden' that women have to face, Kashf regularly reviews its lending program to enable the client to better manage this 'double burden'. Kashf provides its clients with a speedy and reliable way for acquiring business capital, thus attempting to reduce the burden of transactional and opportunity costs for female entrepreneurs. In this year, based on the outcomes of a Gender Audit Study undertaken by Women's World Banking, Kashf Foundation has revised its loan application process and also its policy for giving loans to single women in order to facilitate their access to capital.

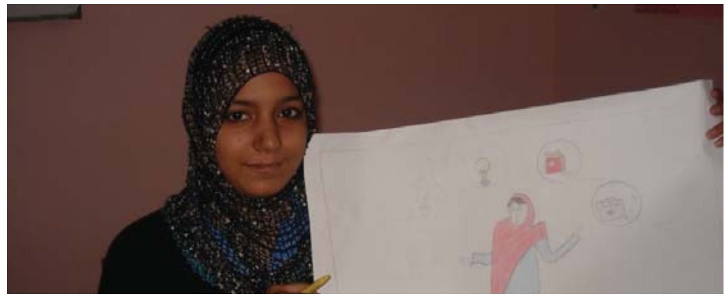
In the coming years, Kashf Foundation will be able to supplement its services to clients through a diverse set of savings products available via the Kashf Microfinance Bank. This will help broaden the economic role and increase the economic status of women.

Furthermore, Kashf Foundation aims to create a collective consciousness for communities, as it believes that this is an essential step for MFIs to realize their mission of poverty alleviation and social change. Goal alignment at the community level enhances group cohesiveness, increases participation, and mitigates possible conflict and exclusion. To enable community engagement, Kashf Foundation has over the years developed a Gender and Social Advocacy Program which undertakes activities such as interactive theatre, video sessions, and community building exercises.

Theatre Program

Pedagogy for adults requires skills and methods that are very different from mainstream teaching methods. One effective way in which information can be passed onto adults is by the use of interactive theatre sessions. Employing such methods, provides audiences with a critical third person perspective on their lives and helps in creating issue awareness. The rationale behind such awareness creation sessions is that, change is only possible once there is wide recognition of the problem.

Currently, Kashf Foundation employs interactive theater as a tool to make clients and their families aware about the role of women as viable income earners. These theatre performances are weaved around expounding the benefits of female entrepreneurship and its importance to households and families. Another recurring theme in the program is reconciling communities with the changing economic role and economic niche of women in today's economic set up.



Client Quote

"The performance was very enjoyable; some of the actors were saying things that seemed like they were talking about my life. I liked how the actors learned from their mistakes, and tried to make changes in their communities."

Rafiqan Baji
client from Khanewal

Client Quote

"All women from my community came to see the play, I don't think all of us have ever gotten together like this before except for at weddings, and on such occasions we have to do so much work that we cannot sit and just enjoy"

Sajida Baji
client from Hafizabad

The interactive nature of theatre sessions elicit dialogue by engaging the audience in finding solutions to issues highlighted through the theatre performance and enables the participants to come to a consensus on how to tackle a problem. Furthermore, these performances provide networking opportunities and allow role modeling amongst women who wish to become entrepreneurs.

Session	Number of Sessions	Areas Covered	Clients Covered
Theatre Session and Image Building Performances	201	Lahore, Kasur, Faisalabad, Gujranwala, Sahiwal, Sargodha, Multan, Gujranwala, Sahiwal, Sialkot, Khanewal, Gujrat, Hafizabad, Rawalpindi, Rahim Yar Khan, Bahawalpur, Mandi Bahauddin	54,172
Video Session	52	Lahore, Kasur, Faisalabad, Gujranwala, Sahiwal, Sargodha, Multan, Gujranwala, Sahiwal, Sialkot, Khanewal, Gujrat, Hafizabad, Rawalpindi, Rahim Yar Khan, Bahawalpur, Mandi Bahauddin	8,875

Table 10: Theatre Programme Roll-out

The Kashf Theatre experience, thus, aims to make clients more aware of their socio-cultural environment through dialogue and debate and enables them to resolve conflicts and find solutions through an enjoyable source of entertainment. Kashf Foundation adheres to the belief that change is possible only if economic growth is complemented with social and cultural advancements. Lack of such complementary advancements can lead to little or no impact on an individual's overall development. Thus, Kashf Foundation while providing its clients with necessary financial services also tries to educate them on social issues.

Social Awareness and Well-being Sessions

Socially oriented activities such as free health camps, eye camps, and sessions on mitigating risks of infectious diseases are pivotal for the development and progress of microfinance clients. While health insurance helps in the treatment of disease and illness, these activities also provide low cost preventive care opportunities to microfinance clients.

Sessions Conducted	Partnered With	Areas Covered	Client Outreach
26	CWS, Caritas International and A&B Consulting	Gujranwala, Gujrat, Lahore, and Faisalabad	1946

Table 11: Social Awareness & Well-Being Sessions

Kashf Foundation in collaboration with Caritas International carried out information sessions on Hepatitis, and disseminated information on the spread and diagnosis of the disease. The sessions provided information on disease containment, and the kind of preventive measures to undertake. Similarly, Kashf Foundation worked in collaboration with Church World Service (CWS) and undertook AIDS prevention and awareness seminars with the clients. Other similar sessions have been planned for the upcoming year.

Kashf Foundation also organized free eye camps for clients in collaboration with the Eye to Eye Trust. The eye camps have been very successful because most low-income clients do not have access to credible eye care facilities and rely on traditional cures for eye ailments. One of the most memorable anecdotes from the eye camp was the story of a sixty year old woman who due to increasing wariness of the local medical professionals was hesitant to get her eyes checked, even though her visibility was reducing. The doctors at the Kashf Eye Camp diagnosed her as a simple case of trachoma and counseled her to seek treatment. Through positive intervention of Kashf staff, she agreed to get herself treated and was saved from a life of blindness. Based on this positive experience, Kashf is currently working on a plan to integrate health camps, and the provision of low-cost health facilities in its operational structure on a pilot basis. The service will be structured such that itinerant clinics will be set up in Kashf Foundation branches which will provide basic healthcare to Kashf clients. The health clinics will focus in particular on promoting infant and child healthcare, and maternal healthcare. Clients will be required to save in order to pay for the healthcare services provided through the Foundation's network.

Chapter 4
Mainstreaming Microfinance

Sources of Finance for MFIs

Post 2005, there has been increasing global emphasis on microfinance as can be seen in the declaration of the year 2005 as the 'Year of Microcredit' and Dr. Yunus (founder of Grameen Foundation) being awarded the Nobel Peace Prize in 2006. This increasing emphasis has been accompanied by the channeling of funds to microfinance institutions by international development agencies and funding bodies. Consequently, many microfinance institutions have evolved into regulated, deposit-taking institutions with access to commercial funding in this period. Microfinance today is thus tied to global markets to an unprecedented degree.

Therefore, the current downturn in global markets is more severe and pervasive for MFIs compared to prior crises. Microfinance practitioners have been hard-hit by the cycle of credit crunch, inflation, currency dislocation and global recession; the impact of this has not been uniform across all MFIs but has been a function of location, funding structure, financial state and the economic health of clients. The impacts are wide ranged, including high operating costs, stagnancy in loan portfolios, deteriorating portfolio quality to name a few. Consequently, MFIs have re-evaluated their growth plans, and are in the process of tweaking their methodologies, and trying out new processes and procedures to address risks. According to CGAP's CEO 'While many places seem unaffected today, there is little doubt that there will be impact: integration of microfinance into the mainstream does have costs.' (Littlefield, E., 2008).

It has been seen that global investment in microfinance has decreased, as donor agencies worldwide have become increasingly prudent about investing in microfinance with the onslaught of the global financial crisis. MFIs have witnessed a sharp decrease in donor funds (both in low-cost funding and/or donations) and cancellations in previously committed funding lines. This has caused reasonable concern in the microfinance industry globally as demand for microcredit rises following high rates of inflation, increasing unemployment and decreasing incomes in the wake of the recession. Moreover, the lines of credit that are still available are cashing in on their positions and charging much higher rates than before, thus increasing cost of commercial debt and in turn operating costs.

The Role of the Government

The government's role for the microfinance sector lies within the ambit of creating a complementary policy environment. The expertise of the government lies in broadening access for MFIs and protecting MFI consumers, and not in the actual provision of microfinance. In cases where the government has ventured into the provision of microfinance, these ventures have created distortions in the market and have ultimately resulted in limiting access of MFIs.

The government needs to look at broad sector-level strategies, instead of focusing on micro-level issues. Thus, for Pakistan, the government should aim to create conditions on a macro-level that are conducive to the emergence of long term specialized local financial institutions which can embrace new technologies, innovate new systems and policies and are able to deliver a diverse range of services and products. Thus, the government's vision of the sector should be that of a well functioning financial segment as opposed to that of a subsidized below par set of entities that serve the poor.

Additionally, the government needs to align the role of the country's central bank to aid the microfinance sector. In the case of Pakistan, the State Bank of Pakistan (SBP) can play a well defined role in mainstreaming microfinance by (i) increasing financial inclusion through the establishment of an environment that can aid the operation of a wide range of institutions which can provide a variegated basket of services to BoP users, (ii) look at avenues of integrating the vibrant and dynamic telecommunications sector with microfinance, so as to incentivize innovations such as branchless banking, which can help increase MFI outreach, and (iii) establish a system of regulating micro-credit providers that do not fall into the ambit of current definitions of 'MFI' propounded by the SBP.

Centralized Client Database

MFIs are threatened by newly emerging risks as the credit crunch entrenches economies globally. In such a scenario, default can be minimized by tightening controls and implementing intra-industry policies to protect the microfinance portfolios. An important risk mitigation tool can be the creation of a centralized client database for loan defaulters. This will enable better information sharing between MFIs, resulting in less risky loans, decreasing over-indebtedness and overall lead to a healthier microfinance portfolio. Additionally, better informed decisions to target clients can be taken through the information collected by the database.

The Pakistan Microfinance Network is currently undertaking such an initiative, under which network MFIs are required to register their clients in a centralized credit information bureau. Keeping with Kashf's history as a strong supporter of transparency, Kashf Foundation has taken a lead in this initiative.

Specialized Credit Lines

Recent numbers indicate that microfinance in Pakistan is not sustainable today; however, trends indicate that an increasing number of entities within the sector are moving towards sustainable operations. Sustainability is highly correlated to whether the aim of microfinance is poverty alleviation or financial inclusion. On average, MFIs that aim at financial inclusion are more sustainable. In Pakistan, the yield in the MFI sector is kept artificially low and is below the average for Asia. This has resulted in high costs of running a successful microfinance operation in Pakistan, which undermines the aim of financial inclusion.

Under the present scenario, the cost of running a successful microfinance operation in Pakistan has increased exponentially. This has undermined the ability of MFIs to sustain operations in the medium run and has opened up the need for subsidies over the next 3-5 years. This requires a collective effort by the sector to secure funds, and reconsider funding strategies.

Most MFIs in the country are availing commercial funding at high rates, which has negatively impacted their Financial Self Sufficiency (FSS). It is thus advisable for the government to set up a special credit line for MFIs on special rates, as this will give the microfinance industry protection and will in turn benefit the Government, as microfinance will increase financial inclusion in the country. Additionally, MFIs can also undertake several cost-reducing mechanisms which can help increase FSS. Such measures include increasing efficiency at all tiers of operations, which includes proper target setting for each tier, HR right-sizing, effective monitoring and evaluation, etc. Furthermore, an important cost-reduction mechanism can be increasing process efficiency, such as reducing down-time on servicing of new loans, introducing effective and relevant documentation, and monitoring client exits. Another important step that can be taken by MFIs is the introduction of standardized budgets for operations along with regular and effective monitoring. Effectively leveraging on technology and information systems for quicker and better informed decision making can also be undertaken. Internal risk mitigation measures, which do not compromise on financial inclusion, should also be introduced by MFIs to effectively manage risks.

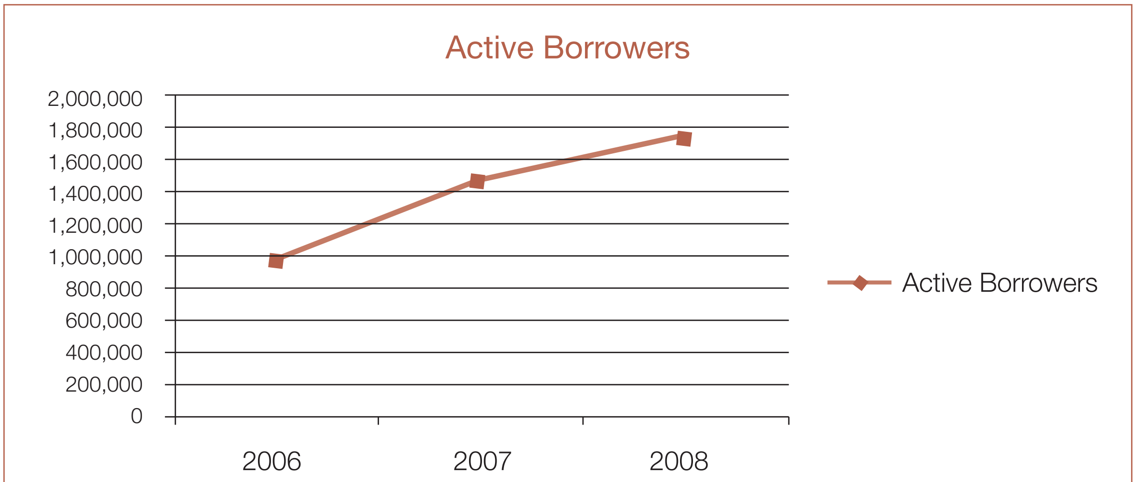


Figure 5: The Way Forward for Microfinance

Source: PMN MicroWatch 2006-08

The current economic downturn is expected to correct itself in the short to medium term and in this period, microfinance providers will experience moderate growth. Numbers for the sector show that the rapid growth seen in previous years has already started to taper off. The expected contraction in the sector necessitates greater intra-sector alliances, as previously argued in this chapter. Keeping this in view, in the next 3 - 5 years microfinance providers collectively need to be cautious in terms of client targeting, scope of services, and network expansion. During this time, MFIs will have to focus on consolidating their existing portfolios and make existing products more in-line with the evolving needs of clients. The sector itself is expected to see moderate product innovations during this downturn.

One of the effects of the rising cost of funding will be a push for microfinance providers towards the formation of microfinance banks to mobilize deposits from their clients and secure a low-cost alternative funding strategy. This will move the sector towards formalization. Consequently, donor organizations and funding agencies will also shift focus and provide funds to organizations that are regulated, sustainable and transparent in their operations.

While the current socioeconomic conditions are providing challenges to MFPs both globally and locally, a great opportunity for learning exists in the current environment. Resultantly, organizations providing inclusive and self-sustaining services will be able to survive in the long run.

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.

Founded in 1973, Shorebank International (SBI) is America's first and leading community devlopment 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.

KASHF FOUNDATION

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

Balance sheet

as at December 31, 2008

	Note	2008 Rupees	2007 Rupees
Assets			
Current assets			
Cash and bank balance	5	1,623,345,924	529,514,034
Short term investments	6	59,611,324	25,979,992
Micro-credit loan portfolio	7	2,201,373,050	3,014,482,781
Advances, deposits, prepayments and other receivables	8	546,965,140	91,753,260
Capacity building grants	9	-	66,910,955
		4,431,295,438	3,728,641,022
Non - Current assets			
Long term deposits		2,053,900	620,000
Long term portion of micro-credit loan portfolio	7	13,911,048	66,458,534
Long term investments	10	115,912,788	86,695,452
Long term loans - considered good	11	187,110,905	-
Operating fixed assets	12	194,797,275	177,282,955
Assets subject to finance lease	13	14,479,116	4,309,834
		528,265,032	335,366,775
		4,959,560,470	4,064,007,797
Liabilities			
Current libilities			
Current maturity of non-current liabilities	14	1,860,655,646	1,152,336,549
Finances under mark-up arrangements	15	455,872	9,925,803
Capacity building grants	9	5,333,493	-
Creditors, accrued and other liabilities	16	123,393,764	178,371,900
		1,989,838,775	1,340,634,252
Non-currents liabilities			
Borrowers' security deposits	17	3,598,320	3,577,320
Liabilities against assets subject to finance lease	18	10,171,345	2,483,648
Borrowings from financial institutions and others	19	1,918,819,418	1,259,449,608
		1,932,589,083	1,265,510,576
		3,922,427,858	2,606,144,828
Net Assets		1,037,132,612	1,457,862,969
Represented by			
Donated funds		454,079,880	364,613,468
General funds		535,645,138	1,060,906,715
Grants related to fixed assets		42,796,270	31,362,794
Fair value reserve		4,611,324	979,992
		1,037,132,612	1,457,862,969
Contigencies and commitments	20		
		1,037,132,612	1,457,862,969

The annexed notes 1 to 33 form an integral part of these financial statements

CHIEF EXECUTIVE | DIRECTOR

KASHF FOUNDATION

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

Statement of income and Expenditure

For the y ear ended December 31,2008

	Note	Year ended December 31, 2008 Rupees	February 15, 2007 to December 31, 2007 Rupees
Service charges on micro-credit loan portfolio	21	1,004,369,970	685,135,406
Less:			
General and administration expenses	22	(425,949,904)	(239,561,249)
Seminar, workshop, research and staff training expenses		(5,880,064)	(6,094,380)
Loan loss provision	7.5	(1,201,454,806)	(57,357,464)
		(1,633,284,774)	(303,013,093)
		(628,914,804)	382,122,313
Capacity building grants recognised as income	9	197,493,390	120,019,953
Other income	23	232,407,409	52,383,710
		429,900,799	172,403,663
Financial charges	24	(362,796,841)	(143,022,161)
Other non-operating expenses	25	(4,891,110)	(2,838,995)
Surplus from discontinued operation	26	39,102,216	20,738,239
		(328,585,735)	(125,122,917)
Share of loss of associate		(5,991,260)	-
(Deficit)/ surplus for the period		(533,591,000)	429,403,059)
Portfolio at risk		22%	0.73%
Adjusted Return on Assets		-11.83%	8.31%
Adjusted Return on Equity		-42.77%	22.39%
Operational self-sufficiency		73.41%	163.54%
Financial self-sufficiency		63.87%	133.80%
Active loan clients		319,517	295,396

The annexed notes 1 to 33 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

KASHF FOUNDATION

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

Cash Flow Statements

For the year ended December 31,2008

	Note	Year ended December 31, 2008 Rupees	February 15, 2007 to December 31, 2007 Rupees
Cash flow from operating activities			
(Deficit)/ surplus for the period		(533,591,000)	429,403,059
Adjustments for non cash items:			
Depreciation on operating fixed assets		13,670,300	7,110,143
Depreciation on leased assets		2,787,516	868,209
Capacity building grants recognized as income		(197,493,390)	(122,442,353)
Return on investments and bank deposits		(164,389,520)	(36,901,717)
Amortization of deferred financial costs		22,480,907	4,787,141
Financial charges		384,480,819	152,175,798
Gain on disposal of fixed assets		(2,341,894)	(989,071)
Provision against doubtful receivables		1,755,566	959,421
Share of loss of associate		5,991,260	-
Loan loss provision		1,201,454,806	69,172,894
		1,268,396,370	74,740,465
		734,805,370	504,143,524
Surplus before working capital changes			
Effect on cash flow due to working capital changes			
Increase in loan portfolio		(335,797,589)	(1,574,186,388)
Increase in advances, deposits, prepayments and other receivables		(448,755,681)	(29,758,525)
(Decrease)/ increase in creditors, accrued and other liabilities		(85,836,570)	62,587,022
Increase in borrowers' security deposits:		3,381,026	3,509,229
		(867,008,814)	(1,537,848,662)
Cash used in operations		(132,203,444)	(1,033,705,138)
Financial charges paid		(352,345,907)	(115,516,709)
Net cash used in operating activities		(484,549,351)	(1,149,221,847)
Cash Flow from investing activities			
Fixed capital expenditure		(34,133,976)	(126,669,994)
Sale proceeds from disposal of fixed assets		1,509,548	1,981,285
Return on investments and bank deposits		164,569,183	31,710,727
Loans granted to associate		(180,500,000)	-
Investment in associate and mutual fund		(93,000,000)	-
Proceeds from maturity of long term investments		53,952,200	40,461,453
		(87,603,045)	(52,516,529)
Net cash use in investing activities			
Cash flow from financing activities			
Capacity building grant funds		378,967,149	101,062,441
Lease rentals paid		(12,571,863)	(475,145)
Proceeds from borrowings		3,019,062,596	2,290,144,890
Transaction costs paid for borrowings		(6,542,875)	(45,681,244)
Repayments of borrowings		(1,673,460,790)	(1,073,997,699)
Net cash from financing activities		1,705,454,217	1,271,053,243
Net increase in cash and cash equivalents		1,133,301,821	69,314,867
Cash and cash equivalents at the beginning of the year		489,588,231	420,273,364
Cash and cash equivalents at the end of the year	27	1,622,890,052	489,588,231

The annexed notes 1 to 33 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

KASHF FOUNDATION

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

Statement of Changes in Funds

For the year ended December 31,2008

	Donated Funds	General funds	Grants related to fixed assets	Fair value reserve	Total
	Rupees	Rupees	Rupees	Rupees	Rupees
Balances transferred from Kashf Foundation (the society)	364,613,468	627,443,789	12,425,592	2,146,219	1,006,629,068
Transferred from capacity building grants			22,997,069		22,997,069
Surplus for the period		429,403,059			429,403,059
Grants related to fixed assets utilized		4,059,867	(4,059,867)		-
Fair value gain on available for sale investments				1,699,052	1,699,052
Gain realized on sale of available for sale investments				(2,865,279)	(2,865,279)
Balance as at december 31, 2007	364,613,468	1,060,906,715	31,362,794	979,992	1,457,882,969
Transferred from capacity building grants	89,466,412		19,762,899		109,229,311
Deficit for the year		(533,591,000)			(533,591,000)
Grants related to fixed assets uitlized		8,329,423	(8,329,423)		
-					
Fair value gain on available-for-sale investments				3,631,332	3,631,332
Balance as at December 31, 2008	454,079,880	535,645,138	42,796,270	4,611,324	1,037,132,612

The annexed notes 1 to 33 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

www.kashf.org

19-Aibak Block
New Garden Town Lahore, Pakistan
Tel: +92-(42) 111 981 981
Fax. +92 (42) 584 7816