

ANNUAL REPORT 2014

**A WEALTH MANAGEMENT
COMPANY FOR THE
UNBANKED AIMED AT
TRANSFORMING
POVERTY
INTO
POTENTIAL**



FINANCIAL SERVICES FOR ALL IN A POVERTY FREE AND GENDER EQUITABLE SOCIETY

**Kashf Foundation - A Wealth Management
Company for the Unbanked aimed at Transforming
Poverty into Potential**

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KASHF FOUNDATION

***"FINANCIAL SERVICES FOR ALL IN A POVERTY
FREE & GENDER EQUITABLE SOCIETY"***



About Kashf Foundation

Kashf Foundation was set up in 1996 as the first specialized microfinance institution in Pakistan to demonstrate the business case for investing in women's economic empowerment. The challenge was that in 1996 for every Rupee disbursed in the market as micro-loans, only 25% was provided to women. Today however, as a result of Kashf Foundation's success, 57% of the clientele in the microfinance sector is female. Through its two-decade long journey Kashf has remained at the cutting edge of innovation, which has been prompted by its commitment to improving the returns to women's entrepreneurship.

Not only does Kashf offer a vibrant financial access program but it also has a range of non-financial services that helps create an enabling environment for female micro-entrepreneurs to effectively use the financial services provided by the institution. These services include financial literacy and education trainings, business development trainings, trainings on gender roles and gender justice and business expansion trainings.

Kashf Foundation's economic empowerment program has grown from 913 female clients in June 1999 to 230,810 female clients in June 2014 with a current outstanding portfolio of Rs 3.6 Billion and cumulative disbursement of Rs 36.25 Billion through over 2.5 million loans. Kashf Foundation has trained 826,192 clients in financial literacy and financial education since 2010 and provided trainings on gender justice and gender empowerment to over 128,540 participants since 2011 - this includes clients, their husbands, and adolescent boys from the community. Kashf Foundation has also covered 477,588 lives through life insurance and 95,339 individuals through its health insurance programs in 2014.

Vision

"Financial services for all in a poverty free and gender equitable society."

Mission

"Serving all with dignity by providing quality and cost effective microfinance services to low income households that alleviate poverty and enable women to become active agents of social and economic change, through building alliances, promoting linkages and developing entrepreneurship."



Kashf Foundation Core Values

Action Orientation

Kashf Foundation aims towards a problem solving approach in all actions thereby 'being part of the solution and not the problem'

Commitment to Excellence

Kashf Foundation ensures the highest level of quality in all outputs with the aim of being 'market leaders'

Integrity

Kashf Foundation believes in the long-term sustainability of both the organization and clients thereby 'promoting self-sufficiency through continuous improvements in processes, products and services'

Innovation

Kashf Foundation believes in learning, adapting and growing thereby 'responding positively to change'

Meritocracy

Kashf Foundation ensures equal opportunities and a fair and transparent appraisal mechanism with access to adequate redressal channels thereby 'processing feedback positively'

Reciprocity

Kashf Foundation believes in team work and ascribes to the motto 'all for one and one for all'

Respect

Kashf Foundation believes in dignity at the workplace which includes mutual respect and care for each other thereby inculcating 'do unto others what you would like others to do unto you'

Responsibility

Kashf Foundation believes in meeting all promises as per commitments hence 'we do what we say and say what we do'

Service

Kashf Foundation ensures customer satisfaction through a respectful and professional attitude with the aim of 'delighting the customer'

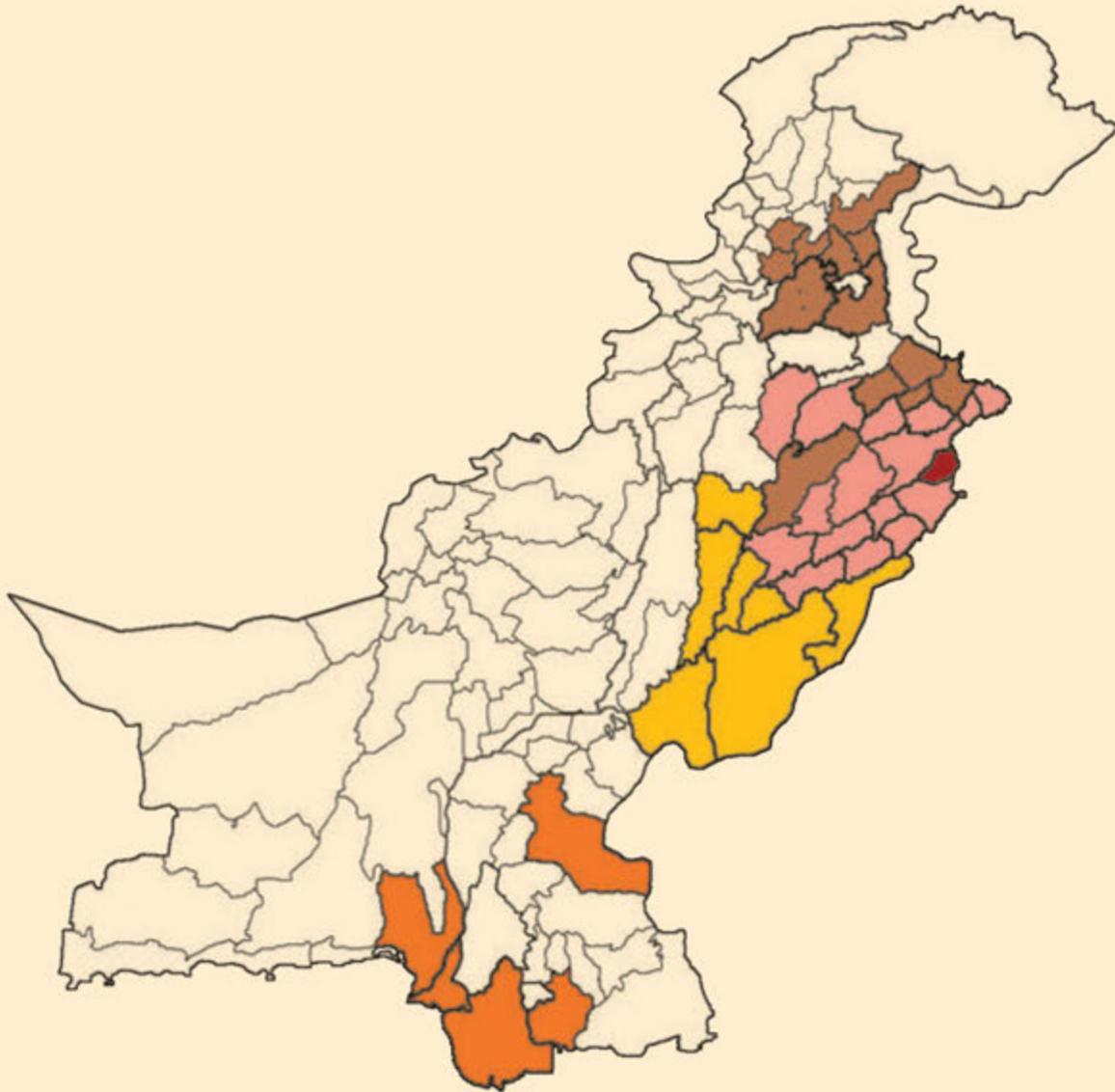
Sustainability

Kashf Foundation believes in the long-term sustainability of both the organization and clients thereby 'promoting self-sufficiency through continuous improvements in processes, products and services'

Social Performance Dashboard

| Outreach and Access | 2014 | 2013 |
|--|-------------|-------------|
| Active Clients | 230,810 | 312,182 |
| Total Lives Insured (Life Insurance) | 477,588 | 413,058 |
| Total Lives Insured (Health Insurance) | 95,339 | NA |
| Clients trained (Financial Education) | 284,132 | 250,978 |
| Clients trained (Business management) | 3236 | 1575 |
| % of Clients below 30 on poverty Score card | 36% | 34% |
| % of Clients from less developed areas | 47% | 25% |
| % of female headed households | 45% | 35% |
| % of loans used for productive businesses | 98% | 99% |
| % of women led businesses | 45% | 34% |
| Customer Satisfaction | | |
| Net promoter ratio | 99% | NA |
| Turn around time within 15 days of loan completion | 61% | 51% |
| Client retention rate | 65% | 36% |
| % of CPC violations | 0.039% | 0.033% |
| Gender Indices | | |
| Total Staff | 1780 | 1610 |
| Staff attrition | 16% | 15% |
| % of women staff at field level | 50% | 49% |
| % of female board members | 30% | 40% |
| Financial Performance | | |
| Operating self-sufficiency | 122% | 108% |
| Financial self-sufficiency | 114% | 101% |
| Portfolio at risk at > 30 days | 0.55% | 17.49% |

Geographical Outreach



- Region 1**
Products Offered: Karobar Karza, Aitebar Karza, Ibtida-e-Karobar Karza, Sehatmand Zindagi Bima, School Sarmaya, Zindagi Bima
- Region 2**
Products Offered: Karobar Karza, Aitebar Karza, Ibtida-e-Karobar Karza, Sehatmand Zindagi Bima, Zindagi Bima
- Region 3**
Products Offered: Karobar Karza, Aitebar Karza, Ibtida-e-Karobar Karza, Murabaha, Sehatmand Zindagi Bima, School Sarmaya, Zindagi Bima
- Region 4**
Products Offered: Karobar Karza, Aitebar Karza, Ibtida-e-Karobar Karza, School Sarmaya, Zindagi Bima
- Region 5**
Products Offered: Karobar Karza, Aitebar Karza, Ibtida-e-Karobar Karza, Zindagi Bima

Corporate Information

Board of Directors

Mr. Mueen Afzal
Chairman
Dr. Attiya Inayatullah
Director
Ms. Mahbina Waheed
Director
Mr. Ahmed Bilal Mehboob
Director
Mr. Syed Asim Zafar
Director
Senator Razina Alam
Director
Mr. Rizaz Khokhar
Director
Mr. Mahmud Khan
Director
Mr. Tajammal Hussain
Director
Mr. Hassan Iqbal
Director

Board Committees

Program and Operations Committee

Dr. Attiya Inayatullah - Chair
Mr. Mumtaz Iqbal - Secretary
Mr. Asim Zafar - Member
Ms. Mahbina Waheed - Member
Mr. Ahmed Bilal Mahboob - Member

Board Audit Committee

Mr. Tajammal Hussain - Chair
Mr. Ghulam Haider - Secretary
Mr. Syed Hasan Iqbal - Member
Ms. Mahbina Waheed - Member

Human Resources Committee

Senator Razina Alam - Chair
Mr. Mueen Afzal - Secretary
Mr. Mahmud Khan - Member
Ms. Rabla Khan - Advisor
Ms. Fatima Asad - Advisor

Chief Financial Officer

Mr. Shahzad Iqbal

Company Secretary

Mr. Taimur Langrial

Auditors

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Chartered Accountants
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PHOTO COURTESY, AKZO NOBEL.

Chairman's Message

Dear Friends and Supporters of Kashf,

As the chairman of Kashf Foundation's Board of Directors, I am pleased to update you on the major highlights and achievements of Kashf Foundation during the past year. With respect to the balance sheet Kashf Foundation has closed this year with a net profit of Rs. 298 million and an equity balance of Rs. 414 million, while on sustainability indices the institution continues to be best of class with OSS at 122%, FSS at 113% and PAR over 30 days at less than 1%. In terms of network outreach, Kashf has 178 branches in 38 districts across Punjab, Sindh, Khyber Pakhtunkhwa and Balochistan, with an active client base of 230,810 clients.

Kashf Foundation has continued to push forward the frontiers of access to finance for low-income women entrepreneurs by enhancing its value proposition through the provision of ancillary services. These services include building the capacity of clients through a systematic financial literacy and business development program, augmenting existing social safety nets through life and health insurance, establishing linkages to provide vocational and skills trainings and building alliances to provide further financial services such as savings, which are critical for the economic transformation of low income families.

Kashf has also maintained its focus on being a responsible MFI by constantly embedding robust mechanisms to assess and monitor social performance at all levels. This includes ensuring that the rights of clients are safe guarded and protected at all times and that they are serviced on time with high quality products. Additionally, there has been a greater focus on the lesser-developed regions of the country in order to provide microfinance in areas with low penetration levels. In this year, Kashf has also made significant headway in mapping female participation in micro-businesses to tailor products and services for increasing women's participation in the micro-economy.

Another unique facet of the Kashf program has been its commitment to ensuring female participation in the employee base. Kashf Foundation continues to implement initiatives in order to maintain and espouse diversity at the workplace. Kashf boasts one of the best female ratios in the workplace for MFIs in the world, with 52% of its field staff being female. There is no doubt that the above outcomes could not have been possible without Kashf's dynamic team!

I would like to extend Kashf's gratitude to all the donors and supporters of Kashf that have made these developments possible especially the Pakistan Poverty Alleviation Fund, the Canadian Government, the Coca Cola Foundation, OMV, Aman Foundation and all commercial banks who have funded the growth of the portfolio.

Best Regards,

Mueen Afzal
Chairman
Board of Directors



Managing Director's Message

Dear Friends and Supporters of Kashf,

In the past few years there have been a lot of questions raised about the future of microfinance; while many have questioned the transformative potential of microfinance others have critiqued the one-size-fits-all approach followed by many microfinance providers. The sector's overall push towards commercialization poses a risk where women entrepreneurs are likely to be left behind, however, we have contextualized the Kashf program to remain transformative for and relevant to the needs and aspirations of low income female entrepreneurs.

Take for example the case of Baji Asmat Zahra, a Kashf client from Jhawariyan who stitches school bags. When she started her business it was at a very small scale and her production was as low as a dozen bags per month – her major constraints were capital, expensive raw materials, limited workforce, and inability to market her products effectively. Baji Asmat took her first loan from Kashf eight years back and has since increased her capacity to producing around 40 bags per day! As a result of the loan she was able to increase the production capacity of her business and hire more workers. In Kashf's earlier methodology, Baji Asmat had to rely on her solidarity group's repayment capacity and behavior to determine the loan amount she could take from Kashf, which did not allow her to grow her business as fast as she had planned.

Today as a result of Kashf's innovative women friendly individual lending product, Baji Asmat's business and household cash flows along with her debt absorption capacity determine the size of her loan. Through the Systemized Financial Education program, Baji Asmat has learned the importance of growing her profit margins by procuring cheaper raw materials from the wholesale market in Lahore. Moreover, she now also maintains a household budget every month which helps her keep a better check on her finances and meet her savings goals– another key learning of the Financial Education Training. Baji Asmat feels that it is the success of her business, her improved self-worth, and numerous social awareness and advocacy interventions by Kashf that have actually enabled her and built up her confidence to be such a successful entrepreneur.

As highlighted in the case above, Kashf's continuous re-invention of its products and services, both the scope of offerings and the methodology, has enabled Kashf to better serve its clients and has led to substantive change in the quality of life of clients and their families. A key success in this realm has been the introduction of the Micro-health insurance product, aptly named the Healthy Life Insurance (Sehatmand Zindagi Bima) as it not only provides coverage of up to Rs. 30,000 for each member of the client's household but also provides informational health trainings, tele-health services and health camps. In the pilot stage, Kashf was able to cover 95,339 individuals through this product, while we are all geared up to roll out the product to all our clients and their families by the end of 2015.

On a broader level as Kashf expands geographically we are committed to contextualizing products and services to better service clients in light of the regional differences and on-the-ground realities of different segments. Kashf's Murabaha product in Khyber Pakhtoonkhwa has allowed 3,420 women entrepreneurs to expand their businesses and improve their household's economic well being. For areas in Balochistan and the lesser-developed areas of Punjab where women entrepreneurs are extremely marginalized and microfinance penetration is lower, Kashf is developing a product that can bring together the advantages of the individual lending product but also embed some components of the group methodology to increase ease of use and build associative strength. This will be piloted in the coming year.

Kashf strives to remain on the cutting edge of microfinance by continuously investing in innovation. Kashf's focus is not just on the number of clients served through the program; we are committed to meeting the needs of the clients we serve, ensuring the quality of the services we provide and generating real value and impact for our clients. I would like to thank you all for your support to Kashf's mission and for believing in Kashf's vision. We are continuously invigorated and motivated by your belief and support.

Best Regards,

Roshaneh Zafar
Managing Director



A hand is visible on the left side of the frame, holding a small, textured, brownish object. The background is filled with a dense field of many similar small, elongated, brownish objects, possibly seeds or grains, which are slightly out of focus. The overall color palette is a warm, monochromatic brown.

CLIENT STORIES
YEAR 2013 - 2014



From Snacks to Catering Services - Rabia's Culinary Success

Rabia Hussain – Karachi

Rabia's daily task was a daunting one, to make ends meet on her household's meager income. Days would go by when she even had difficulty in being able to provide two meals daily to her children. Faced with the growing inability to feed her children, Rabia was compelled to start her own business almost six years ago. Rabia always had a keen knack for devising new recipes even on a scanty budget. "I would try innovating new recipes from basic items available at home. The food wasn't edible all the time, but I would not give up," says Rabia. Rabia utilized her cooking skills by first establishing a small snack enterprise by making vegetable rolls at home, which her children would sell in the local market after school. Once her sales gained momentum

and people started to appreciate her product, Rabia gradually expanded her products. At this time, she needed more capital to invest in her business for which she acquired a loan from Kashf Foundation to purchase much needed kitchen appliances. Rabia has considerably expanded the palette of her business offerings for she now provides catering services to households for lunch and dinner parties, undertakes large scale events such as weddings, while also providing lunch delivery services to several offices and corporations. On average she caters up to eight events per month and is able to earn a monthly profit of Rs. 35,000. Rabia's catering business is built on providing consistently good quality food while maintaining an outstanding service.

"I run a business which thrives on excellence and quality. I always tell people that quality is the most crucial aspect of any item you produce," says Rabia.

Additionally, Rabia has also participated in Kashf's Systemized Financial Education Program, which has helped her in two ways: to understand the importance of savings and the maintenance of a budget for her business and her household. Rabia is now able to track her business income and expenditures better, and her ability to manage business cash flows has improved. She cites the instrumental role Kashf training program played in assisting her to manage her capital so that she could continue to fund business growth.

From Poverty to Prosperity - Kishwar's Bread-making Enterprise Kishwar Rehana-Gujrat

Kishwar's hands are calloused from years of cooking bread, which she makes all year round even in the scorching heat of Gujrat's summers. Kishwar was married to Rasheed, a rental cart service provider, when she was only sixteen. Kishwar and her husband have struggled since the early days of their marriage to make ends meet. Often they would eat one meal a day in order to make their groceries last longer. After the birth of her first daughter, Kishwar started worrying about the needs of her newborn, in terms of

her health and her future education. Kishwar realized that in order to provide her daughter a good education, she needed to start earning to increase the current family income. As a result she began a bread making business out of her home seven years ago. For the first two years, Kishwar cooked bread using a basic kitchen stove. Her second pregnancy made her realize that the small income she earned from her business would soon be inadequate to provide for the needs of her growing family.

"Microfinance has opened many possibilities for my family. I am proud that I provide for my children from my own earnings" says Kishwar.

At that point in her life, Kishwar came to know about Kashf Foundation's credit and training services from a business development officer who made her consider the possibility of owning her own tandoor (brick oven) in order to produce and sell more bread. Kishwar considered this suggestion, and having the basic experience of managing her own bread making enterprise, she decided to invest a Kashf loan in building a tandoor in her house. Seven years later today, Kishwar is a proud mother of three children and an owner of three tandoors, which allow her to cater to a broader range of customers including most nearby restaurants. Currently the expanded business allows Kishwar to save around Rs. 25,000 per month. Counting her blessings, Kishwar is thankful for not just being able to provide quality education and food for her children, but also for giving them a decent standard of living.





From a Single Business to Multiple Ventures - Haseena's Diverse Enterprises

Haseena Bibi-Thatta

Even though Haseena Bibi lives in a small town in Thatta, she has always had big dreams and new ideas. She would often visit Hyderabad city to meet her relatives and would be stunned to see the bustling city teeming with people going about their daily lives. She was particularly struck by the enterprising nature of urban dwellers and wanted her family to establish a grocery store in Thatta, similar to the ones she would see in Hyderabad. However, lack of finances prevented them from establishing their own

shop. Despite her aspirations, things did not get easier and Haseena's husband, a day laborer became extremely frustrated with the low wages and irregular income from his work. As time went on, things became harder since her husband would not get work for days and their four children would go to sleep hungry, leading to innumerable fights between the husband and the wife. It was at this point that Haseena met Kashf Foundation's business development officer at her neighbor's house, who motivated her to start her own enterprise.

When asked how she would use her savings she replied, "I want to expand my shop like I was taught during Kashf trainings. My shop may be thriving, but my dreams have a long way to go."

With her first Kashf loan two years ago, Haseena bought a table, few plastic jars, sweets, soap, lentils, tea and a few other items to start a small grocery shop near her house. Additionally, she employed her 19-year-old son to sell things door-to-door in the community. Since customers realized the convenience of having groceries delivered to them, her business started booming. Through her multiple marketing strategies she was able to establish a regular clientele and increase her earnings while making further investments through repeat loans from Kashf. She also began savings in earnest in order to start another business venture that of livestock farming.

Today she owns three cows, which she purchased with her savings and a recent Kashf loan in order to generate an additional source of income for her family. Haseena has also kept a savings box at the back of the store in which she places all the pennies she receives.

From Hairstyling to a Beauty Salon - Aqeela's One Stop Solution

Aqeela Bibi-Haripur

The tiny street in the city of Haripur, where Aqeela Bibi lives belongs to a very conservative part of the city, where most women are confined to their homes. Aqeela had often been inspired by stories of economically independent women and had thought many times of establishing a small business to supplement her family income. However, her relatives had always discouraged her from taking this route. She was stuck between the traditional values of her family and the need to provide for her three children. However, a year ago when poverty was getting the best of them,

she decided to take matters into her own hand irrespective of the opinion of her friends, family and neighbors by setting up a basic hair salon. Many in Haripur saw this as a bold move - a woman running her own salon was an anomaly to say the least. Aqeela realized that the only way of proving herself worthy would be to work hard and make the salon successful. However, to grow her business, Aqeela needed financial assistance, which was not available in Haripur given the low penetration of microfinance in the area.

"My relatives underestimated my capabilities and taunted me for bringing in the money to support my family but when I look at my children moving forward in life I forget about society and all its constraints," says Aqeela.

Aqeela was able to find out about Kashf Foundation's Murabaha product, which had been specially designed to meet the needs of entrepreneurs like her. The product enabled Aqeela to equip her salon with better and more advanced equipment along with purchasing better quality hair and beauty products, which helped increase her client base.

Currently Aqeela accumulates profits of around Rs. 32,000 per month, which allows her to both provide for her children's needs and to support some of her relatives.



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From a First Step to a Successful Journey - Saima's Secondary School Saima Saeed, Bahawalpur

Saima Saeed started her teaching career three years ago at a small school in Bahawalpur. She reminisces about those years with mixed feelings. "I loved the children in my class, but did not agree with the teaching methodology. I wanted a classroom which facilitated learning and fun instead of having a harsh regimented atmosphere." Her aspiration led her to set up her own secondary school in 2012 in a very modest way with a total enrollment of 12 students. Over the years, Saima improved her school incrementally by

repairing the building, expanding the curriculum and adding new books to the syllabus. As her reputation grew, more and more students joined, however, the school did not have the facilities to keep up with new enrolment. At the time Saima learnt about Kashf's School Finance product, she had 120 students in her school and did not have enough furniture for accommodating all the children. She needed financial assistance to provide her students with these basic facilities.

"I always had the desire to teach and do various activities with my students. Now I have extensively learnt these activities and techniques," says Saima.

The additional services offered with the Kashf product, i.e. comprehensive trainings for school teachers, capacity building trainings for school management, and a curriculum development component for the schools, added to the appeal of the product.

The loan enabled Saima to purchase chairs and desks, 3 computers for setting up a computer lab and additional funds for some maintenance and repair work. Currently she has 150 students enrolled at her school and is able to earn a profit of around Rs. 40,000 every month. She aims to use her next loan to construct a classroom for grade nine and ten students in order to provide a secure and safe environment to all the students. The comprehensive 5-day training provided by Kashf to Saima has provided her the tools to build her skills as an educationist and as a successful school entrepreneur.

From Dreams to Reality: Salma's Doll Making Enterprise Salma Kanwal – Lahore

From one perspective Salma's story sounds like a fairy tale for she was able to turn a child hood hobby into a business; not everyone has the opportunity to turn their dreams into reality. When she was a little girl, Salma would fashion new dresses for her dolls and restyle their hair- utilizing the sewing, knitting and crocheting skills she had learnt from her mother. Salma always wanted to actualize her dream of becoming a doll maker, but lack of finances prevented her from establishing her own business venture. The artistic desire to produce dolls combined

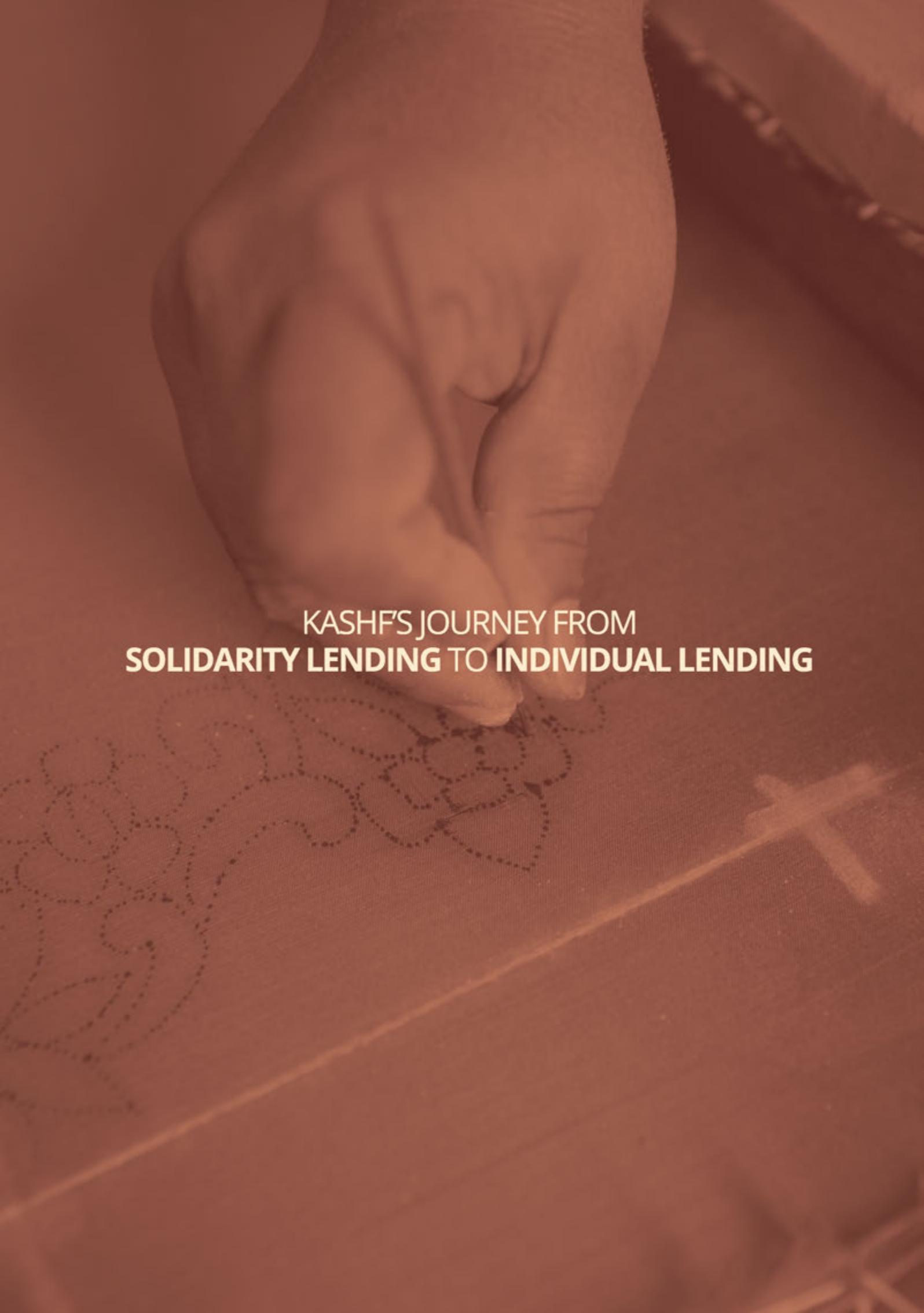
with her personal motivation to provide good education to her 4 children, made her seriously pursue her dreams. She acquired a loan from Kashf Foundation to start her doll making business 8 years ago. Currently, Salma is able to produce a total of 400 dolls per week, which she personally designs, while outsourcing the main job of stitching to a dozen women from her neighborhood. Salma's husband is incredibly supportive of her work and she claims that without his support she would have been unable to come this far along.

"When you start working, even if initially there is no profit, the very experience in itself is a great lesson that helps you out in the future," says Salma.

Salma aims to increase her business from 400 dolls to a 1,000 dolls per week by planning to purchase machines that will help in the cutting, sewing and finishing of the dolls. The desire to push her business further came through the business management trainings being offered through Kashf's Business Incubation labs program. The Business Incubation Labs program taught Salma marketing and networking skills, while she also understood the need for product innovation in order to grow her business. Furthermore, Salma has learnt how to conduct herself and communicate with market vendors who are mostly men. Gender differences don't impact her behavior now, particularly when she goes out into the market; male vendors do not intimidate her as they did before.

Salma has been an active member of Kashf's Women Entrepreneurs' Council as well and has been engaging with Kashf clients in her community in order to provide effective feedback on Kashf's programs, products and operations. This experience has honed her leadership skills and members of the community look up to her for motivation and inspiration. For the Women's Entrepreneurship Day that is to be celebrated on November 19, 2014 in New York City, Salma has been appointed by United Nations to take a pivotal leadership role in her community and help inspire other young women and girls to live up to their greatest potential. By being a WED Ambassador she will have the opportunity to raise awareness of the work that she is doing as an entrepreneur, and also gain access to a premier network of WED members and innovative thinkers.



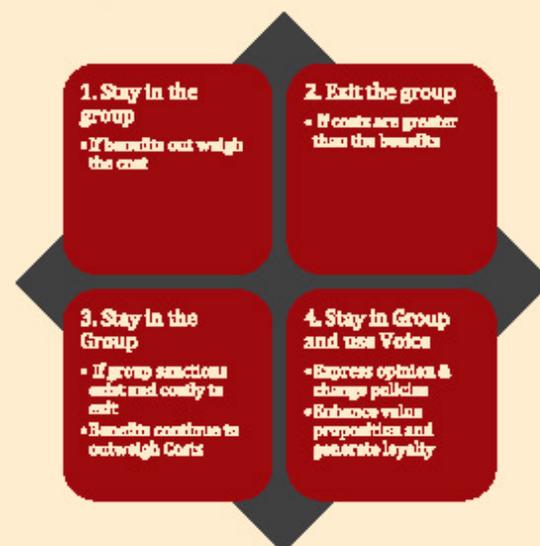
A close-up, sepia-toned photograph of a hand stitching a pattern on a piece of fabric. The hand is positioned in the upper center, with the needle and thread visible. The fabric has a dotted pattern of interconnected circles. The background is a textured, brownish surface. The text is overlaid in the center of the image.

**KASHF'S JOURNEY FROM
SOLIDARITY LENDING TO INDIVIDUAL LENDING**

Kash's Journey from Solidarity Lending to Individual Lending

The Need to move towards Individual Lending

While the solidarity lending methodology has been widely successful as a financial service delivery model for decades, certain critiques associated with it have also been resonating on the global front. The lack of flexibility or the cookie cutter approach inherent in most group lending schemes combined with negative peer effect and joint-liability and the heavy post transactional opportunity and time costs have been seen as the key sources of dissatisfaction with the model. The evolution of group lending can be understood in the context of Albert Hirschman's transactional model explaining group behavior of members in terms of their ability to exercise exit, voice or loyalty. Members will apply the exit option when they feel that the costs of staying in a group outweigh its benefits or when they are inherently dissatisfied with the services of the microfinance institution; however, if there are group sanctions to exiting then voice could be exercised to try and improve the outcomes of the group, which under ideal circumstances could generate loyalty with the services of the organization.



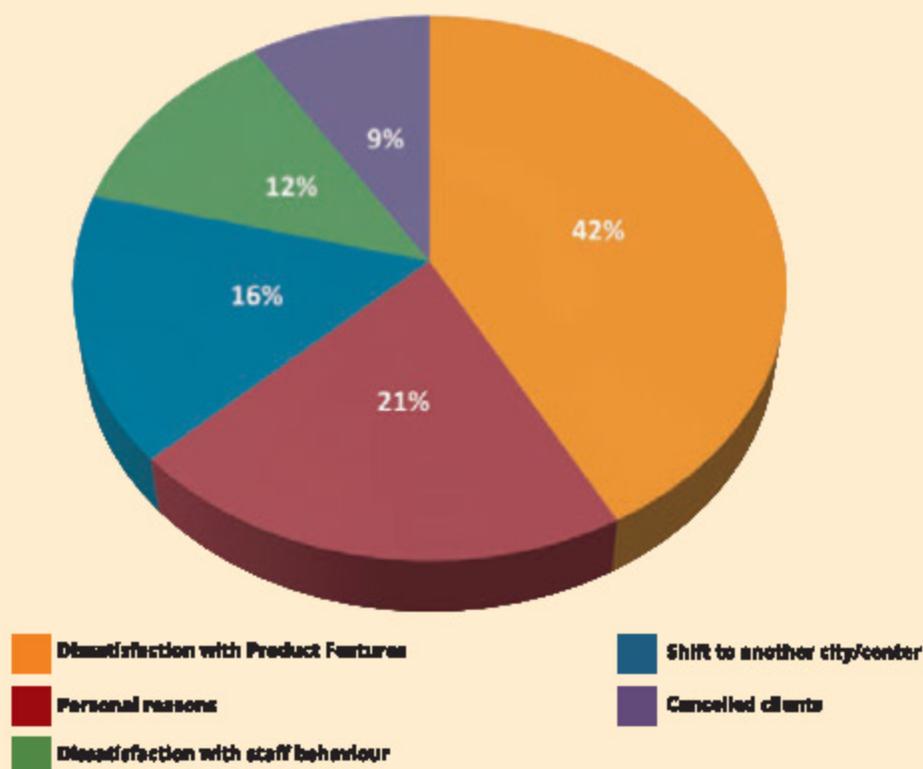
Taking this framework further, there are certain costs associated with group lending which are intrinsic in the model which can lead to members exercising the exit option. These can include for example the fact that group lending generally does not allow flexibility in terms of the loan amount¹, as the general principle followed in almost all group lending models is fixed loan amounts per cycle which means all group members are forced to accept the same loan amount irrespective of their credit needs. Furthermore, situations may also arise where some members with smaller loan sizes end up guaranteeing larger loans for their peers, especially if groups comprise of new and old members. Given the punitive nature of the group mechanism, there are large negative welfare effects if the group as a whole defaults, even; if individual members have the capacity and the willingness to repay their own loans. Moreover, group members given peer pressure may be forced to stay in the next cycle of borrowing since their exit could delay the access of the group to a new loan and the strength of the group may decrease if new borrowers with weaker social ties are inducted to make up for any decline in the number of members in the group. Staying in such a group may become burdensome over time, but the threat of social sanction often deters members from leaving, thus leading to group fatigue over time.

¹ Babu, Somanadha, and Anup Singh. "The Need for Individual Lending in Mature MFIs." *Eye on Microfinance* 4 (2007): 1-3. Institute for Financial Management and Research Centre for Microfinance. Web.

Another interesting feature of group lending is that the microfinance institution transfers most of the monitoring responsibility to borrowers. Over time, this can create a transparency issue since the use of loans is by the same members that are responsible for monitoring them- this can lead to a situation where loans can be pipe lined within the groups or even to other individuals in the community. Furthermore, such pipe lining can lead to the concept of loan agents emerging within the groups, especially given the asymmetric information that micro finance institutions may have regarding group dynamics, thus leading to the principal-agent dilemma. This implies that influential group members can determine who gets the loans and who can be considered credit-worthy, while at times also charging a fee for this service, especially when access to credit is limited. Another very high cost associated with the group mechanism relates to the unnecessary costs and pressures of repaying for the group and the mandatory attendance at group meetings.

In 2007, Kashf Foundation gathered feedback on its group methodology from its clients to determine the relevance and impact of the above set of issues. In a survey investigating reasons for clients' exit from the program, an overwhelming 42% cited dissatisfaction with product features as the primary reason. The product features that encountered greatest criticism were the bi-monthly installments and group meetings; both being essential features of the Kashf group lending methodology. A further survey of 200 exit clients conducted in 2008 revealed that 34% of the clients had left due to bi-monthly installments and 43% had left due to the bi-monthly meetings and center responsibilities.

Causes of Exit

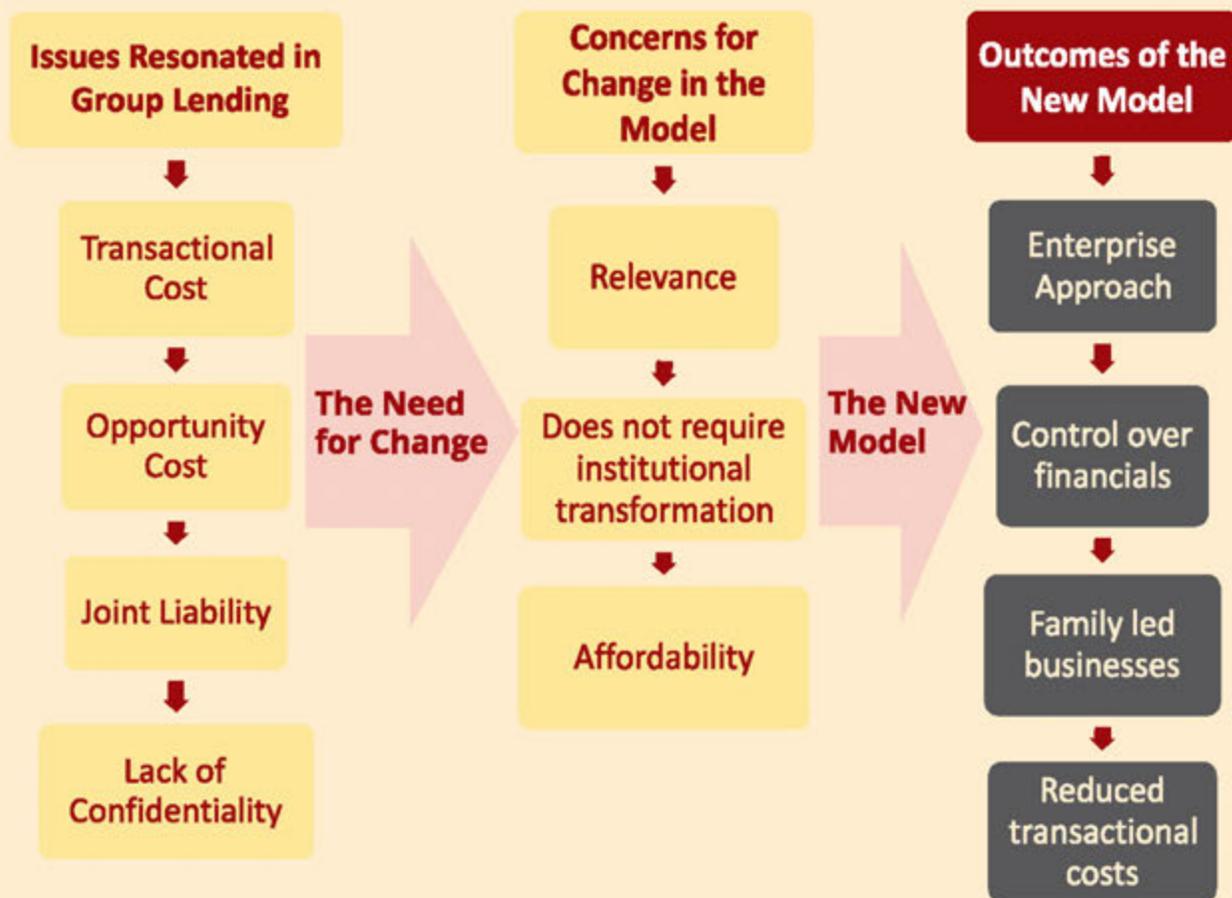


Overall dissatisfaction with the product delivery mechanism was largely related to center formation, participation in center meetings, time spent in collecting loan installments from the entire group, the size of the center and sanction of problematic members. This created a need for Kashf to review its methodology and respond to the market demands, by looking into an individual lending methodology.

Comparison between the Two Models

Key Features of the Solidarity Lending Methodology:

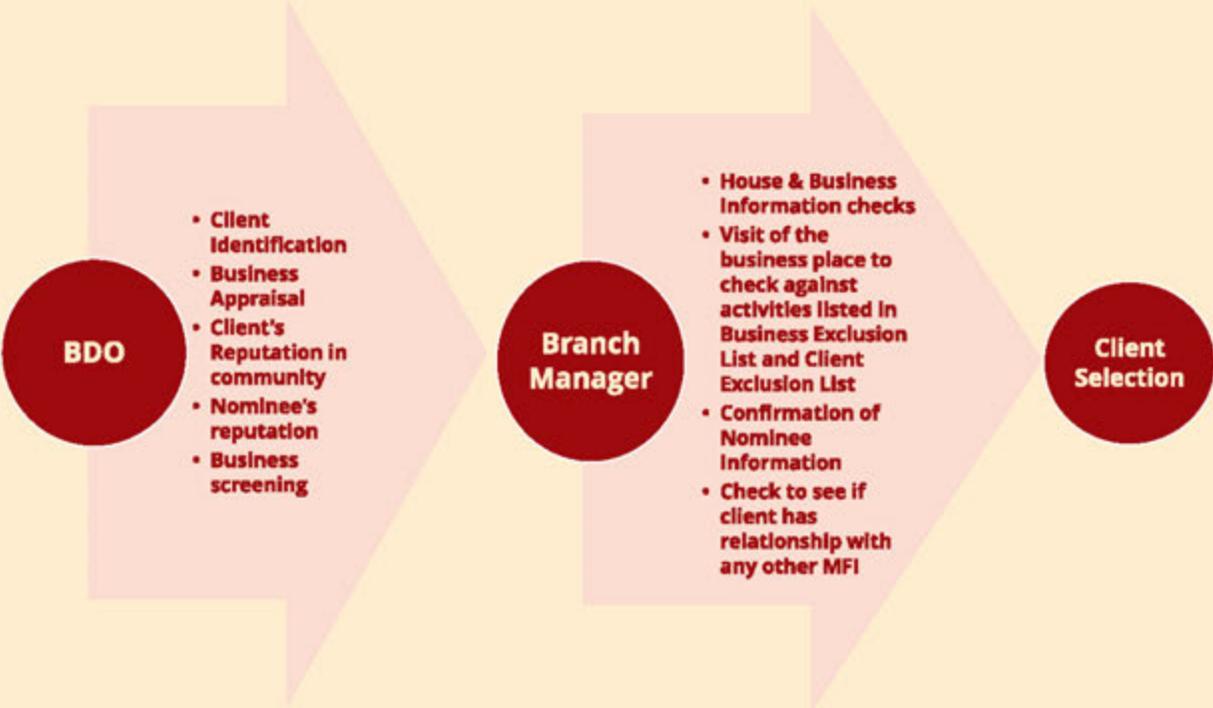
| Key Aspect | Pros | Cons |
|---|---|--|
| <p>Self-selection: Clients were provided loans once they were able to form into groups and centers. Each group comprise of 5 self-selected members, who were further organized into a center of 25-30 women.</p> | <ul style="list-style-type: none"> • Created joint accountability • Built strong enforcement mechanisms at the community level • Reduced chances of collusion between loan officers and clients • Strengthened peer relations | <ul style="list-style-type: none"> • Increased chances of members with low credit-worthiness being included • Created opportunity for loan pipe-lining • Led to chances of non-transparent relationships • Provided chances of collusion amongst group members • Generated barriers and costs which forced members to stay in the group |
| <p>One Size Fits All: All group members were eligible for the same loan amount at the time of each loan cycle irrespective of their individual borrowing capacity. Group members were encouraged to continue borrowing in the next cycle by increased loan sizes in the next cycle.</p> | <ul style="list-style-type: none"> • Led to cost effective delivery • Was easy to monitor and systemize at the field • Was easy to scale across communities • Created strong credit discipline across groups | <ul style="list-style-type: none"> • Loan amounts were not linked to individual capacity • Impact of loans was difficult to gauge given fixed loan sizes • Cross guaranteeing of different loan amounts across members led to group liability issues |
| <p>Joint Responsibility: All center members were liable for the timely repayment for the entire center, which served as the primary form of social collateral. For disbursement, all 25 clients in a center had to be willing and present to take the loan at the same time. The recovery was done on a fortnightly basis during the center meetings.</p> | <ul style="list-style-type: none"> • Created clear sharing of information regarding loans disbursement and payment • Generated joint ownership of lending decisions • Ensured clear responsibility and sustained recovery behavior • Led to associative strength amongst members • Provided women with collaborative opportunities hitherto denied to them | <ul style="list-style-type: none"> • Generated long waiting periods at disbursement and recovery • Huge opportunity costs of attending center meetings • Hidden delinquency and pipe lining could not be transparently gauged • True capacity and willingness to pay was difficult to determine • Some members were forced to stay in groups • Given fortnightly installments, members sometimes paid 3 times in the month • Created social and economic repayment burden on members • Led to a lack of confidentiality of information regarding personal financial decisions of each client |
| <p>Leadership: A center manager was selected each year, out of the 25 clients, and was responsible for managing 5-6 groups. A group leader was assigned to each, with a task of ensuring that 1) the loan was used for business purposes, 2) all members attended the meetings, and 3) installments were paid on time. Each center also had a credit committee comprising of the center manager and group leaders for ensuring credit discipline at all times.</p> | <ul style="list-style-type: none"> • Inculcated financial ethics • Developed leadership amongst women • Ensured effective and quick decision-making • Led to effective community mobilization and community organization • Created strong liaison between the institution and the community | <ul style="list-style-type: none"> • Created a negative principal-agent relationship • Led to collusion amongst center members • Created opportunities for inequitable and non-transparent relationships • Led to the creation of loan agents in some communities |



Moving to Individual Lending Methodology

Kashf recognized the need for change in its lending methodology, owing to the issues that resonated with group lending methodology globally as well as with the Kashf clientele. The major difference in the new approach is the organization's focus on the business enterprise of the client. Each client, under the new methodology of individual lending is provided with a prospective loan amount, according to his or her need and repayment capacity. Client's capital needs are assessed along with her repayment capacity through a detailed loan and business appraisal process, which as a starting point facilitates the business development officer and the client to determine the most effective use of the funds given the size and nature of the client's business. In the past, Kashf gave loans to everyone who was willing to form a group irrespective of their business needs and/or repayment capacity. Despite the thin and informal nature of the business information available at the level of the client, the business appraisal allows Kashf to mitigate the client selection risk with respect to their creditworthiness, while also enabling the selection of clients who have the best potential to use the loan funds.

Under the new methodology Kashf has set extensive client screening standards that the Business Development Officer (BDO) and Branch Manager take full responsibility of once they identify a potential client. These can be seen in the following chart



In this model, the liability of the loan falls on the client and her co-borrower, usually a male from within the family, who also provides a postdated cheque as a quasi-collateral against loan payments. In the new methodology, the loan approval depends on the overall credit history of the client and not that of a group. This leads to greater transparency in the system with regard to the identification of the loan utilization, repayment behavior and impact of the loan on the individual client. Furthermore, loan repayment is based on 12 equal monthly installments, which inherently reflects the typical cash flows of client enterprises.

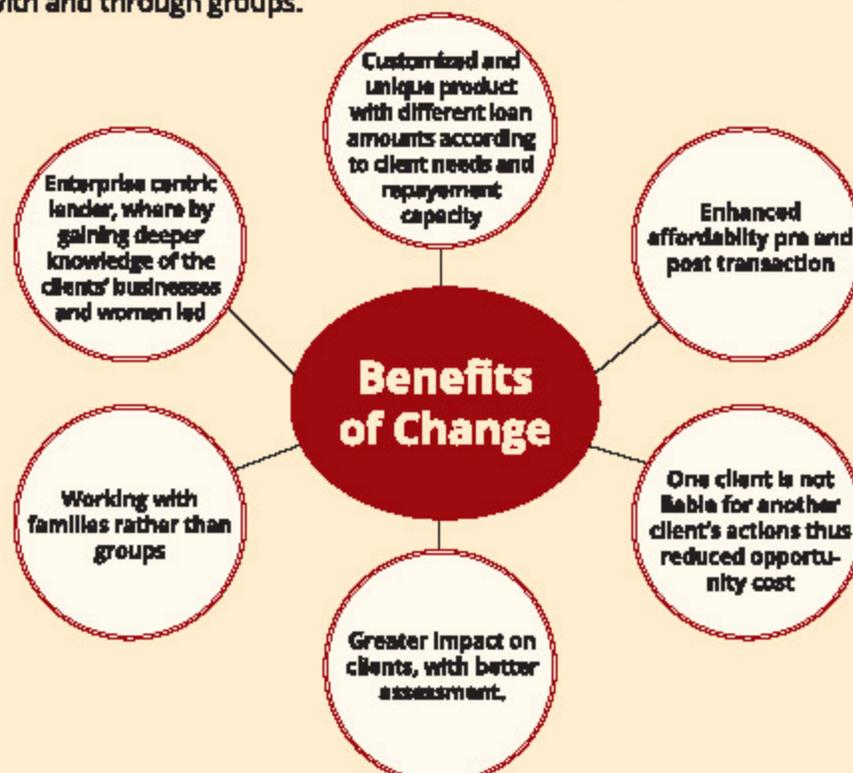
Each Loan Officer (LO) is now called a Business Development Officer (BDO) on the pretext that his/her tasks transcend that of providing microcredit. The BDO is now involved in trainings of clients, growth and development of client's businesses and providing other financial services and products. This has enabled Kashf to be involved with the family of each client and their business, deepened the understanding of women led enterprises, while also allowing the institution to track impact more effectively. The impact of the financial and non-financial services is assessed after each loan cycle at the time of the next business appraisal by mapping improvements in business cash flows and other social and financial outcomes.

Benefits of Change:

Kashf Foundation has kept track of the satisfaction of its clients with the product features through its customer care cell, customer satisfaction surveys and other feedback forums like its Women Entrepreneurs Council. As mentioned above, the Individual lending methodology has enabled Kashf to be an enterprise centric lender, whereby the institution has been able to gain a deeper knowledge of the clients' businesses and skills, along with understanding the needs of women led enterprises and sectors.



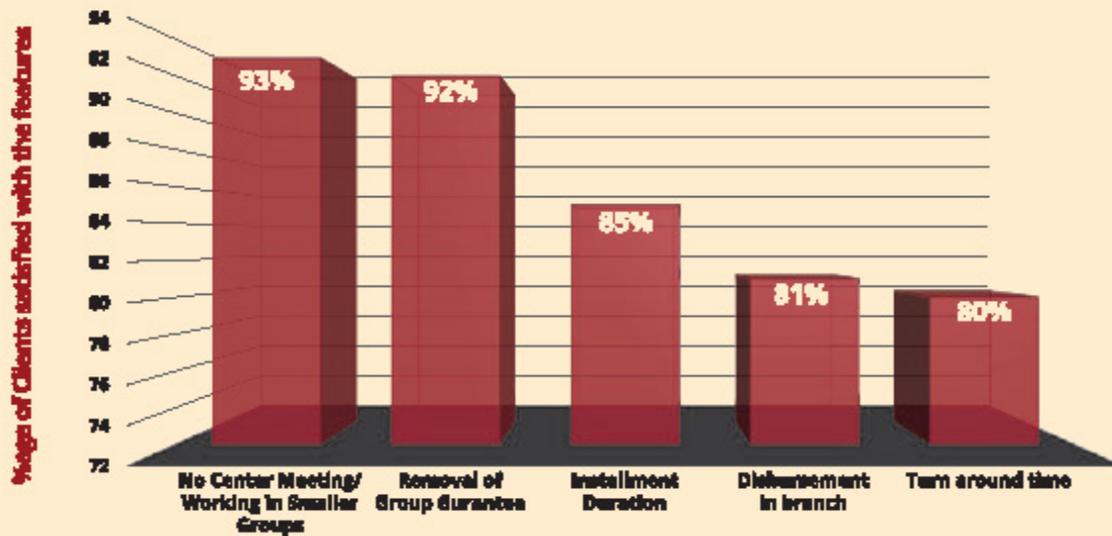
This change has also enabled Kashf to cultivate personalized and more impactful relationships with its clients, as it is now able to work with women led enterprises and client's families directly rather than with and through groups.



Client's Experience with the New Model of Individual Lending:

In order to assess client satisfaction with the new lending methodology, feedback has been gathered from clients annually as part of the customer satisfaction research. Looking at the figures from 2012 and 2013, a vast majority of clients favored individual lending (97% and 98% respectively). Impact assessments of Kashf's policies following the shift in lending methodology also brought forth a largely positive response:

Client Satisfaction with the New Model Features



| Key Features | Clients' Experience |
|----------------------|---|
| Accessibility | 97% of the clients under the 2012 customer satisfaction survey reported it was easy to obtain a loan from Kashf Foundation. Moreover, according to 93% of the respondents in 2012, individual guarantees in the form of post-dated cheques were easy to obtain, thus lending further credibility to the individual lending process. |
| Affordability | According to the 2012 Customer Satisfaction Survey, 74% of the respondents reported satisfaction with the service charge and documentation fee. The upfront documentation fee has since then been reduced by 50%. |
| Relevance | 85% of the clients under the impact study appreciated the change in repayment frequency from bi-weekly to monthly as it matched their household cash flows better. Also, the new process saved a significant amount of clients' and staff's time, as there are no monthly meetings and no joint liability of loans; more than 90% of clients liked the removal of center meetings, and more than 90% of the clients reported they will borrow again from Kashf. |

Staff's Experience with the New Model:

Kashf has also maintained an interactive approach with its staff all across its network of more than 200 branches and service centers to stay informed of their experiences with the new methodology and products. Kashf's staff was very appreciative of the new methodology, as it saved them time on various levels especially when it came to conducting and managing group meetings, while the focus on impact of the financial products and services has led to transparent relationships with clients. At the same time due to the focus on individual clients, workload has increased at various tiers of the staff hierarchy. The boxes below record the experiences of some of the staff members with the new lending methodology:

Comparison between both models

"The experience with the new lending methodology has brought ease into the system at various levels. Only one client needs to be prepared for disbursement instead of a whole center of 24 clients. Post dated cheques serve as a more tangible guarantee as compared to the social collateral. In group lending, staff's relation with good clients was strained due to bad clients"

Mumtaz Iqbal- Operations Manager

Group Lending

"The cut down in meetings gives us more time to do post-loan utilization and impact review which has become the new strength for Kashf. Transparency and relationship with the clients has increased due to the model's focal point being the impact assessment of financial products and services"

Zaheer - Senior Area Manager

Individual lending

"Although it has become more challenging to find shifted clients as it can upto a month for a BDO to discover such client, the client satisfaction ratio with the individual lending process has immensely increased."

Humaira - Branch Manager Bahawalpur

BDO Workload with the New Model

"Even though the new model has increased the workload and responsibilities of BDOs, the strong relationship building with clients has made the entire process more personalized. We now have much more stake in the business run by the client"

Shumaila- BDO Karim Park branch

| Key Element | Staff's Experience |
|----------------------------------|---|
| BDO Skill Set | BDO skillset required a change due to the added requirements in the new methodology, as clients are now selected on the basis of credit appraisals, in contrast with self-selection by clients under group lending. |
| Productivity | The staff was able to disburse 25 clients as the primary unit of transaction, while with the new methodology the staff disburses one client at a time only, with equal or more documentation |
| Efficiency | The cutback on the center meetings has resulted in an overall reduction in the post loan monitoring time, but has led to more time having to be given to loan follow up in case of late payments. |
| Monitoring | In group lending, the monitoring was outsourced to the clients themselves, if one client fell short of their repayment, the others covered for it. Individual lending brought a key task for the staff to monitor their clients to ensure timely repayments from all clients. |
| Marketing | Due to self-selection in group lending, there was very little stress on mobilization of new clients. Under the new system, staff is also responsible for mobilizing new clients. On the other hand, staff receives more positive feedback now from clients on individual loan features, contributing to staff's encouragement and ownership of the new methodology. |
| Staff Responsibility | The overall staff responsibility has increased in terms of tasks, as the staff is now answerable for the Overdue (OD) and Portfolio At Risk (PAR). Under group lending, due to the joint liability staff did not have any stake about each individual's recovery and its implications. |
| Client-Staff Relationship | The change in the methodology has fashioned a one-on-one relationship between the staff and the clients, which has over time created a sense of stronger association among the clients with the organization. |

Institution's Experience with the New Model:

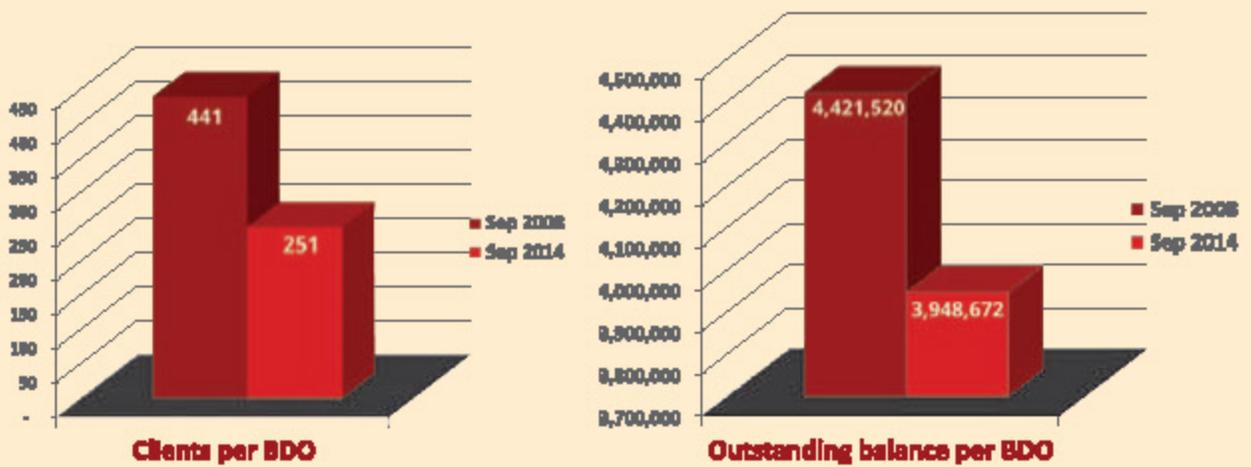
Kashf's Compliance department continues to map clients' ongoing relationship with the institution regularly, which then feeds into further improving the features of the products and services.



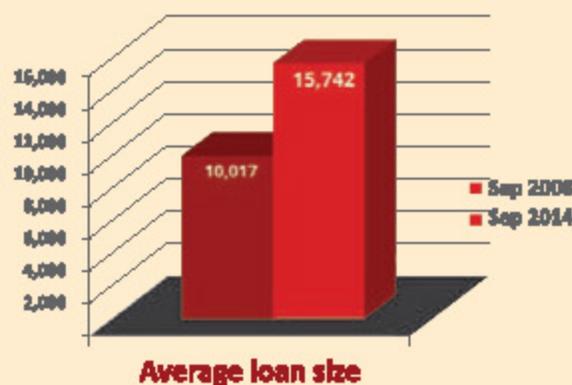
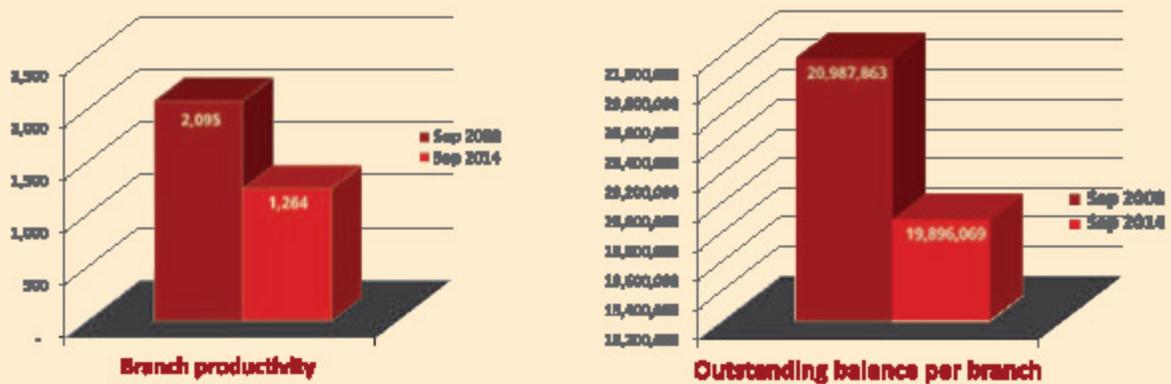
Productivity and Efficiency Perspective:

| | |
|------------------------------|--|
| Efficiency | The overall efficiency in the organization has increased as a result of individual lending. The removal of bi-monthly center meetings ensured no staff time is being wasted waiting for clients to gather. In individual lending, those willing to take a loan are disbursed, whether or not an entire center is readily available. These features have become key sources of satisfaction from Kashf products among its clients |
| Transparency | The institution is now able to transparently track the capital provided to each client against her business. Loan Utilization checks can now be made in their true spirit, thereby making it possible for staff to assess the real impact of the loan on the client's business. |
| Products and Features | The change in the methodology has brought forth exciting arenas to be explored by Kashf, in terms of new features in the products, or altogether new products for the clients according to their needs. This is particularly true of being able to track the cash flow of different trades that clients invest their loans in. |
| Staff Skills | Due to constant innovation by Kashf, with the introduction of individual lending methodology, the staff skills are also constantly improving. |
| Monitoring | As there is no social collateral, Kashf had to instill a stringent monitoring framework which includes the establishment of strict monitoring circuits for each tier and a separate compliance department to ensure complete enforcement of policies. |

Overall, the change in the methodology has also led to changes in various efficiency and productivity indicators. This was seen through a decrease in the number of clients per BDO, and the outstanding balance per clients, as the BDO now disburses one client at a time, as opposed to a group of 25.



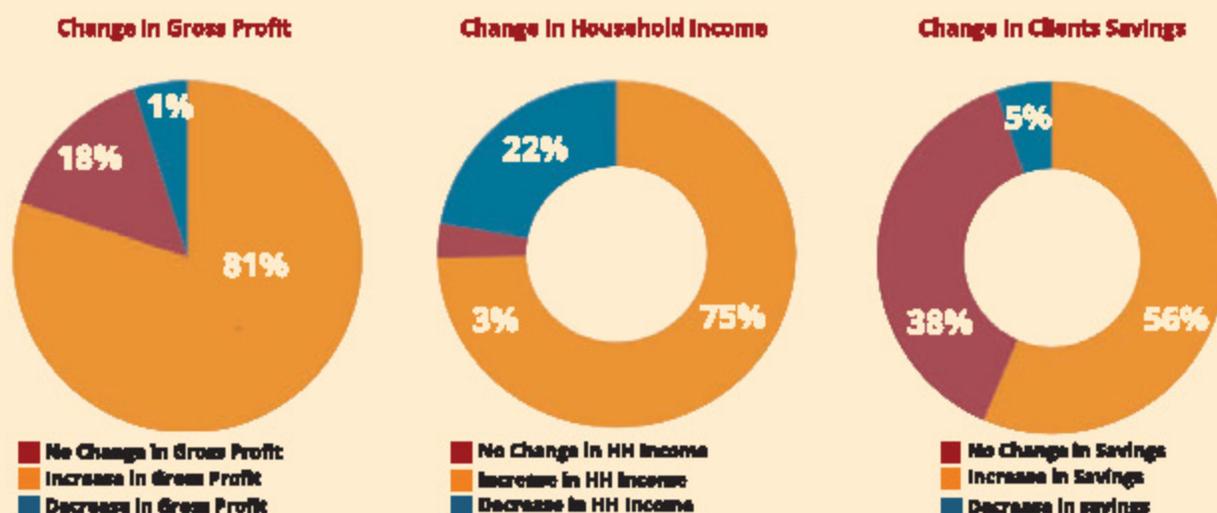
The number of clients per branch (Branch Productivity) and Outstanding Balance per branch also decreased as shown below.



The decrease in the productivity indicators was compensated by an increase in the average loan size. With the new methodology, the clients are more satisfied with the loan amounts as their needs are being better met, with a higher average loan and loan jump and are transposed with their business capacity.

Portfolio Quality and Impact Perspective:

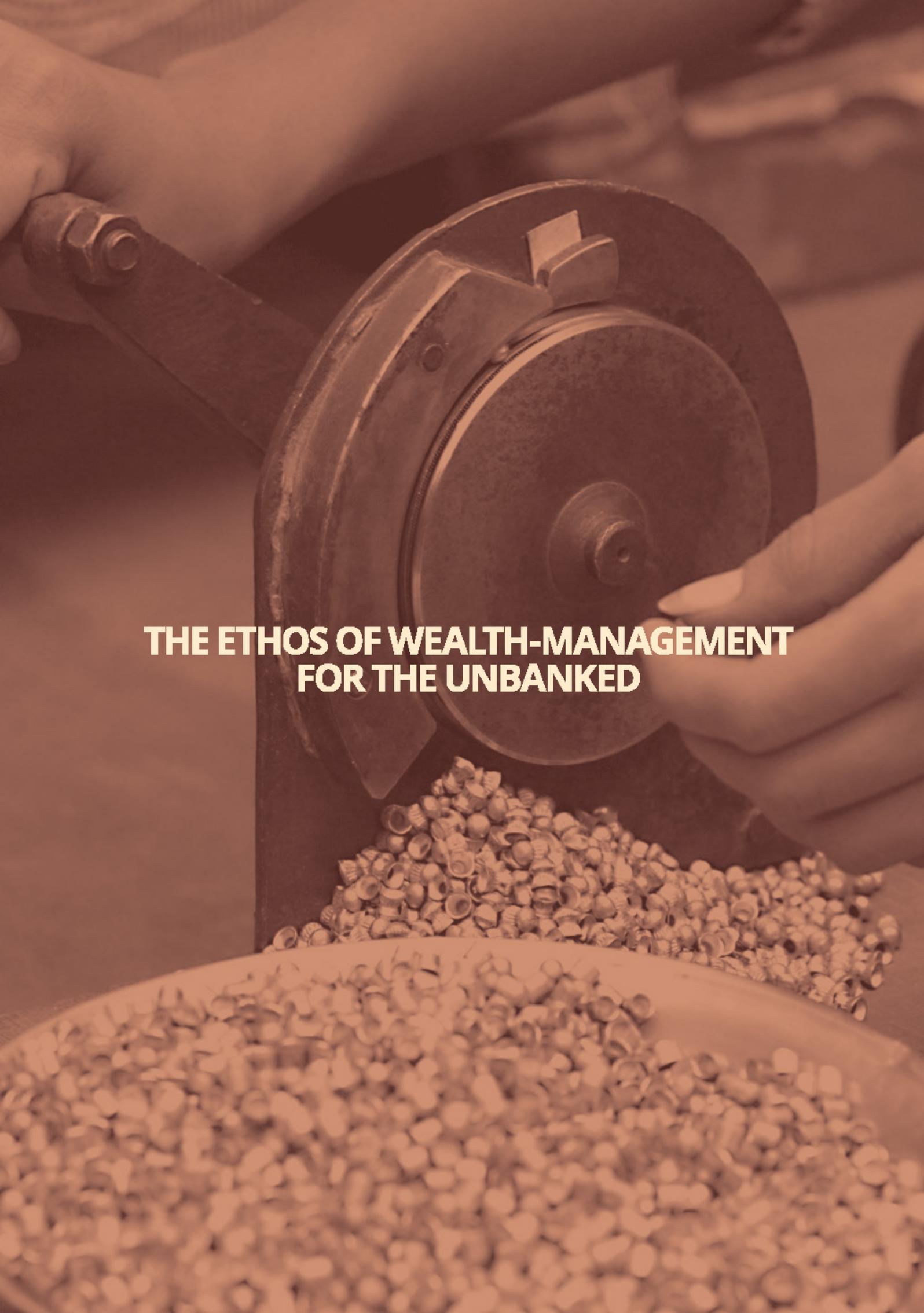
Ratios such as Client Exit, Turnaround Time etc. are closely watched to monitor the Impact of new lending methodology on the portfolio quality. Though these ratios could have decreased as a direct result of disbursing one client only and removing the group guarantee, but the overall impact of a loan and its assessments have improved. Over the span of this change, the recovery rate has remained the same, but the financial impact of Kashf's services on each client is now better assessed. An impact study on the business incubation program in 2013 revealed an increase in clients' business profits, their household incomes and savings as a result of individual loans augmented with financial trainings to the clients.



Challenges:

The new lending methodology has raised the bar of customer satisfaction among clients in comparison to the solidarity lending model, which had some inherent issues amongst the groups as already analyzed. However, there are still many remaining challenges that Kashf is working on to further improve its current methodology:

| | |
|------------------------------|---|
| Turnaround Time (TAT) | The average TAT for individual loans is around 2 weeks, as opposed to a minimum of 24 hours in group lending, leading to a negative impact on efficiency |
| Monitoring | In group lending the Branch Manager only monitored one group meeting post disbursement. Now the client-screening and loan-utilization monitoring take up additional staff time, thus leading to high administrative costs. The strict monitoring structure, in the absence of social collateral has also proved costly for Kashf. |
| Documentation | The pre-disbursement process in the solidarity lending model of loan, group approval and documentation were much simpler and less time consuming. Documentation requirements such as CNIC, photographs, bank accounts and post-dated cheques are now prerequisites to loan approval under individual lending method. |
| Efficiency | The extensive screening, monitoring, documentation and recovery follow ups take up a lot of time of the staff, which results in lower target achievement in disbursements. |
| Loan Approval time | The time taken to approve a single loan is much longer now, due to the screening and documentation required. |

A close-up, sepia-toned photograph of a person's hands operating a manual coin press machine. The machine is a circular device with a handle on the left and a rotating wheel on the right. A large pile of small, round coins is falling from the machine into a tray at the bottom. The background is blurred, showing other people in a workshop or factory setting.

**THE ETHOS OF WEALTH-MANAGEMENT
FOR THE UNBANKED**

The Ethos of Wealth-Management for the Unbanked

The Evidence:

Low-income households are active managers of their money and their assets. There is no doubt that the 40% of humanity that lives on an average of \$2 a day have a challenging task – using their meager income to put food on their table, to pay the rent on their homes, to educate their children, to manage health expenditures as and when they arise, as can also be seen in the case studies of Kashf's clients. Handling cash-strapped budgets on a daily basis and still managing to stay afloat, while at the same time being cognizant of long term financial needs such as savings for old age or planning for emergencies, requires financial deftness and constant financial management.

The research emanating from the Portfolios of the Poor², highlights that low-income households employ different financial services, mostly informal to manage the daily arbitrage of their cash. According to this study, on average a low-income household relies on at least 4 different types of financial services to assist in handling its daily financial needs; these financial services include merry-go rounds or *roscas*, shopkeeper's credit, loan from neighbors, saving at home, wage advances, microfinance loan or savings, interest free advance from relative, daily cash in hand etc. Multiplying these informal, semi-formal and formal financial mechanisms is the key that enables low-income families to stay afloat despite all the odds they face.

The work done by documenting the financial lives of low-income families has revealed the dynamism and the multiplicity of the financial needs of the poor. It has also highlighted that being poor involves managing erratic cash flows, which can be highly unpredictable. Furthermore, the types of financial tools and instruments available to the poor are inadequate to meet their needs and this adds to their cash burdens.

The perspective provided by the Financial Diaries is very different from the conventional world of micro-finance, which has traditionally viewed "the poor" as a homogeneous pool requiring a standardized set of compulsory financial services, with a heavy reliance on providing micro-credit only. This approach to a certain extent has led to pushing credit as the only means to financial independence for low-income families. Such a static view of the financial needs of the poor does not account for the multiple risks that a poor household faces; according to the Portfolios of the Poor 50% of households in Bangladesh and 42% of households in India are affected by ill health in the family, while 19% face business risks like fire or loss. Such emergencies usually require on-the-fly immediate financial responses from poor households, and can involve divestment of assets at a loss, taking on extortionary loans or dipping into savings.

² Portfolios of the Poor: How the World's Poor Live on \$2 a Day, Daryl Collins, Jonathan Morduch, Stuart Rutherford & Orlanda Ruthven, 2010.

Trade specific credit needs

Women entrepreneurs in Pakistan tend to work in 4-5 main sectors: trading, embroidery and embellishment, tailoring, hair-styling, beauty and make-up, and dairy and livestock. The business needs and cash flows of each sector are unique and over time will require unique and customized products. In fact the Portfolios of the poor highlights that many times micro businesses require flexible lines of credit to manage their creditors, other than requiring capital to grow their enterprises. Kashf conducted a research with 200 client in 3 major sectors to understand their credit needs.

| Trade | Business Income | Monthly Cashflows | Loan Tenure Preference | Investment Frequency | Kashf to do's |
|---------------------------------------|--|--|---|--|--|
| Garments, tailoring & embellishment | 61% earn less than Rs 10,000 per month 39% earn more than Rs 10,000 per month | 50% have a consistent cashflow during the month 40% earn and spend more in the beginning of the month | 69% prefer a 12 month tenure 22% prefer a 6 month tenure 83% would like monthly installments | Business requires a 3 monthly capital injection to stay afloat | A loan tenure mismatch with 22% of the clients. Could offer a 6 monthly loan tenure Option. |
| Trading, grocery & convenience stores | 41% earn less than Rs 10,000 per month 59% earn more than Rs 10,000 per month | 49% have a consistent cashflow during the month 32% earn and spend more in the beginning of the month | 64% prefer a 12 month tenure 26% prefer a 6 month tenure 10% prefer a 18 month tenure 77% would like monthly installments | Business requires a 3 monthly capital injection to stay afloat | A loan tenure mismatch with 26% of the clients. Could offer a 6 monthly loan tenure option. |
| Livestock | Monthly income varies between Rs 15,000 to Rs 30,000 | Daily for dairy, otherwise every 6 months | 71% prefer a 12 month tenure 45% would like a bullet payment within 12 months 35% would like a bullet payment within 6 months | Business requires an annual capital injection | Kashf does not have a product offering for this segment currently |

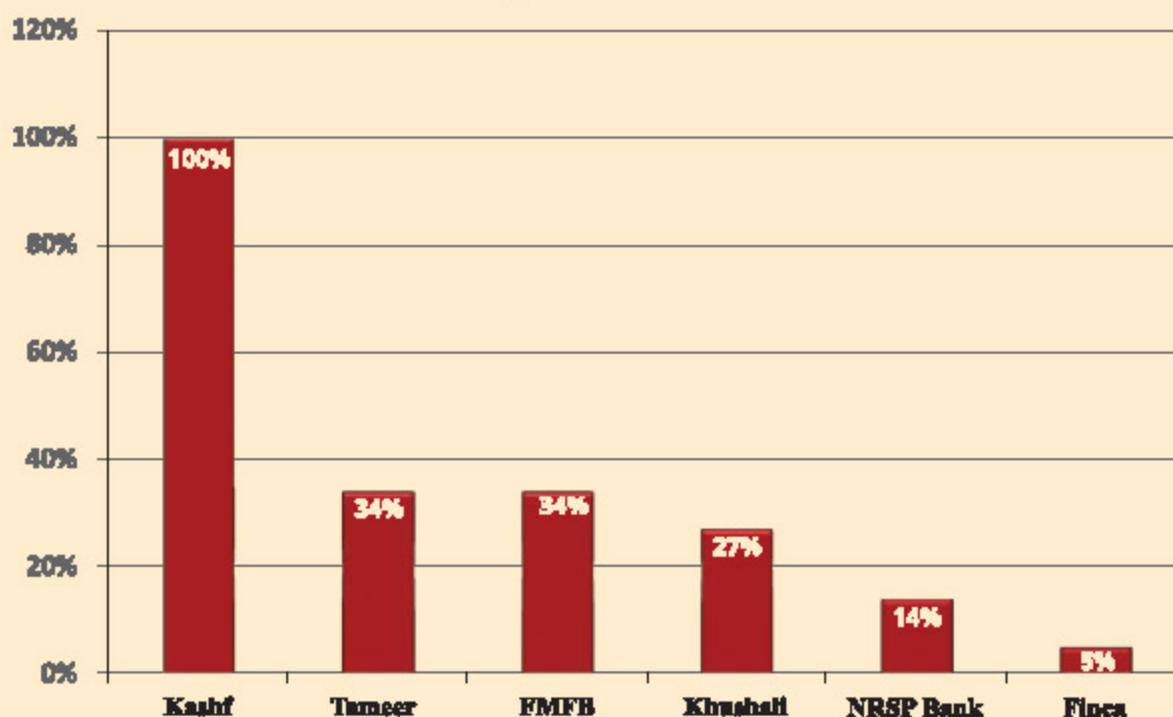
The Need:

Based on the preceding analysis and a broader understanding of the financial needs of low-income households, it is important to view access to financial services beyond business credit as the primary instrument for facilitating the economic needs of the poor. This is also a particularly important realization when it comes to documenting and understanding the financial needs of low-income females. One particular aspect that is worth mentioning is the role that women play within low-income households when it comes to savings. Research conducted by Kashf in 2011 highlighted the important role that women play in managing savings as an instrument for financial management. The table below highlights that most informal sources of savings are managed and controlled by women and made in order to deal with immediate and medium term contingencies. Furthermore, to ensure that the savings are secure, many of these instruments are "hidden" from other family members, thus highlighting the need for confidentiality of such services. Interestingly enough the research also highlighted the role of women in formal sources of savings in banks is less visible when compared with non-formal sources.

| | Savings at Home | Savings in the Committee (Rosca) | Savings in the bank |
|-------------------|--|-------------------------------------|-----------------------------|
| Time | Now | Medium term to a year | One year mostly |
| Visibility | Some visible Some hidden | Some visible Some hidden | Visible |
| Control | Women | Women | Men and joint |
| Amount | Rs 10-100 daily | Rs 2 a day to Rs 16,000 a month | Rs 300 to Rs 5000 per month |
| Purpose | Emergencies, for children and other short-term needs | Varies | Varies |

Another aspect that is worth mentioning when it comes to women clients is related to the impact of commercialization in the sector on women's access to financial services. A research by Women's World Banking study that tracked the results of 27 transformed MF Institutions 5 years later found that on average the proportion of women serviced by commercial and transformed entities dropped from 88% to 60%. Furthermore, to enhance profitability it was also found that on average loan sizes were two to three times greater for commercialized entities than non-commercial MFIs. In some ways this particular outcome is concerning for it may demonstrate a move away from the original ethos of microfinance, where women clients have played a key transformational role. Women have not only been considered as better clients from a risk perspective but have also demonstrated a commitment to investing in better financial practices in order to improve the health, nutritional and educational levels of their families. Traditionally, women entrepreneurs also tend to focus on businesses with lower capital needs; larger loan sizes may serve as an indication that commercial MF providers are turning away from women clients and even poor clients. Currently in Pakistan, 57% of the borrowers in the sector are women, while 43% of the outstanding portfolio can be attributed to female borrowers, while 26% of the overall clients of MF banks are women.

Percentage of Female Clients

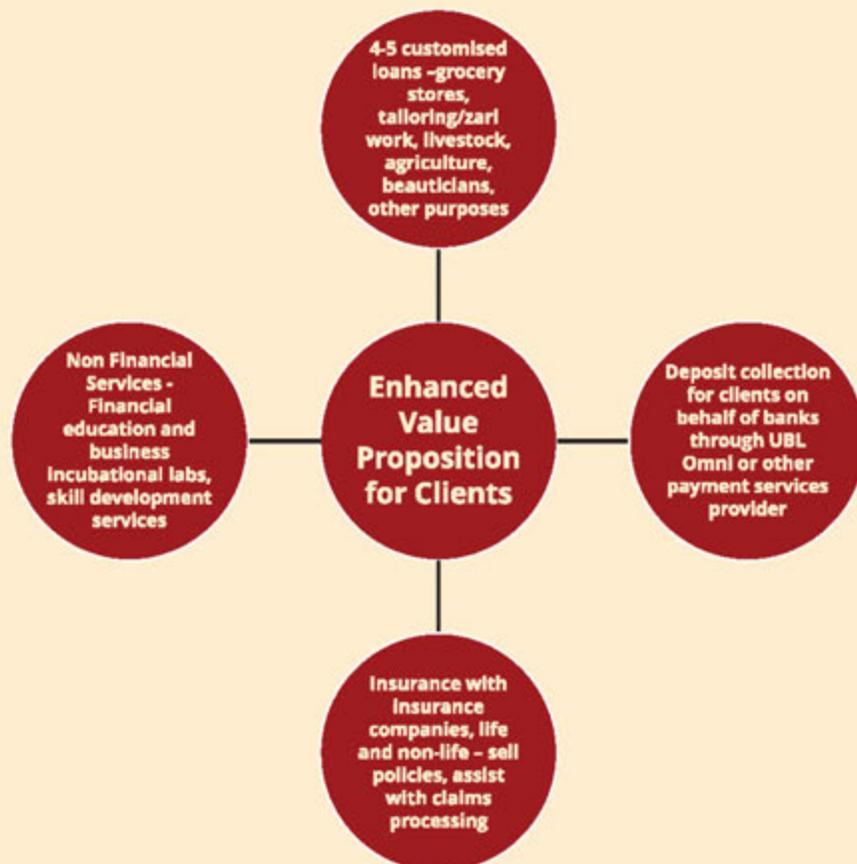


The Wealth Management Model:

Kashf Foundation's concept of a Wealth Management Company for the Unbanked involves a gradual transformation of the organization into a more comprehensive and inclusive financial service provider. In particular, the Wealth management company will address the following key aspects:

- *Recognize the broader financial needs of the poor*
- *Focus on providing client centric financial solutions*
- *Ensure a commitment to responsible finance*
- *Address the needs of female clients as an important business segment*

Overall, Kashf will further develop its model by building strategic partnerships with appropriate entities such as deposit taking institutions, branch less banking platforms, insurance companies and mobile operators. Keeping the concept of the Business development officer at the center of its operations, Kashf will gradually provide the additional financial tools to its front-line officers to meet the needs of the clients. The first set of tools will involve enhancing the types of credit products and ensuring that they reflect the real cash-flows of female led businesses, the second will involve partnering with a deposit taking institution to offer a pro-women savings product to meet the overall short term and medium term savings needs, while Kashf will further improve on its suite of insurance products to scale up its current health insurance product. Additionally, Kashf will enhance its focus on responsible finance by providing financial education and business advisory services to its clients, while also developing a low cost skill development model targeting women entrepreneurs. Given regional heterogeneity of Pakistan, Kashf will also offer contextualized products where required like Kashf Murabuha to meet local demand in Khyber Pakhtoonkhwa.



Products and Services Currently Offered

Kashf Karobar Karza (KKK)

Conventional
Loan Capital for
business

Kashf Ibtida-e-Karobar Karza (KIKK)

Loan Capital
for
new business

Kashf Aitebar Karza (KAK)

Loan for
defaulters for
inclusion in the
program

Kashf Mura-baha (KM)

Shariah
Compliant
Loan

Kashf School Sarmaya (KSS)

Capital for Low Cost
Private Schools
coupled with capacity
building for the school
owner and trainings for
the teachers

Kashf Zindagi Bima

Life Insurance

Kashf Sehat-mand Zindagi Bima (KSZB)

Health Insurance
for the entire
family

Basic Financial Education

Basic financial
training on sav-
ings, bank ac-
count opening
etc.

Systemized Financial Education

3 day financial train-
ing on savings, bud-
geting, and capital
utilization.

Gender Trainings

Gender Aware-
ness program (for
clients and non-
clients)

Business Incubation Labs

Advanced trainings
for business women
on marketing, innova-
tion and networking.

Theatre Program

Street theatre
performances to
shed light on soci-
etal practices and
their solutions.

Skills for Market

Skill trainings
e.g. stitching and
beautician courses
for women in rural
areas.

The Way Forward:

The first phase for building the internal eco-system for a Wealth management company will involve considerable R&D both in terms of designing the products and in terms of initiating and building potential partnerships. In terms of developing more cash flow based credit products, research will involve documenting the cash flows of 5-6 main businesses that women entrepreneurs invest in, while trying to build more flexibility in the current product line, which target both existing businesses and start-ups. This will involve a period of 2-3 years to develop, pilot and scale up such products. At the same time, Kashf will build on its earlier health insurance and savings for women pilots, and offer both these services to its customers through strengthening partnerships with service providers. Concurrently, Kashf will work on improving the value proposition of its non-financial services by aligning them further and making them more relevant for female entrepreneurs.

| | Year 1 | Year 2 | Year 3 | Outcomes |
|---------------------------------|--------|--------|--------|---|
| Sector specific credit Products | | | | 4-5 sector specific credit products that reflect real business cash flows |
| Savings | | | | A goal oriented women centric product |
| Health Insurance | | | | A family level health care product that also covers loss of income during illness |
| Non-financial services | | | | Constantly improving non-financial offerings for relevance |



KASHF'S SOCIAL PERFORMANCE FOCUS

Kashf's Social Performance Focus

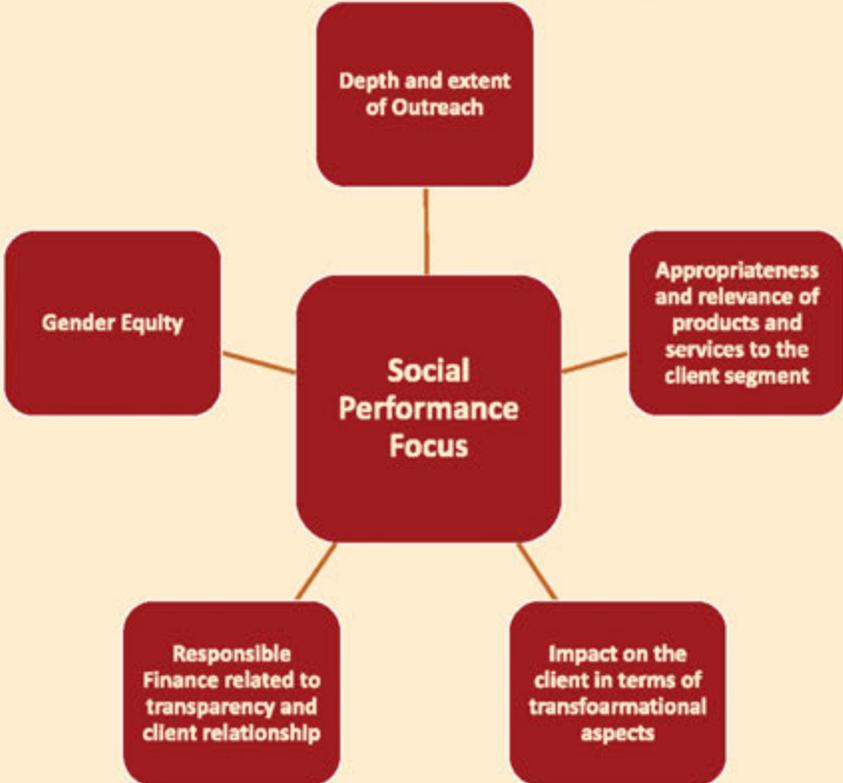
Kashf was founded with the vision of alleviating poverty through the empowerment of women entrepreneurs. The journey towards individual lending enabled Kashf to map the development of its clients and the exact use of their loans against their businesses. However, being an organization whose main goal has been enabling women to become agents of social and economic change, Kashf felt the need to map its ideology against concrete indicators in order to assess how well it is meeting its social targets. With the introduction of the Social Performance Dashboard, the organization is now able to monitor and evaluate its progress against its vision and mission, and is better able to correlate its two key ideals; poverty alleviation in the light of women entrepreneurship.

What is the Social Performance Dashboard:

Introduced in 2013, Kashf's Social Performance Dashboard is a reporting mechanism for transparently recording the organization's social outcomes by mapping social indicators vital to the institution, thereby improving compliance to the Social performance universal standards.

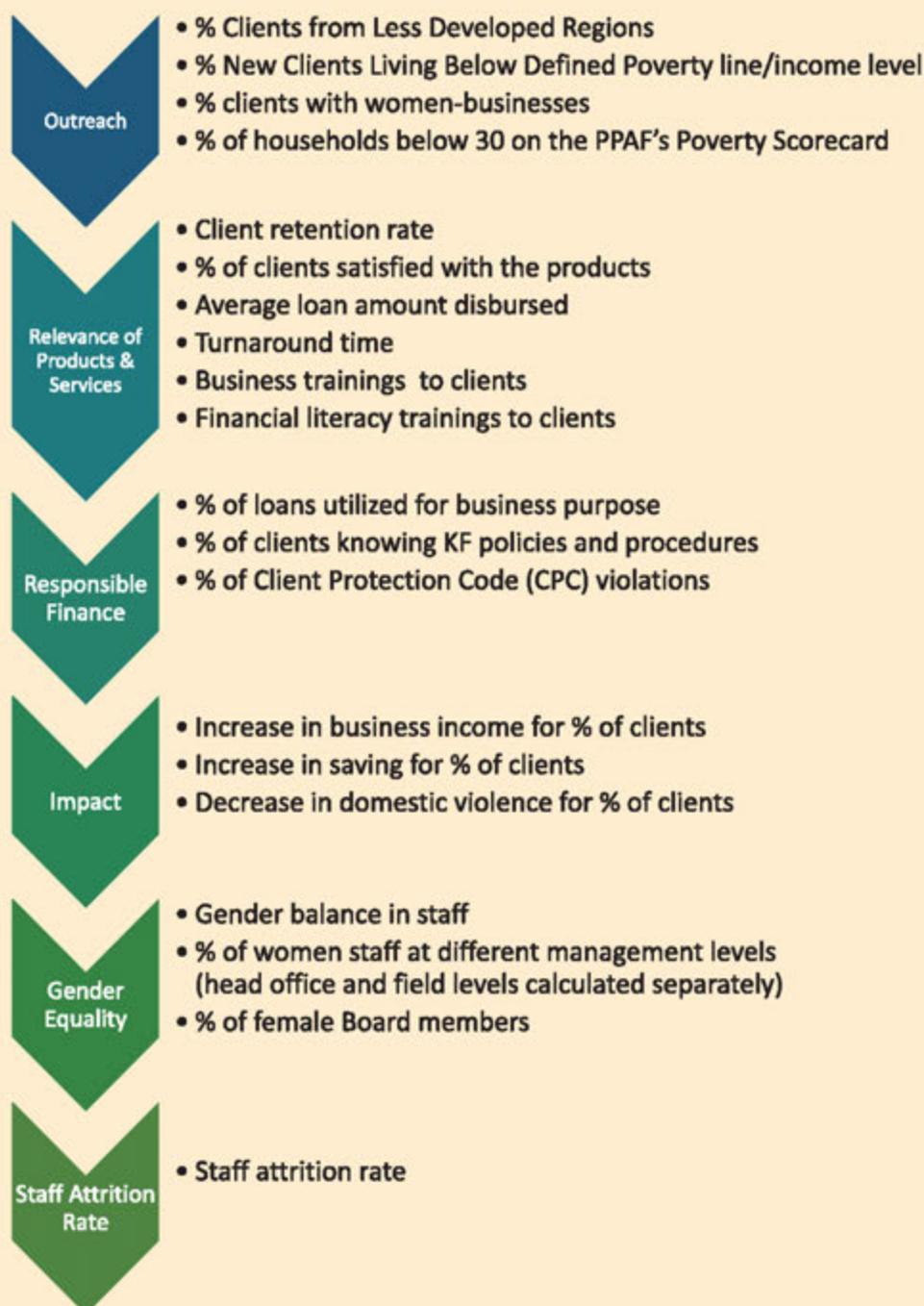
| | |
|-----------------------------|--|
| Universal Standard 1 | • Designing and Monitoring Social Goals. |
| Universal Standard 2 | • Ensuring Board, Management and Employee Commitment to Social Goals. |
| Universal Standard 3 | • Designing Products, Services, Delivery Models and Channels that Meet Clients' Needs and Preferences. |

The Dashboard measures social indicators in light of the following key aspects:



Kashf Foundation mapped its vision and mission against the following indicators that help transparently monitor its performance against its institutional values over time. The institution uses these indicators to evaluate where it is, and sets targets for where it aims to be in a given timeline. These targets are cascaded down to all field units and relevant departments, who are then accountable for their realization.

SOCIAL PERFORMANCE DASHBOARD INDICATORS



Economic rehabilitation of flood affected areas in Muzaffargarh

Floods have continuously wreaked havoc with the lives of millions in Pakistan. One such event of devastating floods occurred in August 2010, leaving many communities of Muzaffargarh in South Punjab in complete destitution. Thousands of homes and assets of low-income families were wiped out by the floods and hundreds of communities were displaced. In response, Kashf Foundation quickly partnered with other organizations to raise funds for relief efforts in the flood-affected areas, as had been done by the organization in Kashmir in 2005 during the terrible earthquake.

At the first level, Kashf distributed food and medicines in Thatta, Jampur, Shikarpur, Shahdad Kot in Sindh, Charsadda and Swat in KPK, Zafarwala, Nawabpur, Shershah, All pure, Mustafabad and Muzaffargarh in Punjab. Additionally, Kashf developed a targeted strategy for the construction of 512 houses were reconstructed in a village in the tehsil of Kot Addu, which had been identified as one of the worst

affected regions in the district of Muzaffargarh. The following pictures show some of the scenes from the community.



Kashf also opened an on-site mobilization unit in Kot Addu and undertook research on sustainable livelihoods, and saw that over 85% of the flood-stricken households expressed their desire to start micro-businesses. Keeping this in view, Kashf's unit office was converted into a Kashf branch, in order to provide financial and capacity building services to the households in Kot Addu. Today Kashf has served over 2,832 households and disbursed Rs 68 million in loans to micro-entrepreneurs in the area.



"Kashf has helped me expand my income multifold- before Kashf opened its branch here, there was no access to finance available for women like me. I used to get shawls on contract from the market and embellish them with small mirrors and do embroidery on them. The cloth and materials were all provided by the shopkeepers - I was paid very little for all hard-work I put into the shawls. After taking a loan from Kashf I started buying the cloth, mirrors and thread myself and producing the same shawls - the only difference was that I started earning proportional to my effort and hardwork. Today, I not only do the embellishment work myself but also give work to other women in my community. Kashf is a trusted name here because of all the work they did in helping rebuild the village of Manna where people got their houses back after the devastation of the floods. Kashf has really been a god-send for all of us." - Saeeda Zameer

HR Scorecard

Field Gender Ratio

50% Female
50% Male

Total Staff

1,780

New Staff Orientations

388 participants

Internally Promoted
Staff to Senior Positions
45 Females, 33 Males

Yearly Turnover

16%

Success at Workplace

1,350 participants

5 Star Branch Rankings

4 Rankings



Kashf Supporters

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



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.



Government
of Canada

The Department of Foreign Affairs, Trade and Development (DFATD), Government of Canada administers foreign aid programs in developing countries, and operates in partnership with other Canadian organizations in the public and private sectors as well as other International organizations. Its mandate is to "support sustainable development in developing countries in order to reduce poverty and contribute to a more secure, equitable, and prosperous world.



The Coca-Cola Company is a global business with a local orientation. As their business has expanded over the years, so has their community support grown to create and support projects most relevant to local communities around the globe. They are committed to investing their time, expertise and resources to help develop and maintain vibrant, sustainable and local communities.



The Aman Foundation aims to champion dignity and choice for the underserved, focusing on Health, Nutrition and Education through direct intervention; aspiring to derive scalable, sustainable and systemic change in Pakistan. They aspire to create high social impact and prove that change can be achieved in a sustainable way, form a collaborative platform comprising leading social sector players in order to create maximum impact in areas of Health, Education and Nutrition and attract international social sector funding that is consistent with, and fulfills the development needs of Pakistan.



OMV is an integrated, international oil and gas company in Central Europe. They actively support development in the regions where they operate by making substantial investments in community projects to promote education, health, and environmental protection in their sphere of influence.



Grameen Foundation (USA) helps the world's poorest, especially women, improve their lives and escape poverty by providing them with access to small loans, essential information, and viable business opportunities.



Skoll Foundation's mission is to drive large scale change by investing in, connecting and celebrating social entrepreneurs and the innovators who help them solve the world's most pressing problems. Social entrepreneurs are society's change agents, creators of innovations that disrupt the status quo and transform our world for the better. By identifying the people and programs already bringing positive change around the world, we empower them to extend their reach, deepen their impact and fundamentally improve society.

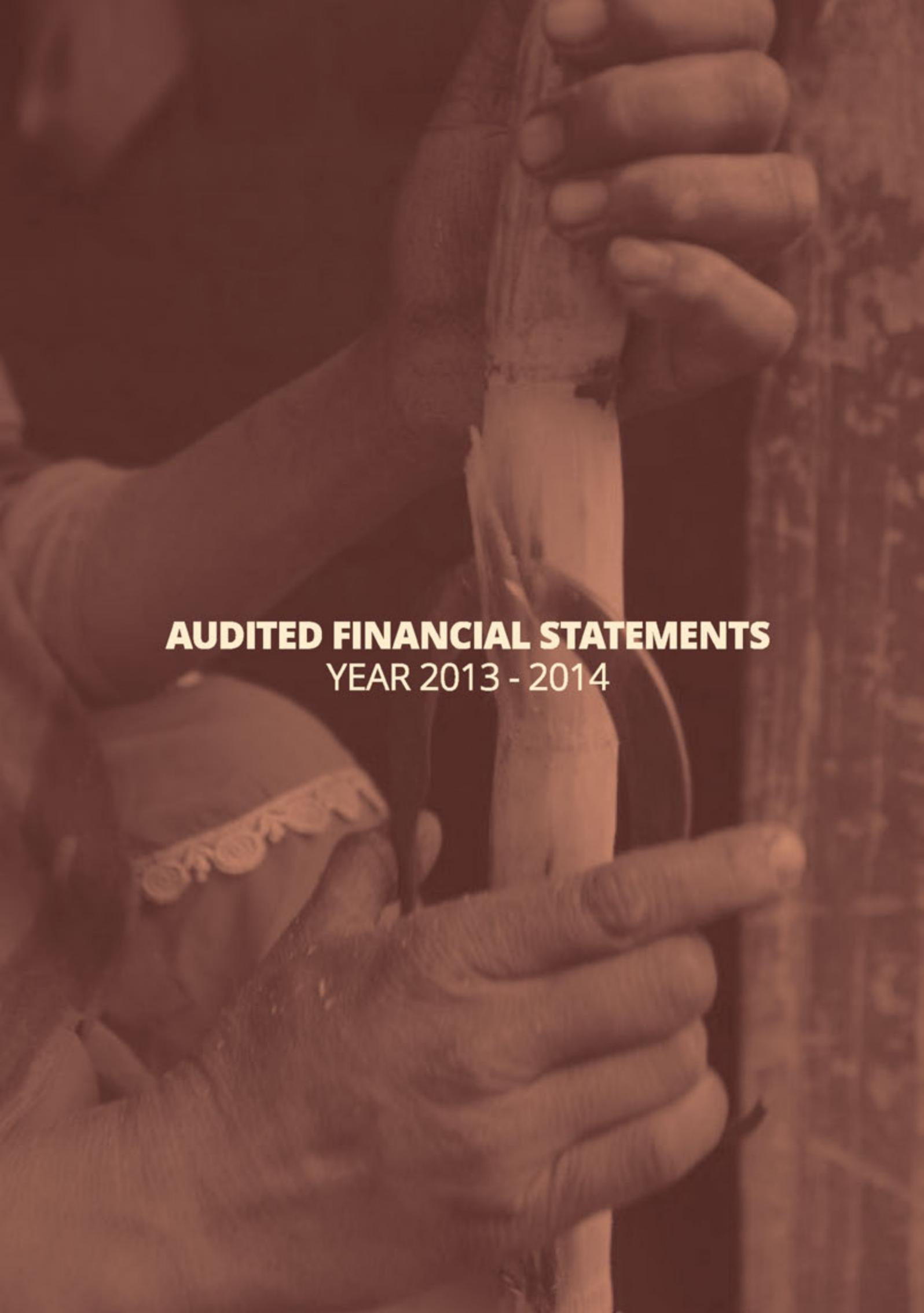


Women's World Banking

Women's World Banking is the only microfinance network with an explicit focus on women. The mission of the Women's World Banking global network is to expand the economic assets, participation and power of low-income women and their households by helping them access financial services, knowledge and markets.



Sosense offers social investors/donors, who would like to empower innovative and sustainable solutions to social and environmental issues the chance to engage, contribute and collaborate with outstanding social enterprises. The main objective of the organization is to increase social impact and the sustainability of solutions by empowering high caliber social entrepreneurs to realize their ideas and scale their operations.



AUDITED FINANCIAL STATEMENTS
YEAR 2013 - 2014

Kashf Foundation (A Company Setup Under Section 42 of Companies Ordinance, 1984)**Balance Sheet**

As at 30 June 2014

| ASSETS | <i>Note</i> | 2014 Rupees | 2013 Rupees |
|---|-------------|------------------------------|------------------------------|
| <i>Non-current assets</i> | | | |
| Operating fixed assets | 5 | 305,509,103 | 305,420,891 |
| Capital work-in-progress | 6 | 57,614,752 | - |
| Intangible assets | 7 | 1,268,844 | 165,717 |
| Assets subject to finance lease | 8 | - | - |
| Long term investments | 9 | 80,000,000 | 160,000,000 |
| Long term loans - considered good | 10 | 273,627,028 | 246,555,199 |
| Long term deposits | | 5,270,200 | 5,270,200 |
| | | 723,289,927 | 717,412,007 |
| <i>Current assets</i> | | | |
| Micro-credit loan portfolio | 11 | 3,622,199,601 | 2,883,287,132 |
| Kashf Murabaha | 12 | 56,134,612 | - |
| Short term investments | 13 | 375,012,719 | 316,697,048 |
| Advances, deposits, prepayments and other receivables | 14 | 58,947,148 | 49,275,305 |
| Accrued service charges | | 56,953,669 | 45,530,808 |
| Accrued Murabaha profit | | 208,076 | - |
| Cash and bank balances | 15 | 418,471,001 | 568,324,977 |
| | | 4,587,926,826 | 3,863,115,270 |
| Total assets | | 5,311,216,753 | 4,580,527,277 |
| EQUITY AND LIABILITIES | | | |
| <i>Equity</i> | | | |
| Donated funds | | 620,116,859 | 609,690,604 |
| General funds | | (359,143,414) | (663,822,309) |
| Grants related to fixed assets | | 16,448,494 | 19,330,176 |
| Fair value reserve | | 5,012,719 | 4,197,048 |
| | | 282,434,658 | (30,604,481) |
| Surplus on revaluation of fixed assets | 16 | 131,598,330 | 131,598,330 |
| <i>Non-current liabilities</i> | | | |
| Borrowings from financial institutions and others | 17 | 1,668,031,700 | 2,583,370,862 |
| <i>Current liabilities</i> | | | |
| Current maturity of non-current liabilities | 18 | 3,007,038,533 | 1,607,254,475 |
| Short term borrowings | 19 | 17,653,389 | 12,436,486 |
| Capacity building grants | 20 | 73,868,553 | 85,986,757 |
| Other grants un-utilized | 21 | 350,565 | 350,565 |
| Accrued markup | 22 | 78,991,887 | 156,941,158 |
| Trade and other payables | 23 | 51,249,138 | 33,193,125 |
| | | 3,229,152,065 | 1,896,162,566 |
| Contingencies and commitments | 24 | | |
| Total equity and liabilities | | 5,311,216,753 | 4,580,527,277 |

The annexed notes 1 to 39 form an integral part of these financial statements.

Kashf

Lahore

30 SEP 2014



Chief Executive



Director

Kashf Foundation (A Company Setup Under Section 42 of Companies Ordinance, 1984)**Statement of Income and Expenditure**

For the year ended 30 June 2014

| | Note | 2014 Rupees | 2013 Rupees |
|---|---------------|----------------------|----------------------|
| Service and other charges on micro-credit loan portfolio | 25 | 1,384,629,959 | 1,072,131,350 |
| Profit on Kashf Murabaha | | 6,778,287 | - |
| Return on investments and bank deposits | 26 | 82,581,797 | 88,295,414 |
| Other income | 27 | 32,661,199 | 40,604,787 |
| | | 1,506,651,242 | 1,201,031,551 |
| Less: | | | |
| Finance cost | 28 | (526,211,206) | (474,182,658) |
| | | 980,440,036 | 726,848,893 |
| Less: Operating expenses | | | |
| General and administrative expenses | 29 | (686,781,800) | (574,020,823) |
| Impairment on loan to associate | 10 | - | (56,990,696) |
| Seminar, workshop, research and staff training expenses | | (3,943,276) | (3,041,789) |
| Other expenses | 30 | (6,172,356) | - |
| (Provision) / Reversal of loan loss | 11.5 & 12.1.3 | (15,513,557) | (3,857,922) |
| | | (712,410,989) | (637,911,230) |
| Capacity building grants recognized as income - core business | 20.1 | 21,941,087 | 13,253,552 |
| | | 289,970,134 | 102,191,215 |
| Add: Non operating income | | | |
| Capacity building grant - non core business | 20.1 | 118,478,443 | 111,701,898 |
| Other income | 31 | 8,353,847 | 9,511,472 |
| | | 126,832,290 | 121,213,370 |
| Less: Non operating expenses | | | |
| Capacity building grant - non core business | 32 | (118,478,443) | (111,701,898) |
| Surplus for the year | | 298,323,981 | 111,702,687 |

The annexed notes 1 to 39 form an integral part of these financial statements.

KPMG

30 SEP 2014

Lahore



Chief Executive



Director

Kashf Foundation (A Company Setup Under Section 42 of Companies Ordinance, 1984)

Statement of Comprehensive Income

For the year ended 30 June 2014

| | 2014 Rupees | 2013 Rupees |
|---|------------------------------|------------------------------|
| Surplus for the year | 298,323,981 | 111,702,687 |
| <i>Items that may be reclassified subsequently to profit and loss</i> | | |
| Fair value gain on available-for-sale-investment | 815,671 | 771,921 |
| Total comprehensive income for the year | <u>299,139,652</u> | <u>112,474,608</u> |

The annexed notes 1 to 39 form an integral part of these financial statements.

10/09/14

30 SEP 2014
Lahore



Chief Executive



Director

Kashf Foundation (A Company Setup Under Section 42 of Companies Ordinance, 1984)**Statement of Changes in Funds**

For the year ended 30 June 2014

| | Donated funds | General funds | Grants related to operating fixed assets | Fair value reserve | Total |
|--|--------------------|----------------------|--|--------------------|----------------------|
| | Rupees | | | | |
| Balance as at 30 June 2012 | 592,496,960 | (783,300,603) | 24,110,023 | 3,425,127 | (163,268,493) |
| Grants related to fixed assets utilized | - | 7,775,607 | (7,775,607) | - | - |
| Fair value gain on available-for-sale investment | - | - | - | 771,921 | 771,921 |
| Surplus for the year | - | 111,702,687 | - | - | 111,702,687 |
| | - | 111,702,687 | - | 771,921 | 112,474,608 |
| Micro credit loan portfolio recognized | 17,193,644 | - | - | - | 17,193,644 |
| Assets recognized during the period | - | - | 2,995,760 | - | 2,995,760 |
| Balance as at 30 June 2012 | 609,690,604 | (663,822,309) | 19,330,176 | 4,197,048 | (30,604,481) |
| Balance as at 01 July 2013 | 609,690,604 | (663,822,309) | 19,330,176 | 4,197,048 | (30,604,481) |
| Grants related to fixed assets utilized | - | 6,354,914 | (6,354,914) | - | - |
| Fair value gain on available-for-sale investment | - | - | - | 815,671 | 815,671 |
| Surplus for the year | - | 298,323,981 | - | - | 298,323,981 |
| | - | 298,323,981 | - | 815,671 | 299,139,652 |
| Micro credit loan portfolio recognized | 10,426,255 | - | - | - | 10,426,255 |
| Assets recognized during the period | - | - | 3,473,232 | - | 3,473,232 |
| Balance as at 30 June 2014 | 620,116,859 | (359,143,414) | 16,448,494 | 5,012,719 | 282,434,658 |

The annexed notes 1 to 39 form an integral part of these financial statements.

KPMH

30 SEP 2014

Lahore



Chief Executive



Director

Kashf Foundation (A Company Setup Under Section 42 of Companies Ordinance, 1984)**Cash Flow Statement**

For the year ended 30 June 2014

| | Note | 2014 Rupees | 2013 Rupees |
|--|------|----------------------|-----------------|
| <i>Cash flow from operating activities</i> | | | |
| Surplus for the year | | 298,323,981 | 111,702,687 |
| <i>Adjustments for non cash items:</i> | | | |
| Depreciation on operating fixed assets | | 8,790,417 | 9,679,994 |
| Depreciation on leased assets | | - | 253,555 |
| Amortization on intangibles | | 165,717 | 284,085 |
| Capacity building grants recognized as income | | (140,419,530) | (124,955,450) |
| Return on investments and bank deposits | | (82,581,797) | (88,295,414) |
| Accrued mark up recoverable on long term loans | | (27,071,829) | (29,752,223) |
| Amortization of transaction costs of commercial borrowings | | 18,341,703 | 5,919,186 |
| Finance cost | | 507,869,503 | 468,263,472 |
| (Gain) on disposal of fixed assets | | (7,372,324) | (1,531,076) |
| Provision against doubtful receivables | | 827,548 | - |
| Impairment on loan to associate | | - | 56,990,696 |
| Loan loss provision | | 15,513,557 | 3,857,922 |
| | | 294,062,965 | 300,714,747 |
| Surplus before working capital changes | | 592,386,946 | 412,417,434 |
| <i>Effect on cash flow due to working capital changes</i> | | | |
| (Increase)/Decrease in loan portfolio | | (810,560,638) | (613,457,929) |
| (Increase)/Decrease in Accrued service charges | | (11,630,937) | - |
| (Increase)/Decrease in advances, deposits, prepayments and other receivables | | (9,896,578) | (3,140,272) |
| (Decrease)/ Increase in trade and other payables | | 17,086,424 | (5,897,137) |
| Increase/ (Decrease) in borrowers' security deposits | | 969,771 | 869,589 |
| | | (814,032,140) | (621,625,749) |
| Cash used in operations | | (221,645,194) | (209,208,315) |
| Finance cost paid | | (585,818,774) | (383,375,735) |
| | | (807,463,968) | (592,584,050) |
| <i>Cash flow from investing activities</i> | | | |
| Fixed capital expenditure | | (74,130,902) | (11,618,182) |
| Sale proceeds from disposal of fixed assets | | 13,741,001 | 4,959,363 |
| Long term security deposits (paid) / recovered | | - | (5,270,200) |
| Return on investments and bank deposits | | 81,978,984 | 66,644,723 |
| Short term investment - net | | 22,500,000 | (198,939,879) |
| | | 44,089,083 | (144,224,175) |
| Net cash (used in) / generated from investing activities | | 44,089,083 | (144,224,175) |
| <i>Cash flow from financing activities</i> | | | |
| Capacity building grants | | 142,200,813 | 181,658,598 |
| Donation for flood victims | | - | 3,362 |
| Lease rentals paid | | - | (1,588,737) |
| Transaction costs paid for borrowings | | (15,254,000) | (25,983,986) |
| Proceeds from borrowings | | 2,698,249,156 | 3,233,921,141 |
| Repayments of borrowings | | (2,216,891,963) | (2,501,000,000) |
| Net outflow from financing activities | | 608,304,006 | 887,010,378 |
| | | (155,070,879) | 150,202,153 |
| Net Increase / (decrease) in cash and cash equivalents | | 555,888,491 | 405,686,338 |
| Cash and cash equivalents at the beginning of the year | | 400,817,612 | 555,888,491 |
| Cash and cash equivalents at the end of the year | 33 | 400,817,612 | 555,888,491 |

The annexed notes 1 to 39 form an integral part of these financial statements.

KASHF

30 SEP 2014

Lahore



Chief Executive



Director



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