KASHF FOUNDATION

ANNUAL REPORT 2014-2015

20 YEARS EDITION

Kashf FOUNDATION

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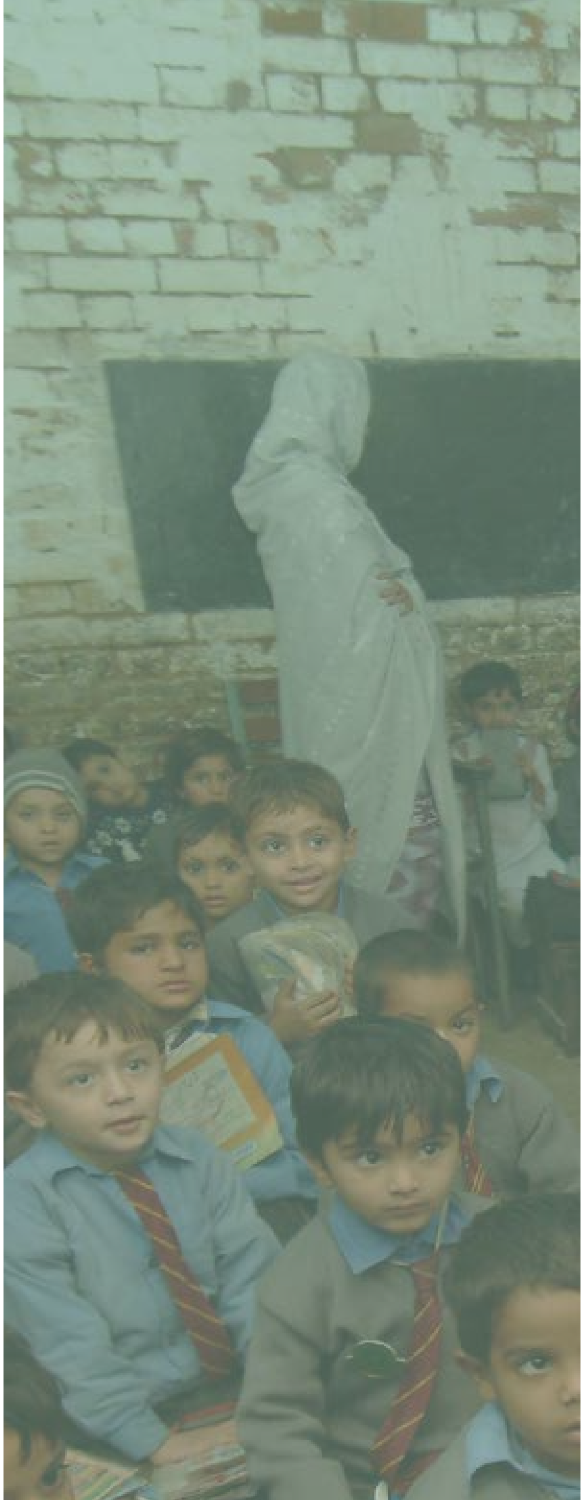
ABOUT KASHF FOUNDATION

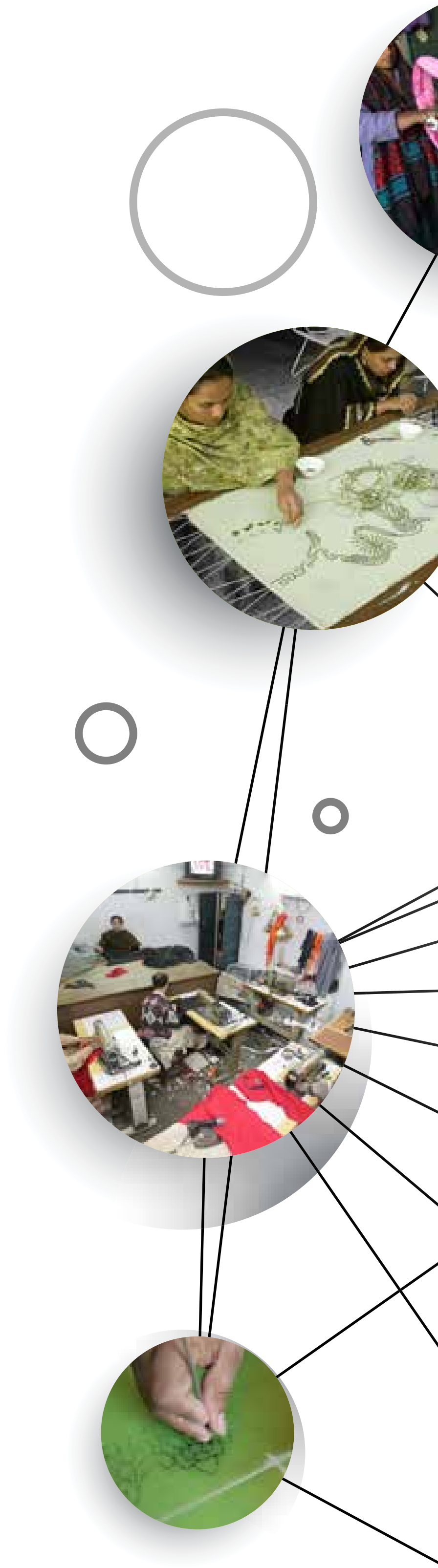
Kashf Foundation was set up in 1996 to demonstrate that the economic empowerment of women can be a key enabling factor to move Pakistan beyond its current social and economic standing. In 1996, for every Rupee disbursed in the market as micro-loans, only 25% was provided to women. Today however, as a result of Kashf Foundation's success, over 50% of the clientele in the microfinance sector is female. Kashf Foundation not only has a vibrant financial access program but also offers a range of non-financial services that helps create an enabling environment for bottom of pyramid households to effectively use the credit they access from 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 246,912 female clients in June 2015 with an outstanding portfolio of PKR 4.47 Billion and cumulative disbursement of PKR 43.83 Billion to over 2.73 million female clients. Kashf Foundation has cumulatively trained 1,060,145 clients in financial literacy and financial education, provided trainings on gender justice and gender empowerment to over 80,036 participants, graduated 10,390 women entrepreneurs from the Business Incubation Lab, and reached out to over 88,000 participants through 841 social theatre performances.



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.

CORE VALUES

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

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

Integrity
Kashf Foundation ensures that all interactions with clients and staff are based on honesty and mutual dignity with the aim of espousing `integrity across the board'

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

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

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'

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

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

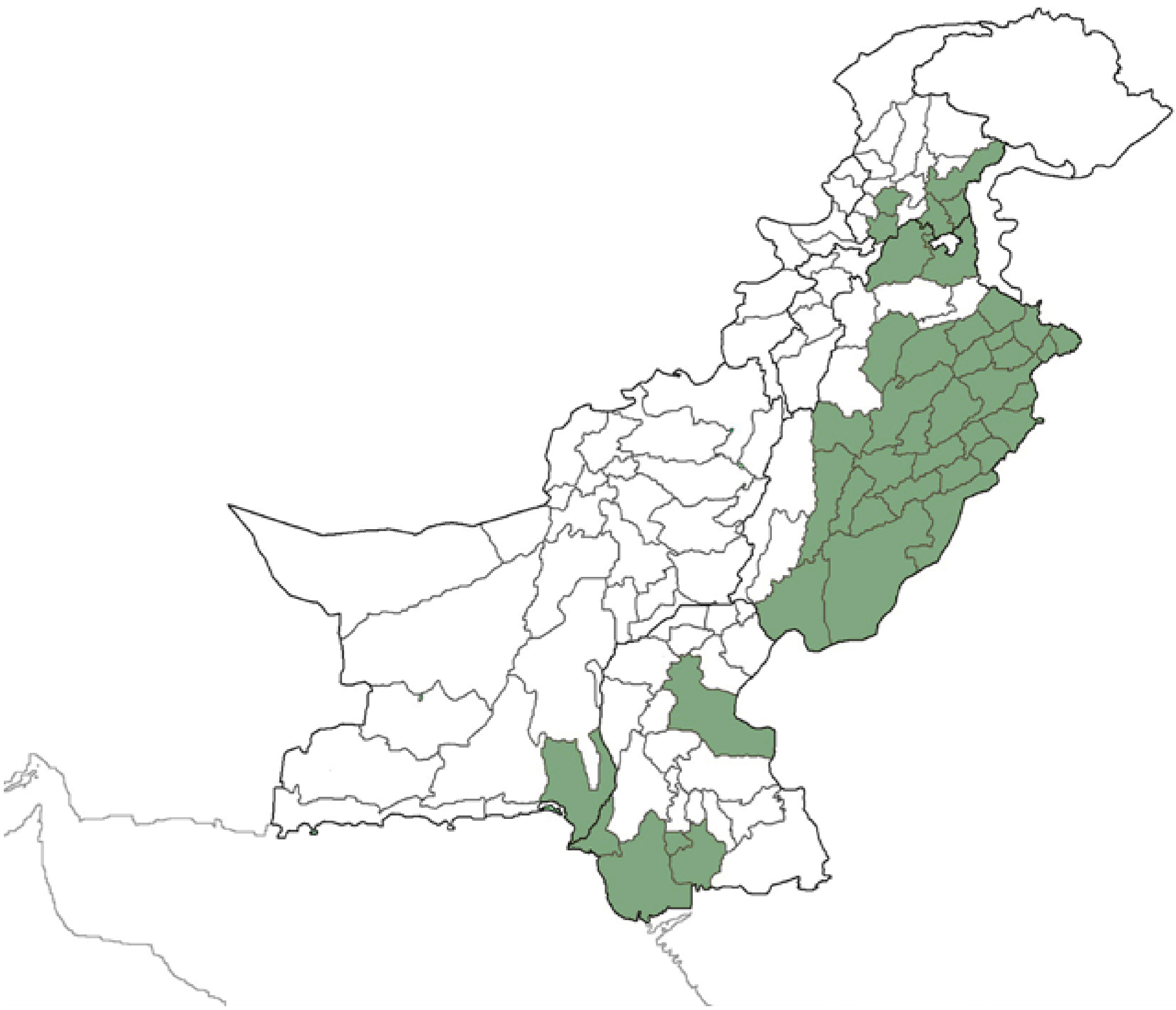
Meritocracy
Kashf Foundation ensures equal opportunities and a fair and transparent appraisal mechanism with access to adequate redressal channels thereby `processing feedback positively'

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

	JUNE 2015	JUNE 2014
OUTREACH AND ACCESS		
Active Clients	246,912	230,810
Total Lives Insured (Life Insurance)	493,682	477,588
Total Lives Insured (Health Insurance)	592,473	95,339
Clients trained (Financial Education)	291,745	284,132
Clients trained (Business Management)	3,722	3,236
% of Clients below 30 on Poverty Score card	34%	36%
% of Clients from Less Developed Areas	40%	47%
% of Loans used for Productive Businesses	97%	98%
% of Women Led Businesses	56%	45%
CUSTOMER SATISFACTION		
Net Promoter Ratio	64%	99%
Turnaround Time (within 15 days of loan completion)	63%	61%
Client Retention Rate	68%	65%
% of CPC violations	0.016%	0.039%
GENDER INDICES		
Total Staff	2,061	1,780
Staff attrition	14%	16%
% of women staff at field level	50%	50%
% of female board members	40%	30%
FINANCIAL PERFORMANCE		
Operating self-sufficiency	117%	122%
Financial self-sufficiency	107%	114%
Portfolio at risk at > 30 days	1.17%	1.18%

GEOGRAPHICAL OUTREACH



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**
Mr. Mahmud Khan, **Director**
Mr. Tajammal Hussein, **Director**
Mr. Hassan Iqbal, **Director**
Ms. Razina Alam, **Director**
Mr. Riaz Khokar, **Director**
Ms. Zeenat Isani, **Director**

Board Committees
Program and Operations Committee
Dr. Attiya Inayatullah – Chair
Mr. Asim Zafar – Member
Ms. Mahbina Waheed – Member
Mr. Mumtaz Iqbal – Secretary

Board Audit Committee
Mr. Tajammul Hussein - Chair
Mr. Syed Hasan Iqbal – Member
Ms. Mahbina Waheed – Member
Mr. Ghulam Haider – Secretary

Human Resources Committee
Ms. Razina Alam – Chair
Mr. Mahmud Khan – Member
Ms. Fatima Asad – Consultant
Mr. Mueen Afzal - Secretary

Chief Financial Officer
Mr. Shahzad Iqbal

Company Secretary
Mr. Taimur Langrial

Auditors
KPMG Taseer Hadi & Co.
Chartered Accountants
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Tel: +92 42 35850471
Web: www.kpmg.com.pk

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Canal Bank Gulberg V,
Lahore
Tel: +92 42 35715479
Web: www.mandviwallaandzafar.com

Tax Advisors
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The Mall, Lahore
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Fax: +92 42 5847816
Web: www.kashf.org

CHAIRMAN'S MESSAGE

Dear Friends and Supporters of Kashf

This is a big year for Kashf Foundation, as Kashf reaches its twenty year journey milestone I would like to thank Kashf's supporters, donors, funders, staff, and clients for the role they have played in the success of the organization.

I am pleased to update you on the major highlights and achievements of Kashf Foundation during the past year. Kashf Foundation has closed this year with a net profit of PKR 321 million. Kashf's equity balance stood at PKR 751 million. On sustainability indices Kashf's operational self-sustainability ratio was 116.63%, financial self-sustainability ratio was 107.06% and Portfolio at Risk over 30 days was 0.65%. At the end of the financial year, Kashf had 246,912 active clients serviced through 183 branches and 2,061 staff. Kashf has also shown improvements on other key aspects including improvements in turnaround time, reduction in client exit, improvement in customer satisfaction ratios, and deeper targeting of the program. Additionally, Kashf's focus on social performance is also visible through Kashf's Social Performance Dashboard which is compiled on a bi-annual basis and maps important indicators such as outreach, access, customer satisfaction, gender indices, and financial performance.

In 2015, Kashf's commitment to client protection and client welfare was validated through a Smart Campaign certification in Client Protection Principles. Kashf Foundation is Pakistan's first MFI to be certified by the Smart Campaign and this certification is a testament to Kashf's commitment to keeping the customer at the center of all transactions, while ensuring that Kashf adheres to a culture of responsibility, integrity and excellence.

The Board of Directors comprising of a vibrant set of independent directors has met on a quarterly basis to review and assess the performance of the company. The Board has also provided oversight on budgetary aspects to the organization to ensure transparency.

Kashf has also been implementing an innovative program aimed at improving education services provided by low-cost private schools existing in Kashf's catchment areas. Through a comprehensive intervention, Kashf provides low-cost private schools with access to finance, capacity building trainings for school owners, and teacher development trainings. This program especially resonates with me, and I have been very happy to see that over 280 schools have been funded through this program in this year.

I would like to extend Kashf's gratitude to all the supporters, donors and friends of Kashf without whose support Kashf's outcomes and performance would not have been possible; I would especially like to thank the Pakistan Poverty Alleviation Fund, the Department for Foreign Affairs, Trade and Development – Government of Canada, Aman Foundation, OMV and the Coca-Cola Company along with all the commercial banks that have provided Kashf access to on-lending funds.

Best Regards,

Mueen Afzal
Chairman
Board of Directors, Kashf Foundation

MANAGING DIRECTOR'S MESSAGE

Dear Friends of Kashf

When I set out to establish Kashf Foundation, twenty years ago, there were many naysayers and critics that questioned the need and efficacy of a women-focused microfinance institution. Today, twenty years down I am confident that the resilience and perseverance of Kashf's clients have proved the naysayers wrong. Kashf's clients have demonstrated the business case for investing in low-income women's micro-businesses. Kashf's raison d`etre has caught on and many other organizations focusing on addressing women's economic needs have come up.

While the need for women-focused microfinance has become apparent, Kashf has been engaged in ensuring increased efficacy of micro-credit by providing a suite of complementary products and services. These have included micro-insurance, micro-savings, financial literacy trainings, financial education interventions, business development trainings, business expansion interventions and social advocacy through the mediums of drama and main stream media. On a recent field visit to Sargodha, I met Asmat Zahra who has a successful school-bag stitching business – before setting up her own business she used to work on meagre wages for a middle man. Long working hours coupled with low wages were a constant source of discouragement for Asmat, which led her to think about establishing her own business. Asmat approached Kashf for a loan to purchase raw material and equipment for her new set-up. Today, after 7 years of running a vibrant school-bag business Asmat employs 6-7 workers in her workshop where they produce 50-60 bags per day! She receives orders from market vendors on a monthly basis. Asmat has also been part of Kashf's financial education program, and has received trainings on business development and innovation from the Business Incubation Lab program, which has allowed her to improve the marketing aspects of her enterprise further.

Today Kashf continues to play its pioneering role in the microfinance sector; it has tested and scaled up a family focused health insurance program, where in a period of one year 592,473 were reached. It has also successfully initiated a partnership with UBL Omni to offer a women centric monthly savings account, in order to not only inculcate a habit of savings amongst clients but to allow them to build up a future pool of funds to meet unplanned or planned needs. Kashf's focus over the next 5 years is to become the first ever wealth management company for low income households, while mapping impact both in terms of productive management of existing household and business assets of low income families, but also developing strategies to protect and grow such assets.

Kashf's journey would not have been possible without the support and guidance of Kashf's supporter, donors and board of directors. I would especially like to thank Mr. S.M. Zafar, Dr Ishrat Hussein, Dr Attiya Inayatullah and Mr. Mueen Afzal who have led the Board and Kashf management through this exciting and productive journey of 20 years. I would like to thank the Grameen Foundation, especially Dr. Muhammad Yunus, the Agha Khan Foundation, the Government of United Kingdom, the Skoll Foundation, Acumen Fund, the Government of Canada, OMV, the Coca-Cola Company, and Aman Foundation for their contribution to Kashf's mission. I would also like to especially mention the Pakistan Poverty Alleviation Fund and the role they have played for the advancement of micro-credit in Pakistan, while supporting Kashf throughout this period.

Best Regards,

Roshaneh Zafar
Managing Director
Kashf Foundation

Chapter 1

THE READINESS PHASE 1996 – 1998

The precursor to Kashf Foundation's inception was an action research project to test the Grameen Bank methodology in Pakistan. After several visits to Grameen Bank in Bangladesh and a detailed review of women's economic opportunities in Pakistan, spanning across the last quarter of 1994 and most of 1995, a group of young graduates from Insead's School of Management came together to undertake a comprehensive business planning exercise for a Grameen type specialized microfinance institution in Pakistan. The microfinance sector in 1995 was primarily dominated by the Aga Khan Rural Support's work in the Northern Areas and the Orangi Pilot Projects efforts in Karachi. The sector was at a nascent stage and had less than 40,000 borrowers, of whom only 11% were women. In other words, unlike the success that Grameen Bank had enjoyed amongst women in Bangladesh, the Pakistani market seemed to imply that women were not bankable when compared with men. Therefore, the first hypothesis the researchers set out to test was the role of women in the micro economy through two broad based questions; firstly, whether women were actively contributing to household income at the grass roots level and secondly, whether access to loans could enable them to enhance their earnings.

Field Research Findings

In the first stage detailed field work was undertaken in urban, peri-urban and rural communities of 5 districts of central Punjab, including Lahore, Shiekhupura, Faisalabad, Okara and Kasur, to gauge the economic role women were playing. The research revealed that 80% of the women respondents contributed between 10-15% to the household's monthly income and that a majority of the micro-savings were managed directly by the women within the family. However, the research also identified some of the key challenges that needed to be addressed to enhance the economic role of women within low-income families:

- The first challenge related to women's inadequate control over their earnings and a lack of confidence in their financial decision-making abilities.
- The second pervasive issue related to the inability of many of the women entrepreneurs to find suitable marketing channels for their products.
- The third aspect was related to the ability of women to commit adequate time and effort into growing their businesses or building successful enterprises.



However, the most impactful learning at this stage was that access to credit was far more important to the majority of the female entrepreneurs as opposed to the "price" of the loan. At the same time, there was also a sense amongst many of the women that were interviewed that credit or borrowing is a "social evil", and can lead to over indebtedness within the family.

The challenge for the design of the project was thus both in terms of determining a methodology that could provide affordable financial services to women, whilst simultaneously building their self-confidence and their capacity to manage and run successful businesses. The first business plan for the organization was developed keeping in view the results of the research and the overall challenges that had been identified and can be distilled down to four main principles:

- **Replicating Grameen's Solidarity Lending Model; Disbursements to groups of 5 women jointly responsible for loan use & repayments.**
- **Keeping the Products Simple; Produtive Loan for Business and Basic Savings to be introduced.**
- **Building Womens Associative Strenght: Microfinance FOR women BY women was the sine qua non**
- **Mainstreaming Women's Access to Financial Services: womens economic empowerment was based on women's access to formal financial services**

Selecting the Pilot Sites

The model was implemented in three villages[1], comprising of up to 300 households each, which were located within a 15 km radius around the city of Lahore. The Swiss NGO Program Office (SNPO) and the Grameen Trust provided funding for this phase. The first stage of interaction with the community involved undertaking a wealth ranking exercise using participatory rapid appraisal techniques, which served as both an ice-breaker and provided detailed information on the economic levels of households, as well as an understanding of women's livelihoods. Almost 85% of the households living in this community comprised of the working poor, where in addition to male livelihoods most families included women's economic participation in informal activities. These involved small convenience stores, livestock rearing, milk production, hand embroidery and handicrafts, rice trading, tailoring services and general petty trading. Women's role in each one of these sources of income varied in terms of the time and resources that they contributed, however, the core challenge was to enable them to expand these businesses and to have some control over the income being generated.

Mobilization in these communities started in March 1996 and the initial response from all three communities to the credit program was low, with most households rejecting the idea of accessing loans through joint liability. Furthermore, women were not comfortable with the idea of investing in their own businesses and preferred investing the funds in ongoing ventures of the males in the family. In order to convince the women about the benefits of the program several activities were conducted in all three villages: trainings were arranged with the livestock department on improved livestock management practices, community level theater performances were arranged titled "Kashf - Our Friend and Support for All Times to Come", numeracy and adult literacy trainings were arranged for women in the communities, which gradually built trust and provided a platform for open dialogue.

PIONEER CLIENT PROFILES

- **Salma Baji who ran a small launderette out of her house.**
- **Razia Baji who cooked food for her husband's breakfast stall in the village.**
- **Majan Baji who along with Bashiran Baji raised chickens in her back yard for sale.**
- **Sakina Baji who ran a convenience store in the village.**

1 These included Thetar, Bullar and Gurumanghat.

اقراء بوتیک اینڈ لیڈیز گار
Iqra
Ladies Garments
اقراء
بیوٹی پارلر

Alongside these activities house-to-house visits were undertaken by a team of 4 Loan Officers, where household level questionnaires were completed and a detailed profile was undertaken of all potential Kashf clients. In August 1996, after several months of mobilization, the first groups of 5 women each were formed in 2 out of the 3 villages. These clients were pioneers - the first movers in terms of understanding and accepting the need to avail credit to grow their enterprises. The initial groups mostly comprised of older women who were already running successful businesses and who had overcome many of the social hurdles that women face in terms of market access and mobility.

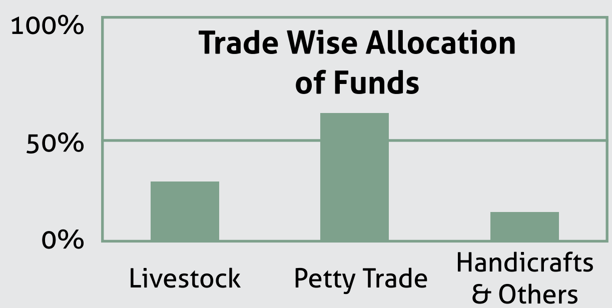
The first set of loans were disbursed in September 1996, and amounted to PKR 4,000 each, following the 2-2-1 Grameen formula, where 2 members of the group received the loans first and once these were properly utilized and the group leader provided the guarantee on correct use of the funds, loans were disbursed to the next 2 members and at the end to the group leader. The idea behind this arrangement was to build responsibility and accountability amongst group members and to also sustain the oversight role of the group leader.

Organizing Groups

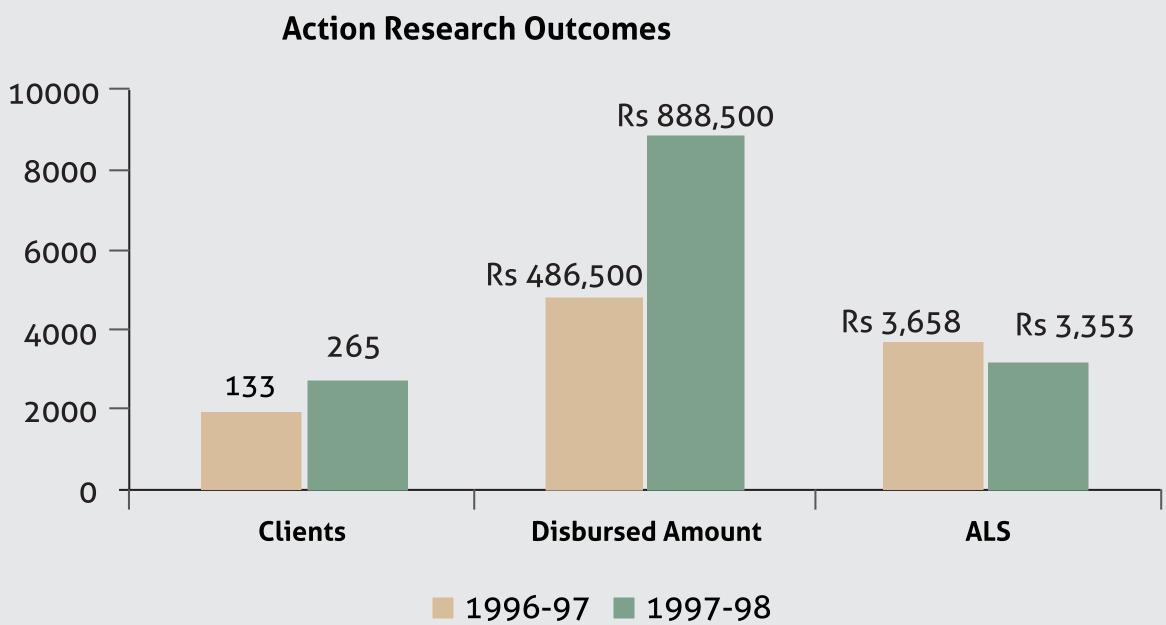
The first group paved the path for other members and further groups were established in succession and by June 1997 a total of 31 groups or 133 clients had been formed in all 3 villages with a total disbursement of PKR 468,500.

However, it was at this stage that pressure began to emerge vis-à-vis loan repayment, which by June 1997 was as low as 71%, with over 29% of the installments being paid in overdue. Upon examination, several gaps emerged within the existing methodology which needed to be addressed: weaknesses in group formation and cohesion, poor attendance at group meetings, weaknesses in product design, poor oversight and monitoring by field staff, and weak systems of reporting.

Keeping this in view, the groups were re-organized into centers comprising of 4-5 groups or 20-25 members; each center was overseen by a credit committee that included a center manager, center secretary and group leaders. The credit committee was mutually responsible for ensuring the proper use of loans, the attendance of group members at meetings and the repayment of regular installments. The Loan Officer was responsible for recording of all center transactions and for collecting installments for the entire center. Furthermore,



the product was re-designed to include 2 monthly repayment installments to reduce the burden of one monthly installment which had been the primary reason for clients falling behind on their payments in the first year. The oversight and monitoring function was also revised, with daily and weekly plans established for each Loan Officer and where each staff was meant to hold a minimum of 2 center meetings in the day and each meeting was to last for a maximum of an hour and a half.



Initially, moving the groups to centers was a huge challenge, as many of the group leaders and clients felt that this was not what they had signed up for and getting together with women they did not know from other parts of the village was not something most women and their families were comfortable with at all. However, after holding several meetings with the group leaders from the first set of groups and numerous heated debates, the first 9 centers were established. The centers helped to organize client level interaction and transactions in a more systematic and efficient manner, while ensuring proper client screening and utilization of the funds, and regular and effective oversight by the loan officers. By June 1998, based on the center methodology 55 groups (265 clients) had been mobilized, while two additional villages had been included in the field outreach. The total disbursement for the year amounted to PKR 888,500, bringing the cumulative disbursement to PKR 1,375,000.

In terms of overall performance, the centers met many of the pre-established organizational principles by the end of the second year of the action research: 78% had elected credit committee members with active participation in all center level activities, while all centers had high repayment rates of over 95% recovery by the end of the year, thus highlighting that the new changes were working in terms of improved loan recovery. However, attendance of clients at center meetings continued to pose a challenge with only 33% of the centers having 80% client participation at center meetings, so even though clients were paying back on time they were not able to meet the twice a month meeting standard.

CREDIT PRODUCTS

General loan 2:2:1 formula

Consumption loan for every PKR 100 in savings clients could avail PKR 300 as a loan.

Emergency loan could be taken out of the Center Fund

SAVINGS PRODUCTS

Mandatory personal savings PKR 30 per month

Center fund upfront deduction of 2.5% of loan amount

DELIVERY METHODOLOGY

Centers comprising of 4-5 groups of 5 members each

Credit committee to manage all center activities and loan payment




Chapter 2

THE INSTITUTIONAL STRENGTHENING PHASE 1999 – 2002

The action research phase enabled Kashf to strengthen the fundamental principles of its delivery methodology, particularly with respect to the establishment and the management of centers and the recovery processes to improve the overall loan quality. However, the institution faced several challenges in terms of scaling up the methodology, particularly with respect to the efficiency and productivity of the staff. At the end of the pilot phase the monthly mobilization rate was 0.5 groups per month per staff and the overall staff productivity (clients per Loan Officer) was 66. There were several reasons for the low productivity; however a majority of them could be attributed to very long and detailed loan procedures, which involved a 10 page household questionnaire, group appraisal forms, business appraisal procedures and 4 loan utilization checks in the year. This was combined with the fact that all clients had to attend a 1 week training prior to loan disbursement and had to learn to sign their names before they could access loans; with only 40% literate clients, this became a very tough pre-loan requirement and many women became discouraged as a result. Based on the low efficiency outcomes, many of these procedures were revised in the last quarter of 1997-98 and new client acquisition strategies were put into place. The formation of centers continued to pose another serious challenge requiring significant mobilization efforts in order to bring together 4-5 groups of 20-

25 women, as this was working against existing social practices of segregation. The key priorities for the organization after the close of the action research phase were:

- Improving efficiency and productivity standards through improved center management
- Ensuring high performance portfolio with less than 3% PAR
- Improving systems to establish replicable branch management procedures
- Establishing and achieving benchmarks for institutional sustainability
- Developing new women centric products to ensure high impact on womens economic empowerment

One Size Fits All: Improving Efficiency & Sustainability

Building effective centers through developing systems and standards for establishing and managing groups was a critical first step to improving efficiency. In order to achieve this, clear expectations were set regarding center management norms and daily work plans for Loan Officers. Since Loan Officers played a critical role in improving productivity and enhancing efficiency a long term goal was set to raise the LO productivity to 500 clients per Loan Officer, which meant that all Loan Officer related tasks and procedures needed to be benchmarked and mapped transparently.

Client acquisition became a critical aspect to improve staff productivity, as the organization moved away from the group focus to a 25-center member concept, which helped to considerably reduce management and oversight time. This was combined with standardizing core aspects of the loan officer's responsibilities by establishing daily, weekly and monthly performance targets and minimizing reporting requirements. As a result of all these measures, loan officer productivity grew from 66 clients per LO (in 1999) to 245 clients per LO (in 2002).

From a branch perspective it was also important to determine standards for all aspects of branch operations. The first principle introduced for this was to identify each branch as a profit and loss center, while setting a per branch outreach and sustainability target. Ideally a branch was to achieve sustainability within 12 months by achieving 1,800 clients on average in the first 12 months of operations. From a resource allocation point of view clear branch budgets were established, which were implemented by improving overall budgetary oversight and introducing an accountability matrix. At the same time productivity was also analyzed from the average loan size per client, which was increased from PKR 4,000 to PKR 6,000 in this period. Owing to this, the first Kashf branch became sustainable by October 1999, within the 12-month benchmark.

The overall strategy to improve efficiency also rested on the concept of "one-size-fits-all", with a view towards standardizing all product features, in order to ensure scalability. The challenge with such an approach of course was balancing standardization with the needs of clients. Nevertheless, these measures helped to improve the overall operating self-sufficiency of the institution from 16% to 96% in this period. The following chart represents the 4 pillars of Efficiency at Kashf.

Establishing effective and well run centers with strong leadership and participation	Introducing clear expectations and benchmarks for loan officer performance	Treating each branch as a profit & loss center and standardising branch level sustainability outcomes	Developing a one-size fits all approach to the delivery of financial services

The McDonald's meets Microfinance Strategy: Establishing Effective Systems with Quality

Kashf followed a strategy of "decentralization through adequate controls" to increase outreach and scale whilst controlling costs. The branch operational strategy, which was later termed as the Gr-As-K approach (Grameen-ASA-Kashf hybrid) was designed based on lessons from a visit to ASA, Bangladesh in March 1999, Kashf's earlier research on Grameen Bank, and the learning from the Action Research Phase.

This involved a series of steps to manualize all branch related procedures in order to effectively devolve all decision-making to the front line. Each branch was assigned a particular catchment area which ensured that the branch radius did not extend beyond 5-8 kilometers of the branch, clear branch penetration plans were developed and LO wise outreach areas were assigned. Furthermore, the branch structure was standardized to include one Branch manager and a total of 5 Loan Officers, where each Loan Officer was also trained to function as an accountant, thus completing all reporting on a standardized format. This was combined with clear monitoring and evaluation standards for each tier, thus introducing the 4 eye principle at all levels of decision-making to control risks. It was during this stage that the concept of an "Area Office" was introduced and an Area Manager was promoted from within Kashf's Senior Branch Managers to manage and oversee a minimum of 8 branches, which was the standard adopted from Bangladesh.

As new branches were opened during this period and the staff strength of the institution grew to 136 staff, several aspects of human resource management were also introduced. The Human Resource Department was established and core functions related to staff compensation, staff development and staff engagement were introduced. The focus in this period was on developing a strong HR code within the institution by building a robust and transparent institutional culture. This included codifying the mission, vision and core values of the institution and introducing culture building initiatives.

At the same time, since most of the staff were fairly new with less than 2 years with the organization, quarterly refreshers were undertaken on all policies to ensure compliance and proper implementation. Senior team members were assigned as mentors for incoming staff, which allowed a strong culture of peer-to-peer learning to emerge, while “management by objectives” principles were introduced within each team to improve planning capacity. This was also substantiated by introducing regular six monthly planning exercises in all branches, which led to overall target setting at the institutional level. Moreover, the head office was also strengthened by introducing the concept of the “Executive Body” in 2002, in order to build a clear succession plan within the organization and to democratize decision-making; the executive body comprised of all the senior management

Impact Assessment Outcomes

1999

96% of clients felt a positive impact while participating in the financial services program: 44% felt family incomes had increased, 38% felt overall economic conditions had improved and 48% felt their self esteem had significantly improved.

2002

Households that participated in Kashf’s program for 3 years or more were able to earn PKR 800 more per day than non-participating households. A majority of this extra income was spent on the welfare of the family.

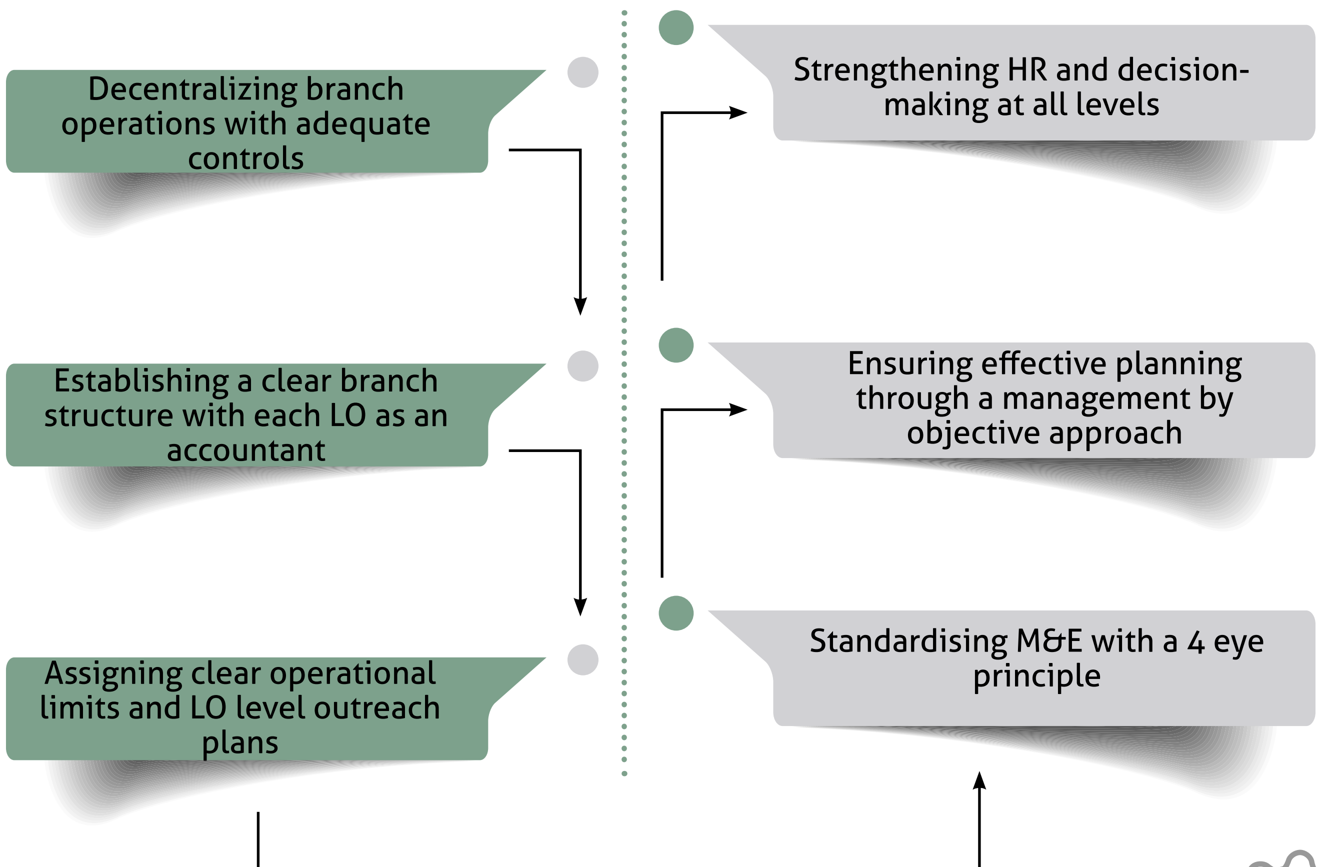
2002

96% of participating female clients felt that the associative strength of the centers was an integral part of their lives and had positively impacted on their self-esteem.

2002

89% of clients stated that Kashf had helped them in combating dire financial problems occurring as a result of everyday financial pressures as well as long range economic shocks.

of the organization, who met on a weekly basis to review key strategic and tactical decisions within the organization. This process significantly added to the strategic decision-making capacity of the institution and also enabled effective prioritization and timely delegation of tasks. This was further strengthened by introducing a Research and Monitoring Department, which independently conducted quality assurance checks and collected client level information to ensure the long term impact of the products and services. The key growth principles for this phase can be seen in the following chart:



Zero Tolerance on Delinquency: Managing a High Portfolio Quality

Owing to the delinquency crisis faced by the institution in the second year of its operations, Kashf introduced new measures for assessing portfolio quality, undertaking client screening, managing centers effectively and standardizing portfolio management systems and controls. Key features of which can be seen in the following chart.

PORTFOLIO QUALITY

- Improved loan portfolio monitoring through introducing Portfolio at Risk measures and tools
- Implemented policy of 'Zero Tolerance on Delinquency'
- Introduced clear portfolio quality benchmarks for all branches and Loan Officers

CLIENT SCREENING

- Initiated poverty assessment to determine proper client segmentation.
- Strenghthened credit committee role in client selection
- Introduced mandatory Branch Manager physical visits to at least 50% of clients' homes

CENTER MANAGEMENT

- Initiated the formal center recognition process where Branch Manager reviewed status of credit committee and clarity of credit committee on procedures and role
- Introduced Leadership training program for center managers (on average 2,000 to 3,000 clients were trained per year)

SYSTEMS & CONTROLS

- Improved the cash collection system where repayments were deposited in the bank by group leaders prior to center meetings.
- Implemented the 4-eye principle in monitoring and oversight

Kashf was supported in this phase by a number of donor agencies and funds; on the on-lending side support from the Pakistan Poverty Alleviation Fund (PPAF) allowed Kashf to grow the portfolio. With respect to institutional capacity building, Kashf was supported by CGAP (Consultative Group for Alleviating Poverty), Australian Aid, and United Nations Capital Development Fund (UNCDF). This was also the period where Kashf Foundation was recognized for its important work in the field of promoting women's access to financial services by becoming a member of the prestigious Women's World Banking network in 2000.

The table below shows some key indicators of growth:

	June 1998	1998-1999	1999-2000	2000-2001	2001-2002
Total Clients	265	913	3,604	7,220	15,706
Amount Disbursed (PKR)	888,500	3,343,360	15,115,900	33,700,850	74,848,500
ALS	4,294	4,307	4,067	4,141	4,681
PAR > 1 day	2%	0.20%	5.0%	1.0%	1.0%
LO Productivity	66	228	144	171	245
OSS	16%	35%	41%	77%	96%
Branch	1	1	5	10	16
Staff	9	13	35	60	136
Geographic Outreach	1 District	1 District	2 Districts	2 Districts	2 Districts

In centers where the center managers were strong, the loan recovery process and the center meetings were managed well and internal conflicts were resolved quickly. In terms of recoveries, there were times when centers had to contribute payments to meet the installments of delinquent members however, this happened in less than 10% of the centers. But the overall reliance on centers for recovery made it difficult for Kashf to gauge real delinquency and pipelining of loans amongst and across centers, where loans were used by people other than the direct client. This was an inherent weakness in the center methodology, which created problems for Kashf in the future.

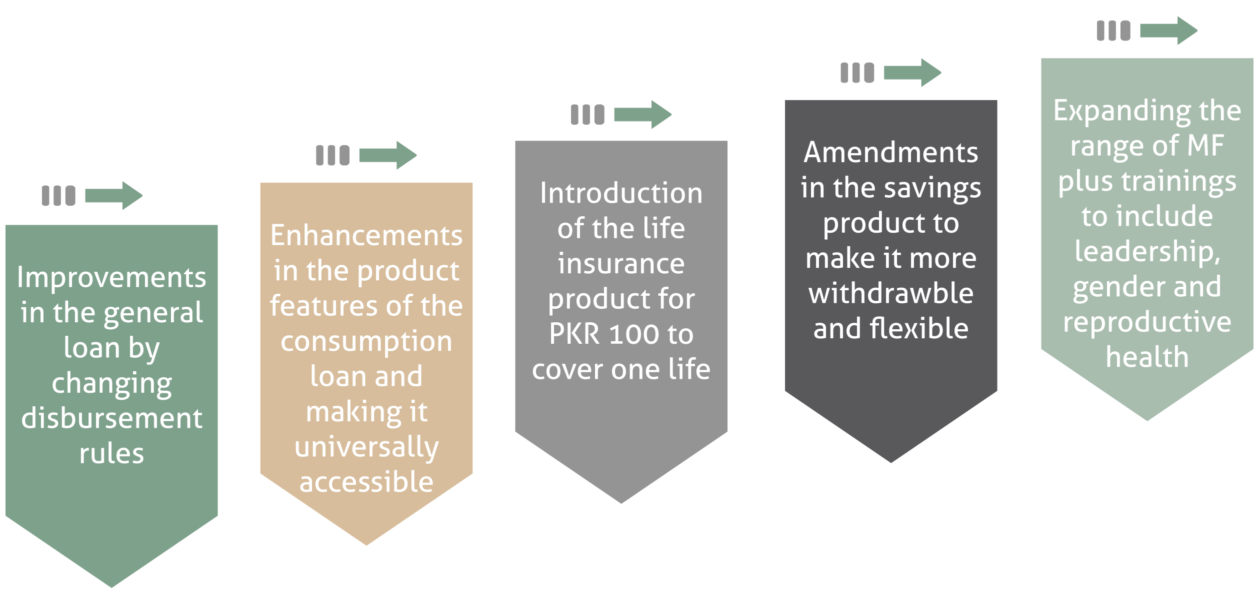
Another very important lesson from this phase was the need to involve the families of clients in the loan decision-making process; loan delinquency had increased in the second year as the policy did not require female clients to either involve or seek consent from their families when transacting loans. This created a vacuum in terms of responsibility, especially if the loans were pipelined or used by male members where often the women would be left with the obligation to pay off loans that the men had actually used. At the same time, the Social Advocacy Department was established to deliver a set of additional trainings to improve the mind set of community members around women's enterprises; these included gender trainings, reproductive health trainings, trainings for councilors and police officials. The social advocacy initiative was funded by UKAid and the Aga Khan Foundation.

Placing the Client at the Center: Introducing New Products

During this period, with the setting up of the Research and Monitoring Department, several product level reviews were conducted. The entire concept of a "credit card for the poor" was developed in order to meet the consumption needs of clients. The original Consumption Loan, which had been tied to the clients' savings by a ratio of 1:3 was changed to a universally accessible product of up to PKR

2,000 which could be paid back within 6 months by the client. Many clients stated that this product upheld their dignity and self-respect; an impact assessment conducted in 1999 revealed that 30% of the clients said access to the Consumption Loan helped them maintain their pride while 42% said it prevented them from being disgraced in front of their communities.

Within this period, more flexibility was introduced in the General Productive Loan as well, where the 2:2:1 formula was changed and all center members could access the loan together rather than having to wait for several weeks, while as already mentioned loan payments were made twice in the month. At the same time, the savings product, which had been continued as a mandatory feature of the program was revised to be readily available, as clients were allowed to withdraw amounts as per their need. Moreover, it was in this period that Kashf was approached by the State Bank of Pakistan to stop collecting savings, since this was seen to be in contravention of the Banking Laws. This was despite the fact that savings were tied to the loan product and the overall average savings balance per client was as low as PKR 175. In order to off-set this, Kashf then worked on introducing a life insurance product in 2001 with the help of Adamjee insurance, which for PKR 100 covered one life (that is the client) and at the time of death would insure the outstanding loan amount along with a funeral payout of PKR 1,500. This was the first time that such a product had been introduced in the Pakistani market, and very soon many other MFIs began to offer a similar product. The figure below shows the scope of growth in products and services.



Chapter 3

SCALING UP PHASE

2003 - 2007

Owing to the investments in growth parameters in the first phase, Kashf began to gear itself for another spurt of expansion both in existing and new markets at the start of 2003. During most of the second growth phase, Kashf primarily focused on deeper market penetration within Lahore and its contiguous areas, however it was only in the final year of this phase that branches were established in other districts and provinces. Key indicators for this phase can be seen in the table below:

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Total Clients	45,331	67,552	68,916	90,326	208,374
Amount Disbursed (PKR)	383,618,200	794,093,500	947,939,700	1,614,317,825	3,706,584,400
ALS	PKR 7,745	PKR 8,447	PKR 9,973	PKR 10,491	PKR10,338
PAR > 1 day	0.71%	0.69%	1.17%	0.33%	0.31%
LO Productivity	408	411	420	384	427
OSS	121%	189%	200%	165%	145%
Branch	30	30	31	47	125
Staff	243	275	331	532	1,477
Geographic Outreach	4 Districts	4 Districts	4 Districts	8 Districts	21 Districts

Strategic Choices and Sustainability

> **In 2003 Kashf was the first MFI to become financially sustainable!**

Kashf made several strategic choices in this phase to sustain the institution's growth trajectory. This included investing in a variety of growth drivers - from organizational restructuring to human resource development to performance management principles to design of products and client orientation. Moreover, Kashf placed a strong focus on responsible finance and ethical business practices, which led to the development of the first customer protection code (CPC) by an MFI in Pakistan. The Kashf CPC became an integral part of all staff training and client education programs. Combined with a clear focus on achieving growth through a financially sustainable business model, which led to Kashf becoming the first Pakistani MFI to achieve full financial sustainability in 2003. Furthermore, during this period Kashf was also ranked by Forbes as one of the financially top 50 best performing MFIs in the world, while the Mix Market accorded Kashf a 5 diamond status for transparency in reporting.

In terms of expansion strategies, Kashf followed a two pronged approach; the first step was to enhance penetration in Lahore and contiguous areas while enhancing quality- thus branch expansion was limited to 4 districts within the greater Lahore region. At the same time strategic investments were made into building the institutional capacity of the organization for expansion of the branch network into other regions. Despite institutional readiness for expansion, owing to slow pipelining of funds, most of the growth in terms of branches took place from 2006 to 2007 which created several challenges, particularly related to managing human resources effectively and deploying standardized systems in new markets. In order to ensure risk was maintained within limits regional offices were introduced for better oversight. Moreover, an enterprise risk management framework was introduced at all levels, which ensured that both portfolio quality and HR quality was maintained well within acceptable norms.

Institutional Capacity Building

From 2002 – 2005, Kashf's institutional capacity building was supported by financial assistance from UK Aid and the Aga Khan Foundation. Several changes were introduced to enhance risk control, improve quality management, and build capacity of the overall human resources. Through engagements with organizational management experts, separate Information Technology and Internal Audit departments were introduced. The former helped Kashf to improve the quality of data and information management and the latter strengthened the overall internal controls and corporate governance, as internal audit reported directly to the Board. At the same time, Kashf was the first micro-finance institution to have a credit rating completed, which then paved the way for making this a standard practice for all micro-finance entities. The first credit rating of Kashf was BBB, which gave a positive outlook to the institution's financial development. The credit rating also allowed Kashf to raise funds from commercial sources, which also included the issuance of a term finance certificate, which was extremely unique for the sector in Pakistan. In this period, in addition to relying on funding from the Pakistan Poverty Alleviation Fund, Kashf was also successfully able to build a pipe line of commercial funding, which helped to sustain growth plans in this period.

From an HR perspective all policies and procedures were manualized, while the provident fund scheme was extended to all staff along with the introduction of health and life insurance schemes. A staff perception survey was conducted in 2003 for the first time, and this practice was continued each year to improve the overall HR policy framework. Furthermore, the induction of male staff as front line officers was also initiated and a gender diversity management framework was put into practice. This was an important change, as the norm in the sector was to induct female staff to service female clients, which posed limitations in terms of enhancing outreach and scale to women customers. In terms of growth and outreach to other regions plus in terms of generating gender equity, it was important for Kashf to take this leap of faith and begin to induct male staff. This also led to a strengthening of internal culture, with a special focus on generating professionalism and promoting sound corporate values. To build upon this, Kashf introduced gender trainings at the workplace, along with establishing a learning center to induct and train new staff in addition to building the capacity of existing staff.

KASHF'S STRONG CORPORATE GOVERNANCE

In this phase IFC undertook a detailed assessment of Kashf's Corporate governance standards and highlighted these to be extremely well established and effectively implemented. This was a result of the excellent stewardship of Kashf Foundation's current and past board chairs:

- Mr. S M Zafar: Chair of the Board of Directors from 1996 to 2003
- Mr. Khawar Ansari: Chair of the Board of Directors from 2004 to 2006
- Dr. Ishrat Hussain: Chair of the Board of Directors from 2006 to 2012
- Mr. Mueen Afzal: Chair of the Board of Directors from 2012 to current

Structurally, several changes were introduced in the field. The role and responsibilities of the Area Managers were strengthened further and the aspects of risk management and quality assurance, along with customer protection were added to their overall function. In order to smoothen the financial management in branches, based on recommendations by Mr. Enaam ul Haque of ASA, a Cashier and a Data Operator were added to the branch. Moreover, the newly developed in-house loan monitoring software (the Miracle Worker) was introduced in 10 branches in 2004, with all branches being automated by 2006, this significantly improved the loan decision-making process in the field while allowing Loan Officers and Branch Managers to spend more time on building strong client relationships. Keeping this in view, the overall outreach for an ideal branch was increased to 2,400 clients, with each Loan Officer working towards the goal of achieving 600 clients or 24 centers per LO.

Client Centricity and Product Development

Improving the suite of existing products, along with experimenting with some new services was a core focus in this phase. In terms of the existing products, several factors were analyzed to improve the uptake of the products, their comparative positioning in the market and the impact on the client. The key parameters that were used to determine the effectiveness of each product were affordability, accessibility, reliability and speed. In terms of the general loan, which accounted for 84% of all disbursements, the service charge was reduced from 22% to 20% flat, while the entry point loan was increased to PKR 10,000 with a graduation step of PKR 5,000/year. Moreover, the maximum loan size was also increased from PKR 35,000 to PKR 50,000 to attract repeat clients. At the same time, accessibility of the product was improved by simplifying systems and introducing pre-payment options, while ensuring a one day turnaround time for all repeat clients. However, one of the biggest challenges the institution faced was in terms of client access - only 20% of the loans were used directly by women in their own businesses while the rest were pipelined to males in the family.

The maximum loan amount for the consumption loan, which was re-named as the emergency loan, was also increased to PKR 4,000 and the product was available for disbursement on any day of the week as opposed to the original center meeting based loan approval process. The approval was contingent on regular payments of the general loan, and thus allowed the client to walk in on any day to access the emergency loan.

Time to Market: Product time lines

	Action Research 1996-1998	Growth Phase I 1999-2002	Growth Phase II 2003-2007	Product Features
General/ Productive Loan				Entry point: PKR 10,000 with a PKR 5,000 annual graduation jump, and a maximum loan amount PKR 50,000. 20% service charge.
Basic Savings				Basic savings collected at the center starting at PKR 30 per month.[2]
Consumption/ Emergency Loan				Loan size between PKR 2,000 to PKR 4,000. 6 monthly loan term. 24% service charge.
Life Insurance				2 lives covered at 1.5% of the loan amount with a PKR 7,500 funeral payout.
Health Insurance				Payable upfront with a cost of PKR 350 per person. Covered upto PKR 25,000 of hospitalization costs per person.
Individual Lending product for enterprises				Entry loan PKR 30,000. Maximum loan PKR 100,000. Tenure 6-18 months. Backed by a cash flow analysis and a promissory note.
Home Improvement Loan				Loan size PKR 50,000 to 70,000. Tenure 4 years. Service charge 15%.

The savings product had been introduced at two levels in the initial phase: the Center Emergency Fund and the Individual Basic Savings account. The Center Emergency Fund had been discontinued post the action research period as it was difficult to manage and was seen as an added cost for accessing the loans. The Basic Saving Account had however been continued with varied results; on average, while clients were savings between PKR 135 to PKR 170 on an annual basis, many would deposit money and then withdraw within a few months and thus were not able to build a reasonable balance. The accounting and management of this product was adding to the monitoring costs at all levels, while the amounts concerned were quite negligible, thus not leading to any real impact at the level of the client. Furthermore, in 2001 the Microfinance Ordinance was enacted, which made all such collection efforts a contravention of the banking laws, as a result of which the savings product had to be discontinued. However, at the same time Kashf has started research on the establishment of the Kashf Microfinance Bank Limited to demonstrate that deposit services for the poor could also be a viable option, as generally the MFBs active in the market at that time had not been able to demonstrate a real business case for raising low income deposits.

The life insurance product was also tweaked further, as the initial change made to the product to include the spouse of the client at the same price, backfired and the insurance company that was

2 However post 2002 was not pursued as SBP introduced the MF Ordinance thus making any deposit collection a contravention of the banking laws.

involved in the new product suffered losses during the first year of introducing the change. The reason for this was that the morbidity rate of males was higher than that of women within the low-income segment, a risk that had not been accounted for in the earlier price. As a result the life insurance product was re-priced at 1.5% of the loan amount, with all other benefits remaining the same. During this period a health insurance product covering a minimum of two lives (the client and her husband) for PKR 350 per person was developed. The health insurance fee was to be paid up-front at the time of loan disbursement, while the cover included up to PKR 25,000 hospitalization coverage per individual. The pilot for this product covered around 10,000 lives, however it was discontinued, as the insurance company involved was unable to continue offering the product and the experience in building a network of reliable panel hospitals had been difficult to achieve.

In this period, two further products were developed: the individual loan between PKR 30,000 - PKR 100,000 targeting the bottom tier of the SME sector with a cash flow based appraisal methodology. The Individual Loan was a replication of the Latin American credit appraisal methodology through Women's World Banking support and targeted a client segment above the poverty segment that the organization traditionally served. In three years, the product grew from 300 clients to over 13,000 clients and it was this segment of the loan portfolio that was ultimately transformed into the Kashf Microfinance Bank. Moreover, the bank was set-up with the purpose of creating jobs at the community level through investments in SME businesses and strengthening financial inclusion for low-income households by developing pro-poor deposit products.

An extensive research project was conducted to determine the needs for housing loans through Acumen Fund participation, which identified that over 84% clients had need for some form of housing finance especially a loan product aimed at home improvement. It was in this period that a home improvement loan was developed with the following features: loan size between PKR 50,000 – PKR 70,000, with a loan tenure of 4 years and a service charge of 15%. Overall, 550 loans were disbursed in a period of two years with a portfolio at risk at 0.17%.

Celebrating Kashf's 10 Year Anniversary

In this phase, Kashf also celebrated a decade of working with low-income households, especially women, while achieving the benchmark of 100,000 clients. Dr Muhammad Yunus graced the occasion to deliver the key note address, while the Chief Minister of Punjab, Mr Pervez Elahi inaugurated the ceremony. Dr Yunus was extremely laudatory in his key note speech and mentioned the important role that Kashf had played in opening the market to women entrepreneurs and leading the way for others to follow suit. He also reminded the Kashf team that there was need to further scale up such services, given the huge unmet demand in the country. The series of key talks were followed by panel discussions on Kashf's important role in enhancing women's entrepreneurship, while achieving sustainability. Speakers included Mr Hans Dellien from Women's World Banking, Dr Ishrat Hussain ex-Governor State Bank of Pakistan, Mr Yusuf Samiullah, UKAid Country Representative, Ms Shazreh Hussain, Gender Consultant and Mr Steve Rasmussen, Lead Microfinance Specialists, World Bank.

Chapter 4

CONSOLIDATION & DIVERSIFICATION PHASE

2008 – Present

Kashf's experience with replicating branches, products, delivery mechanisms and customer experience across a large geographic expanse had put the institution in a position to continue increasing outreach through developing new products and penetrating additional markets. At the start of this phase, all branches were either fully sustainable, or on the way to becoming sustainable. Kashf was also looking to scale up in rural areas and developing a suite of agri-based and non-farm based products and services aimed at rural women. However, these plans had to be delayed owing to issues with repayments faced by the microfinance sector in late 2008 and early 2009. The following table shows key indicators over this phase.

	2008	2009	2010	2011	2012	2013	2014	2015
Total Clients	302,622	288,079	323,334	225,298	286,443	312,182	230,810	250,057
Amount Disbursed (PKR in billion)	5.97	2.73	2.00	2.32	3.96	5.05	6.58	7.64
ALS	10,110	10,292	9,728	9,389	10,295	11,350	16,311	18,430
PAR > 1 day	1.79%	0.27%	0.51%	1.07%	1.97%	1.38%	1.82%	1.96%
LO Productivity	417	397	458	307	377	377	249	273
OSS	n/a	21.08%	72.76%	83.93%	99.60%	108%	121.64%	122.20%
Branches	152	153	151	147	157	174	178	183
Staff	1,904	1,628	1,626	1,708	1,686	1,921	2,019	2,107
Geographic Outreach (Districts)	24	25	25	25	27	33	40	41

Rising Credit Risk: Macro-Economic Instability & Political Issues

Several significant macro-economic and political changes had taken place in Pakistan in this period: there was a political transition towards a more democratic regime, while the overall economy was facing great volatility and inflationary pressures. The global financial collapse had rippled down into the Pakistani economy – food inflation was at its highest in years. Findings from a food security research conducted by Kashf Foundation in August 2008 revealed that households were spending up to 70% of their income to meet monthly food requirements; an earlier research in 2005 had highlighted that 58% of income went towards meeting food expenses amongst the Kashf cohort group. This put additional stress on low-income households. Moreover, high costs of inputs and decreased economic activity, the ability of micro businesses to run successfully was constrained.

Traditionally, micro-businesses had always been viewed as being de-coupled from the overall economy, however macro-economic shocks, combined with political and social turbulence and security related concerns, had changed the underlying factors considerably. Such economic and social stresses were placing huge pressure on microfinance clients, especially as many of them had also taken multiple loans. A research study undertaken by the Pakistan MF Network in 2007 showed that over 30% of clients in the Lahore district were facing over-indebtedness, which had resulted from multiple borrowing. With no credit information bureau available to the sector at that juncture, this was a huge blind spot that the sector faced, and the risks of this at that time were indeterminate.

The instability in the economic, social and political front put pressure on fault lines within Kashf's lending methodology. To remain efficient Kashf had been focused on four main strategies; building the associative strength of clients through trainings and leadership development, setting the bar and creating accountability on staff case-loads, developing a scalable/replicable branch operating structure, and ensuring zero tolerance on delinquency. While these had been instrumental in helping Kashf Foundation expand when external pressures increased these measures started to work against credit discipline.

Factors Contributing to the Repayments Issue 2008

- Building Associative Strength of Center Managers -> While this empowered the Center Managers and built the strength of the credit groups, in some cases Center Managers became intermediaries or agents and used their power and influence to determine group level outcomes when it came to repaying loans or screening clients or using loans. This situation began to work counter to principles of solidarity lending.

- Accountability on Staff Case-load -> In September 2008 Kashf's average case load per Loan Officer was 441. This meant that most of the monitoring responsibility was transferred to borrowers, which began to create issues of transparency since loans began to be pipe lined within the groups or even to other individuals in the community.

- The McDonalds Approach to Microfinance -> While this approach allowed replication and standardization, it did not allow for local contexts and nuances to be accommodated into the program.

- Zero Tolerance on Delinquency -> Group Fatigue set in where clients found it excessively hard to make up the installments of other group members owing to external economic issues. The double whammy was that not only that clients suffered economic losses but loan sizes had also increased considerably, which increased the burden of loan repayments.

- Four eye principle-> In order to enhance the efficiency of the overall field structure the number of branches managed by each area manager and regional manager had been expanded further, which meant that the number of times a branch could be visited in a month was reduced.

Developing a New Methodology: Kashf 2.0

Problems with the group methodology had begun to emerge even before the repayment crisis and Kashf's own internal research with clients had shown that clients were facing group fatigue within their centers, some Center Managers had started engaging in rent-seeking behavior by acting as agents for other MFIs, and clients were becoming increasingly unhappy with the bi-monthly center meetings. External instabilities exerted further pressure on these trends, and Kashf was faced with a challenge –while there was greater need to invest in micro-businesses, the credit risk of lending to these businesses had also increased given the economic volatility.

To remain true to its mission, Kashf had to re-invent its products and procedures in order to cater to the financial needs of low-income households whilst maintaining credit discipline. Kashf studied lessons from the repayment crisis in Bangladesh and Latin America and chose to move towards a credit appraisal backed individual lending methodology. The new approach focuses on the business enterprise of the client and loan sizes are customized to the business needs and repayment capacity of the client which are assessed through a detailed loan and business appraisal process. The business appraisal allows Kashf to mitigate the client selection risk with respect to their creditworthiness, while also enabling the identification of clients who have the best potential to use the Foundation's loan funds. It also provides the opportunity to the institution to transparently measure and improve its female loan use.

Key Features of Kashf 2.0

- Individual Loan
- Appraisal Backed Loan Process
- Training & Mentoring of Client
- Loan linked to Business Need & Repayment Capacity of Client
- Post-dated cheque as a quasi-collateral

Introduction of Compliance Function

Under Kashf 2.0, a Compliance department was set up to monitor policy compliance. This department reports to the Managing Director and complements the monitoring undertaken by the Operations department. Compliance Officers are placed at the area level and undertake surprise visits to every branch every 2 months.

In the new methodology, the loan approval depends on the overall credit history of the client as opposed to 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. Moreover, there is a focus on building the capacity of clients through trainings, mentoring and business advice. This has enabled Kashf to become more involved with the family of each client along with a deeper understanding of their businesses, especially women led enterprises, while also allowing the institution to track impact more effectively. The outcomes of the financial and non-financial services are 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. Owing to the new methodology, Kashf Foundation was able to further develop the following:

CLIENT CAPACITY BUILDING

- Kashf provides a comprehensive training and development program to its clients aimed at improving their financial management skills, business management abilities, and building their linkages and networks
- Kashf undertakes social advocacy and gender empowerment interventions to help create a more equitable environment for women business owners

CLIENT NEEDS ASSESSMENT

- Kashf Established the Client Complaint Cell at the Head Office which takes complaints over a toll-free number, undertakes field visits with clients, assesses customer satisfaction, and makes recommendations to the Management on Client Needs.
- Kashf has set up a Women Entreprenuers Council which meets on a quarterly basis to advise Kashf on its policies and procedures.
- Kashf has also strengthened its research capability to gauge client level needs on an ongoing basis.

Kashf also started a comprehensive program for the capacity building of clients which has been developed with the support from the Department of Foreign Affairs, Trade and Development – Government of Canada. Under this program, Kashf offers three main interventions which can be seen in the following table.

FINANCIAL EDUCATION

- Basic Financial Literacy Trainings
- Systemized Financial Education Trainings certifying clients on Savings, Debt Management, Budgeting & Financial Transactions

BUSINESS DEVELOPMENT

- Marketing, Networking and Business Management Trainings
- Exposure to new vendors through market visits
- Incubatory services and mentorship to nascent businesses

SOCIAL ADVOCACY

- Street Theatre Performances to create community level awareness on relevant social issues
- Gender Justice Trainings with Men, Women & Youth
- Public Awareness Campaign on Mainstream Media

As a result of these interventions, low-income business women have been able to build their financial management capacities in order to both improve their success rates and enhance productivity, business income, savings and resource management at the household level. Moreover, these trainings have helped clients improve marketing skills, build networks and linkages, and grow the size of their businesses, while also leading to greater job creation opportunities at the local level. The social advocacy programs, including the gender trainings, social theatre performances and the media campaign have helped participants identify prevalent unfair gender stereotypes, start a conversation and debate around these norms, and in some cases change their behavior regarding various society imposed gender practices.

Servicing the Needs of Clients: Offering Differentiated Products & Services

One of the biggest benefits of the Individual lending methodology has been Kashf's ability to track and monitor the progress of each loan user – this has helped Kashf understand client needs and demands in a more meaningful manner. Research by Kashf has shown that low-income households use a broad range of financial services to manage their daily financial cash-flows including, but not limited to, using shopkeepers credit, savings in roscas, loans from friends and family and wage advances. Research undertaken by the Portfolios of the Poor[3] has shown similar trends.

Kashf has aggregated data from individual clients to analyze trends on client needs, which are then verified through findings from the Client Complaint Cell, field visits by the Compliance officers and Women Entrepreneurs Council meetings. Based on these demands, Kashf has developed a number of new products and services in this phase.

Building safety nets to rely on in times of need is an important priority for low-income households. In order to build safety nets through assets, low-income households need to build up their savings. At the beginning Kashf offered a basic savings product to clients which was discontinued as this was held in contravention of the banking laws after the promulgation of the Microfinance Ordinance 2001. In 2009, after the establishment of the Kashf Microfinance Bank, Kashf piloted a savings kiosk model wherein Bank kiosks were placed in 5 branches to pilot a savings program for Kashf clients. This model had limited success as setting up a physical kiosk and staffing it was not financially viable for the bank. Consequently, this could not be scaled up and was discontinued. In 2014, Kashf approached savings

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

from the different angle – knowing that savings was an important product offering while not being legally able to mobilize deposits, Kashf entered into an agency agreement with UBL, a retail bank. Under this innovative model, Kashf mobilizes its clients to open savings accounts with UBL, while all the know your client (KYC) requirements and other aspects are undertaken at Kashf Foundation branches by leveraging on technology. Kashf can also undertake all savings collections for the bank at its branches, or clients can deposit their savings with the bank itself through its local agents. The unique selling points of the product can be seen in the following chart

This allows clients to use an easy and cost-effective process with the comfort of dealing with Kashf staff while being able to open and maintain a formal savings account. In the pilot phase, which started in mid June 2015 Kashf offered this product in 5 branches and in just 2 weeks was able to open 270 savings accounts. By December 2015, Kashf aims to take this product to 42 branches.

The ability to have the security to manage expenses related to ill-health is another important need that Kashf clients have articulated time and again. In a majority of cases when there is a sickness in the family the client usually ends up using her business savings, or taking a loan from money lenders at high interest rates, or taking on a parallel loan from other microfinance providers to address this emergency. All these have a potentially disastrous impact on the financial health of the household. To address this, Kashf had initiated a health insurance product in 2006 – 2007 with limited success. Based on the learnings of the earlier pilot and research undertaken with individual clients, Kashf launched a family based health insurance program. The chart below shows a comparison between the 2006-2007 health insurance pilot and the 2013-2014 health insurance program:

KASHF HEALTH INSURANCE V. 1.0

- Premium Payable in 1 lump-sump installment
- Coverage for Client & Husband
- 50% coverage of pre-existing conditions treatment
- PKR 25,000 coverage per person
- No maternity coverage
- 24 hours helpline
- Limited Panel Hospitals and primary processing through cash reimbursement claims

KASHF HEALTH INSURANCE V. 2.0

- Premium payable in 4 quarterly installments
- Coverage for the entire household including all single daughters and sons upto 18 years
- No exclusions for pre-existing conditions
- PKR 30,000 per person coverage
- Maternity Coverage
- 24 hours helpline
- Free health camps in Kashf communities
- Work Compensation in case of illness of major bread-winner
- Array of hospitals for cash-less claims

As a result of the inclusion of these features, better marketing, and investments into the capacity of the micro-health insurance product has been well-received across the board and by June 2015 Kashf had covered over 592,000 individuals through this product. Moreover, by June 2015, 3,987 claims amounting to over PKR 65.4 million have been paid (both cash & cash-less) by the Insurance Company for health expenditure.

One of the biggest motivations that drives low-income entrepreneurs is building a better future for their children; to address this need Kashf has developed a product for low-cost private schools in Kashf's catchment areas where a majority of the children of Kashf clients attend school. Through the Kashf School Finance program, Kashf provides (1) access to credit, (2) access to school management and entrepreneurship development trainings for the school owner, and (3) access to teacher development and teacher training sessions. By June 2015, Kashf had provided access to finance to 164 low-cost private schools, trained 214 school owners and management in capacity building sessions, and trained 535 teachers in teacher trainings. Results from the pilot, have been positive, especially amongst teachers who have never been part of any formal trainings in the past and in terms of enhancing girls' enrolment. The Pakistan Poverty Alleviation Fund has been a major partner on this product, and has helped roll out this program to 4 new districts, while Acumen Fund will be supporting Kashf in the roll out phase.

During market research by Kashf in the Khyber Pakhtoonkhwa province, a majority of respondents showed that they would be willing to let women access microfinance to set-up their own businesses provided that the credit products offered were free of interest. Since a majority of features of the existing credit products, including focus on productive business, individual loans, no collateral, responsible finance, no penalties on late repayments, were in line with Islamic principles Kashf was able to contextualize its program by offering Shariah Compliant microfinance services in Khyber Pakhtoonkhwa. Consequently, Kashf has been able to provide access to finance to thousands of women in Khyber Pakhtoonkhwa and support womens' economic growth through these efforts, which were again supported by the Pakistan Poverty Alleviation Fund.

Moreover, with the support of the Pakistan Poverty Alleviation Fund, Kashf has also started a small pilot for a graduation program for the ultra-poor which provides interest free loans (part of the Prime Minister's Interest Free Loan Scheme) in the first year which are followed up by conventional loans in the consequent years in Jhang, and has also initiated a small asset backed lending pilot in Sialkot.

One-Window Solution: A Wealth Management Company for the Unbanked

Kashf has hence poised itself strategically to provide services of a Wealth Management Company for the Unbanked. Under this Kashf will take its program forward by:

- Providing a broad range of financial and non-financial services to low-income households which cater to the diverse needs and financial coping strategies of low-income households.

- Developing strategic partnerships with appropriate entities such as deposit taking institutions, branch less banking platforms, insurance companies and mobile operators.

- Enhancing 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.

- Contextualizing products and services given regional heterogeneity of Pakistan, such as the introduction of Kashf Murabaha to meet local demand in Khyber Pakhtoonkhwa.

KASHF

FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE 2015

KPMG Taseer Hadi & Co.
Chartered Accountants
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2-Main Gulberg Jail Road,
Lahore Pakistan

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Auditors' Report to the Members

We have audited the annexed balance sheet of Kashf Foundation (a Company setup under section 42 of Companies Ordinance, 1984) as at 30 June 2015 and the related statement of income and expenditure, statement of comprehensive income, cash flow statement and statement of changes in funds together with the notes forming part thereof, for year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conduct our audit in accordance with auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

b) in our opinion:

  i) the balance sheet and income and expenditure account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;

  ii) the expenditure incurred during the year was for the purpose of the Company's business; and

  iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, income and expenditure account, statement of comprehensive income, cash flow statement and statement of changes in funds together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2015 and of the surplus, its comprehensive income, its cash flows and changes in fund for the year then ended; and

d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

KPMG Taseer Hadi & Co.

Lahore
Date: 06 November 2015

KPMG Taseer Hadi & Co.
Chartered Accountants
(Bilal Ali)

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

Balance sheet

As at 30 June 2015

	Note	2015 Rupees	2014 Rupees
ASSETS			
Non-current assets			
Operating fixed assets	5	**304,261,545**	305,509,103
Capital work-in-progress	6	**95,497,760**	57,614,752
Intangible assets	7	**761,305**	1,268,844
Long term investments	8	**840,000,000**	80,000,000
Long term loans - considered good	9	**216,196,348**	273,627,028
Long term Micro-credit loan portfolio	10	**2,490,543**	-
Long term deposits		**5,270,200**	5,270,200
		1,464,477,701	723,289,927
Current assets			
Micro-credit loan portfolio	11	**4,359,335,148**	3,622,199,601
Kashf Murabaha	12	**117,976,522**	56,134,612
Short term investments	13	**343,730,919**	375,012,719
Advances, deposits, prepayments and other receivables	14	**139,854,078**	58,947,148
Accrued service charges		**70,561,263**	56,953,669
Accrued Murabaha profit		**-**	208,076
Cash and bank balances	15	**514,869,815**	418,471,001
		5,546,327,745	4,587,926,826
Total assets		**7,010,805,446**	5,311,216,753
EQUITY AND LIABILITIES			
Equity			
Donated funds		**195,960,238**	620,116,859
General funds		**402,733,477**	(359,143,414)
Grants related to fixed assets		**16,059,256**	16,448,494
Fair value reserve		**5,397,586**	5,012,719
		620,150,557	282,434,658
Surplus on revaluation of land	16	**131,598,330**	131,598,330
Non-current liabilities			
Borrowings from financial institutions and others	17	**2,998,790,396**	1,668,031,700
Current liabilities			
Current maturity of non-current liabilities	18	**2,916,929,478**	3,007,038,533
Short term borrowings	19	**51,838,681**	17,653,389
Capacity building grants	20	**48,362,558**	73,868,553
Other grants un-utilized	21	**350,565**	350,565
Advance Murabaha Income		**86,196**	-
Accrued markup	22	**150,155,172**	78,991,887
Trade and other payables	23	**92,543,513**	51,249,138
		3,260,266,163	3,229,152,065
Contingencies and commitments	24		
Total equity and liabilities		**7,010,805,446**	5,311,216,753

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

06 NOV 2015

Lahore **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 2015

	Note	2015 Rupees	2014 Rupees
Service and other charges on micro-credit loan portfolio	25	**1,594,299,085**	1,384,629,959
Profit on Kashf Murabaha		**32,487,860**	6,778,287
Return on investments and bank deposits	26	**159,936,153**	82,581,797
Other income	27	**35,110,744**	32,661,199
		1,821,833,842	1,506,651,242
Less:			
Finance cost	28	**(640,629,630)**	(526,211,206)
		1,181,204,212	980,440,036
Less: Operating expenses			
General and administrative expenses	29	**(805,392,834)**	(686,781,800)
Impairment on loan to associate	9	**(87,337,348)**	-
Seminar, workshop, research and staff training expenses		**(8,433,011)**	(3,943,276)
Other expenses	30	**-**	(6,172,356)
(Provision) / Reversal of loan loss	11.7 & 12.1.2	**(20,286,630)**	(15,513,557)
		(921,449,823)	(712,410,989)
Capacity building grants recognized as income - core business	20.1	**50,176,258**	21,941,087
		309,930,647	289,970,134
Add: Non operating income			
Capacity building grant - non core business	20.1	**125,377,602**	118,478,443
Other income	31	**11,193,994**	8,353,847
		136,571,596	126,832,290
Less: Non operating expenses			
Capacity building grant - non core business	32	**(125,377,602)**	(118,478,443)
Surplus for the year		**321,124,641**	298,323,981

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

KPMG

06 NOV 2015

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 2015

	2015 Rupees	2014 Rupees
Surplus for the year	**321,124,641**	298,323,981
Items that may be reclassified subsequently to profit and loss		
Fair value gain on available-for-sale investment	**384,867**	815,671
Total comprehensive income for the year	**321,509,508**	299,139,652

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

06 NOV 2015

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 2015

	Donated funds	General funds	Grants related to operating fixed assets	Fair value reserve	Total
	----------	----------	Rupees	----------	----------
Balance as at 30 June 2013	**609,690,604**	**(663,822,309)**	**19,330,176**	**4,197,048**	**(30,604,481)**
Assets recognized during the year	-	-	3,473,232	-	3,473,232
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
Balance as at 30 June 2014	620,116,859	(359,143,414)	16,448,494	5,012,719	282,434,658
Balance as at 01 July 2014	**620,116,859**	**(359,143,414)**	**16,448,494**	**5,012,719**	**282,434,658**
Assets recognized during the year	-	-	4,946,528	-	4,946,528
Grants related to fixed assets utilized	-	5,335,766	(5,335,766)	-	-
Fair value gain on available- -for-sale investment	-	-	-	384,867	384,867
Surplus for the year	-	321,124,641	-	-	321,124,641
	-	321,124,641	-	384,867	321,509,508
Micro credit loan portfolio recognized	11,259,863	-	-	-	11,259,863
Transferred from donated to general funds	(435,416,484)	435,416,484	-	-	-
Balance as at 30 June 2015	**195,960,238**	**402,733,477**	**16,059,256**	**5,397,586**	**608,890,694**

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

06 NOV 2015

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 2015

	Note	**2015 Rupees**	2014 Rupees
Cash flow from operating activities			
Surplus for the year		**321,124,641**	298,323,981
Adjustments for non cash items:			
Depreciation on operating fixed assets		**9,312,657**	8,790,417
Amortization on intangibles		**507,539**	165,717
Impairment on loan to associate		**87,337,348**	-
Capacity building grants recognized as income		**(175,553,860)**	(140,419,530)
Return on investments and bank deposits		**(159,936,153)**	(82,581,797)
Accrued mark up recoverable on long term loans		**(29,906,668)**	(27,071,829)
Amortization of transaction costs of commercial borrowings		**17,795,032**	18,341,703
Finance cost		**622,834,598**	507,869,503
(Gain) on disposal of fixed assets		**(1,752,802)**	(7,372,324)
Provision against doubtful receivables		**7,361,276**	827,548
Loan loss provision		**20,286,630**	15,513,557
		398,285,597	294,062,965
Surplus before working capital changes		**719,410,238**	592,386,946
Effect on cash flow due to working capital changes			
(Increase)/Decrease in loan portfolio		**(821,668,434)**	(810,560,638)
Decrease/(Increase) in Accrued service charges		**(13,399,518)**	(11,630,937)
(Increase)/Decrease in advances, deposits, prepayments and other receivables		**(32,048,131)**	(9,896,578)
Increase /(Decrease) in trade and other payables		**44,682,893**	17,086,242
(Decrease)/Increase in borrowers' security deposits		**(3,388,518)**	969,771
		(825,821,708)	(814,032,140)
Cash used in operations		**(106,411,470)**	(221,645,194)
Finance cost paid		**(551,671,313)**	(585,818,774)
Net cash used in operating activities		**(658,082,783)**	(807,463,968)
Cash flow from investing activities			
Fixed capital expenditure		**(48,611,093)**	(74,130,902)
Sale proceeds from disposal of fixed assets		**4,415,788**	13,741,001
Return on investments and bank deposits		**103,716,078**	81,978,984
Long term investment - net		**(760,000,000)**	-
Short term investment - net		**31,281,800**	22,500,000
Net cash (used in) / generated from investing activities		**(669,197,427)**	44,089,083
Cash flow from financing activities			
Capacity building grants		**166,639,123**	142,200,813
Transaction costs paid for borrowings		**(33,824,002)**	(15,254,000)
Proceeds from borrowings		**3,335,000,000**	2,698,249,156
Repayments of borrowings		**(2,078,321,389)**	(2,216,891,963)
Net outflow from financing activities		**1,389,493,732**	608,304,006
Net increase / (decrease) in cash and cash equivalents		**62,213,522**	(155,070,879)
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*	**463,031,134**	400,817,612

The annexed notes 1 to 39 form an integral part of thes

06 NOV 2015

Lahore **Chief Executive** **Director**

Kashf
FOUNDATION

A Company Setup
Under Section
42 of Companies
Ordinance, 1984

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