



A COMPANY SET UP UNDER SECTION 42
OF THE COMPANIES ORDINANCE 1984




KASHF FOUNDATION

ANNUAL REPORT

2015-2016



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ABOUT KASHF FOUNDATION

Set up in 1996, Kashf Foundation began its journey as an action-research program replicating the Grameen Bank approach in Pakistan. Since then, Kashf has adapted its program to individual lending with a focus on serving the multitude of financial and non-financial needs of low-income households, especially women. Kashf offers products and interventions in four main fields; financial services, capacity building, safety nets and resilience, and social advocacy. Kashf's programmatic services complement each other to help create conditions for a more enabling environment for women micro-entrepreneurs.



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.



Vision

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



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'



Corporate Information

Board of Directors

Mr. Mueen Afzal, **Chairman**
Dr. Attiya Inayatullah, **Director**
Mr. Syed Asim Zafar, **Director**
Mr. Syed Asim Zafar, **Director**
Mr. Riaz Hussain Khokar, **Director**
Mr. Syed Hassan Iqbal, **Director**
Mr. Tajammal Hussain, **Director**
Muhammad Aliuddin Ansari, **Director**
Ms. Rabia Khan, **Director**

Board Committees

Program and Operations Committee
Dr. Attiya Inayatullah – Chair
Mr. Asim Zafar – Member

Board Audit Committee

Mr. Tajammul Hussein – Chair
Mr. Syed Hasan Iqbal – Member

Human Resources Committee

Ms. Rabia Khan – Chair
Ms. Fatima Asad – Consultant

Registered Head Office

1 C, Shahrah Nazrea-e-Pakistan,
Lahore-Pakistan.
Tel: +(92-42) 111-981-981
Fax: +(92-42) 35847816
Web: www.kashf.org

Chief Financial Officer

Mr. Shahzad Iqbal

Company Secretary

Mr. Taimur Langrial

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants
53 L Gulberg III, Lahore
Tel: +92 42 35850471
Web: www.kpmg.com.pk

Legal Advisors

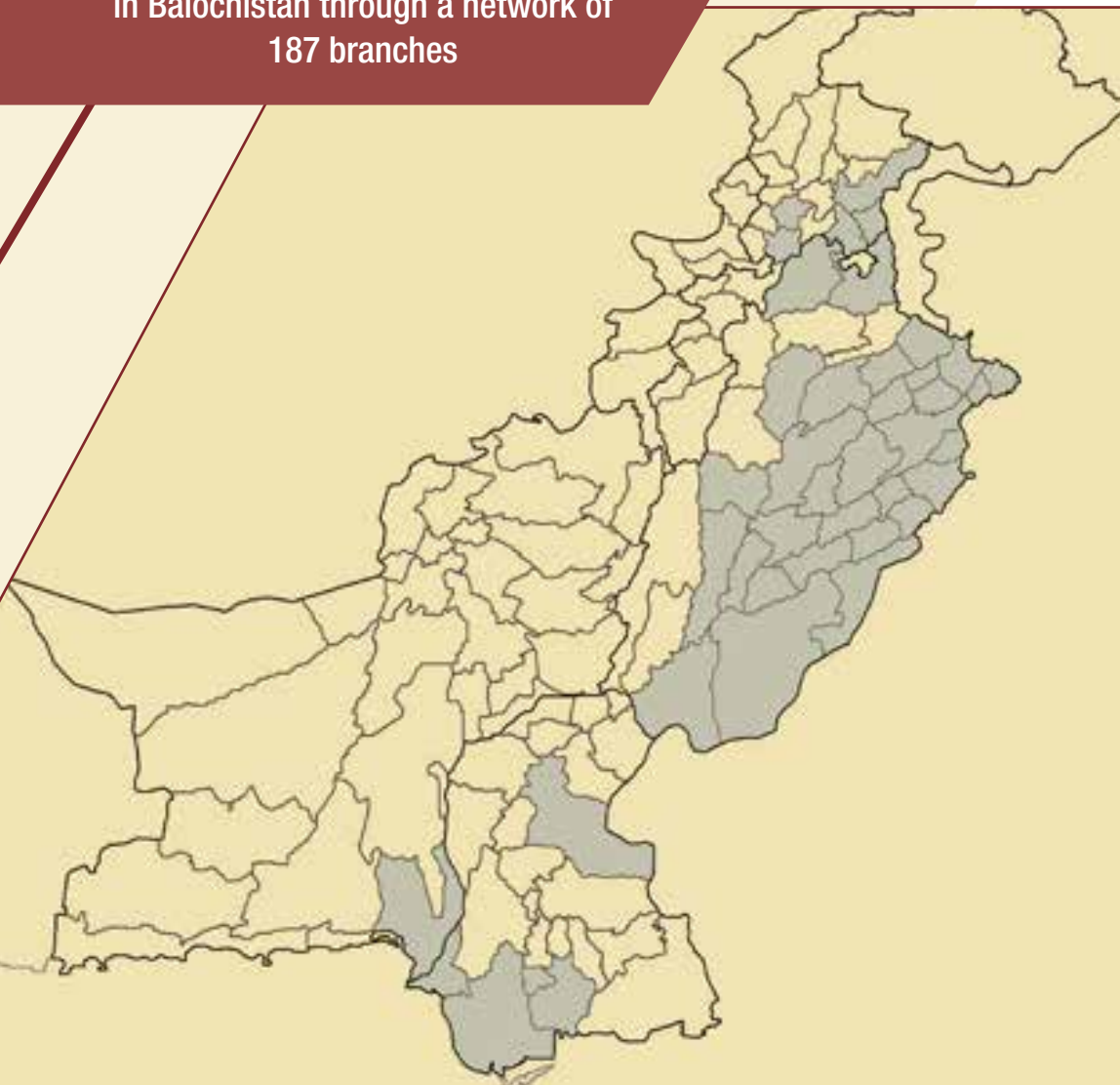
Mandviwalla and Zafar
7/B-1, Aziz Avenue, Canal Bank
Gulberg V, Lahore
Tel: +92 42 35715479 +92 42 35715481
Web: www.mandviwallaandzafar.com

Tax Advisors

Khawaja Associates
104 Al-Falah Buliding, The Mall, Lahore
Tel: +92 42 36307607

Geographical Outreach

Kashf Foundation currently operates in 30 districts in Punjab, 5 districts in Sindh, 5 districts in KPK and 1 district in Balochistan through a network of 187 branches



Chairman's Message



Dear Friends and Supporters of Kashf

Kashf Foundation continues to focus on delivering long-term, sustainable and value-driven financial and non-financial products and services to help low-income households, especially women, transform their lives. In 2016, Kashf made many client centric and value-driven changes to existing products and services to help enhance customer experience and satisfaction. The boldest of these has been the client focused changes to Kashf's Micro-health insurance program where Kashf now offers monthly premium payments, quick and easier issuance of insurance documents, and inclusion of new panel hospitals in the program. On the social advocacy frontier, Kashf co-produced the most successful and poignant television series of the year, Udaari which beautifully tied together the concept of education through entertainment and proved that well-researched, well-produced, and sensitively handled issue-based television ventures have a lot of appeal and popularity. Udaari has set a new tone for television programming and for the drama industry in Pakistan.

On the financial side, Kashf has performed well and has focused on consolidation of the portfolio to poise itself for the planned growth in coming years. Closing this year with a net profit of PKR 742 million, Kashf has been able to increase its equity to PKR 1,575 million. At the end of the financial year, Kashf had 214,981 active clients serviced through 187 branches and 2,096 staff. On sustainability indices Kashf has continued its focus on enhancing efficiencies and has increased its operational self-sustainability ratio to 150.00% and financial self-sustainability ratio to 142.39%. Moreover, through a focused strategy and sustained commitment at all levels, Kashf has been able to maintain the quality of its portfolio with Portfolio at Risk over 1 day at 0.82% in June 2016.

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 Government of Canada, OMV and the Coca-Cola Company along with all the commercial banks that have provided Kashf access to on-lending funds. Furthermore, a special mention to all the international microfinance investors, who have completed due diligence of the institution during the year and ranked the institution as an investible opportunity. It is also a matter of pride that the institution received an improved long term rating of BBB+ from JCR-VIS, while the short term rating was maintained at A-3.

Best Regards,

Mueen Afzal
Chairman
Board of Directors
Kashf Foundation



Managing Director's Message

Dear Friends of Kashf

Promoting women's entrepreneurship at the micro-level requires consistent focus and effort; an eco-system needs to be built wherein the multitude needs of women micro-entrepreneurs are understood and effectively delivered upon. It requires access to finance, mentoring, role-modelling, creating a counter-narrative which values women's economic contributions, and building the individual capabilities and capacities of women micro-entrepreneurs. Through the support and encouragement of our Board of Directors, Donors, and Friends of Kashf, we continue to build this eco-system for our clients to enable them to progress out of poverty and improve their standard of living.

The achievements and hard-work of our clients speaks for itself; one such client is Parveen Baji who lives in Sialkot and is a master football producer. She had learned these skills from women in her community and used to work with some women when she was a girl. Being the oldest amongst her siblings, her family had not invested in her education, as she was required to take care of her younger brothers and sisters. She could not continue with football stitching, as she was married at a very young age to a man much older than her. After marriage she not only faced denigration on a daily level, but her husband did not give her financial support either. This meant that often she would have to ask her parents for help; this situation continued for several years, until Parveen Baji's first child was born. It was at this point that she decided to take things into her own hand and restart her football making business by seeking out a loan from Kashf. Her journey was riddled with many challenges, however, today Parveen Baji employs 15 other women in her business, and is producing dozens of hand stitched footballs every day –a vocation that has put Pakistan on the map of the world!

A major driving force behind Kashf's evolution and growth over the past 20 years is undoubtedly its devoted staff base which plays a pivotal role in breathing life into Kashf's mission. Their efforts in terms of client care and satisfaction and their ownership of the mission to transform the lives of Kashf's clients have enabled Kashf to become as successful as it is today. Our staff perseveres in its aim to challenge pre-conceived notions about women's economic roles, build trust and credibility in the communities, and help Kashf remain relevant through feedback and inputs into the product development and process improvement. A major element of Kashf's success has been its proactive gender diversity stance, based on which over 50% of staff at almost all tiers are women. Not only that Kashf has been a fore runner in introducing certain staff related policies like paternity leave for its male staff in order to promote greater involvement of men in child care and well being of their children.

Kashf's journey would not have been possible without the support and guidance of Kashf's supporters, donors and board of directors. I would also like to especially thank the Pakistan Poverty Alleviation Fund, the Government of Canada, OMV, the Coca-Cola Company, Acumen Fund, and KIVA, our financial supporters including Askari Bank Limited, United Bank Limited, JS Bank, Silk Bank, MCB Bank, Bank Alfalah, Triodos, Incofin, and Tripple Jump.

Best Regards,

Roshaneh Zafar
Managing Director
Kashf Foundation

Kashf Foundation Social Performance Dashboard June 2016

-Certified by Smart Campaign for Client Protection Principles- March 2015
-Recognised as STAR (Socially transparent and responsible) MFI by MIX- Jan 2016

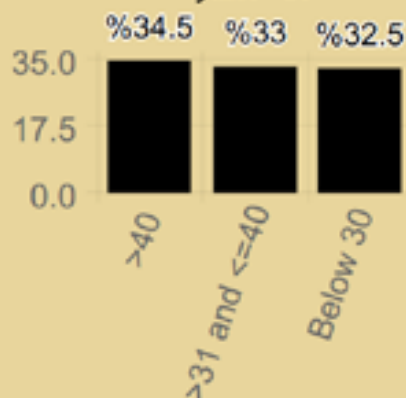
Poverty Focus

Clients from Less Developed Regions



Clients Poverty Analysis

June -16



Women Participation in Business

Loan Users

June -16



Kashf School Sarmaya

Percentage of Schools led by Females



Kashf Foundation Social Performance Dashboard June 2016

Products & Services

| | June-16 | June-15 |
|-------------------------------------|-----------|-----------|
| Clients Retention Rate | 70.80% | 67.81% |
| Average Loan Size disbursed (Rs.) | 38,298 | 27,680 |
| Clients satisfied with KF | 97% | 99% |
| Net promoter Score | 77% | 64% |
| Clients recieved Business trainings | 20,821 | 10,800 |
| Clients recieved Financial Literacy | 1,367,777 | 1,065,113 |
| No. of Individuals Insured | 1,071,813 | 869,610 |

Responsible Finance

| | June-16 | June-15 |
|------------------------------|---------|---------|
| Loan Utilized for Business | 96.7% | 97% |
| Clients aware of KF Policies | 99.2% | 99% |
| CPC Violations | 0.02% | 0.016% |

Gender Equity

| | June-16 | June-15 |
|------------------------------|---------|---------|
| Gender Balance | 50% | 50% |
| % of Women at Mgmt Level | 43% | 46% |
| % of Female Board Members | 33% | 36% |
| Staff Attrition (annualized) | 15.4% | 14% |

Business Outcomes and Financial Performance

July 2015 – June 2016



Annual Snapshot

| | June 2016 |
|----------------------------------------|-------------------|
| Active Clients | 214,981 |
| Outstanding Portfolio | PKR 4.562 billion |
| Life Insurance Policy Holders | 424,968 |
| Health Insurance Policy Holders | 1,049,977 |
| Amount Disbursed | PKR 8.238 billion |
| Average Disbursement Size | 36,499 |
| Number of Branches | 187 |
| BDO Productivity | 233 |

Kashf Foundation closed June 2016 with 214,981 clients with an outstanding portfolio of PKR 4.562 billion. The overall portfolio of the Foundation remained stable during the year under review which is as per the strategy of the institution to serve the needs of the existing clients. The Foundation has strengthened its internal controls and built internal capacity for upcoming growth in the next year.

On the insurance side, Kashf Foundation became the largest provider of micro-insurance in Pakistan in 2016, with over 26.7% of the market share with respect to total policy holders in Pakistan. Kashf has provided over 1,474,945 insurance policies under both life and health insurance. This translates into access to insurance for 1,071,813 unique individuals from low-income communities. With respect to the total sum insured across Pakistan, Kashf also holds the highest market share i.e. 28%, with a monetary value of PKR 36.055 billion.

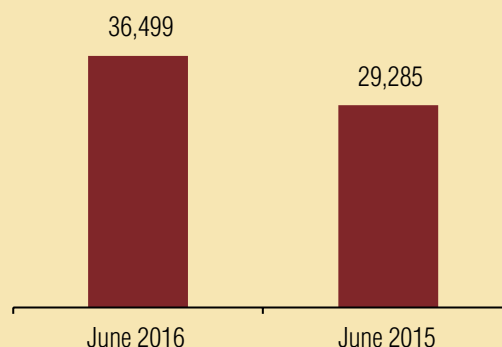
Loans Disbursed

Kashf disbursed 206,949 Kashf Karobar Karza Loans (KKK), 7,618 Kashf Ibtida-e-Karobar Karza Loans (KIKK), and 8,105 Kashf Murabaha loans (KM) in 2016. The Kashf Karobar Karza continues to be the main lending product for the Foundation with disbursements exceeding PKR 7.599 billion. Kashf Murabaha loans worth more than PKR 260 million were disbursed in Abbottabad, Noshera, Mansehra, Mardan and Haripur districts of KPK. Kashf is also working with the Prime Minister's Interest Free Loan program in the district of Jhang where the interest free loans are provided to women that fall below 30 on the Poverty Score-Card. These interest free loans are administered as a means to support these households to set up small businesses so that they can graduate into the regular microfinance program offered by Kashf Foundation.

| Product | Loans Disbursed |
|-----------------------------|-----------------|
| Kashf Karobar Karza | 206,949 |
| Kashf Ibida-e-Karobar Karza | 7,618 |
| Kashf Murabaha Loans | 8,105 |
| Kashf School Sarmaya Loans | 732 |
| Interest Free Loans | 2,348 |

The average disbursement size witnessed an increase of PKR 7,214, from PKR 29,285 in June 2015 to PKR 36,499 (at the end of June 2016). The reason for this increase in loan size has been Kashf's policy of prioritizing retention of clients and servicing the needs of repeat clients. The loan size itself is determined on an individual basis through an extensive business and household appraisal of clients to ensure responsible finance and prevent over-indebtedness.

Average Disbursement




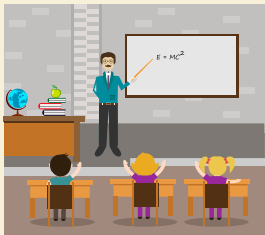




Loan Use by Sector

The loans use by sector for the last year can be seen in the table below:

| Sector | June 2016 | June 2015 |
|--------------------------------------|-----------|-----------|
| Trade | 26.0% | 25.3% |
| Small scale agricultural enterprises | 13.2% | 13.5% |
| Cottage industry/ handicrafts | 7.4% | 7.8% |
| Manufacturing | 4.9% | 4.9% |
| Food production and services | 2.9% | 2.7% |
| Domestic | 0.4% | 0.4% |
| Others | 2.4% | 1.6% |
| Services | 42.8% | 43.8% |

Education Finance Loans

In 2016, Kashf disbursed 732 loans to low-cost private schools under its Education Finance Program, which provides access to finance, teacher trainings, school development trainings and financial education for youth curriculum to low-cost private schools. Kashf trained 1,016 school owners in capacity building trainings, and trained 2,643 teachers in teacher training and pedagogy skills trainings in 2016. Moreover, the Financial Education for Youth program, which is implemented in all Kashf supported schools, was undertaken with 52,545 students. The cumulative clients in the program have increased to 909 in June 2016 from 177 in June 2015.

| Cumulative Outcomes – June 2016 | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <p>1,373 School Owners Trained in Better School Management</p> |  <p>3,420 Teachers Trained in Pedagogy Skills</p> |  <p>909 Low-Cost Private Schools served</p> |  <p>51,464 Students Trained in Financial Education for Youth Curriculum</p> |
| |  <p>Cumulative Amount Disbursed PKR 99,351,000</p> |  <p>Average Disbursement Size PKR 109,297</p> | |

Financial Performance

The overall income for the organization has grown by 17% over the last year due to the high average loan portfolio maintained during the year as compared to the previous year. This year Kashf Foundation disbursed PKR 8.2 billion as micro loans which is the highest amount of loans disbursed in any year since 1996, and it is 8% higher than the previous year's loan disbursement amount. Moreover, there has been a continuous focus of the field teams on maintaining high quality portfolio throughout the year.

Kashf Foundation has been very cognizant of controlling costs and utilizing resources to their optimal capacity which has resulted in a decline in the overall cost by 9% as compared to the previous year, which can be translated

into less spending by almost PKR 100+ million as compared to the previous year. Operational efficiencies and productivity have resulted in increased sustainability, and the foundation closed its financial year with a surplus of PKR 742 million, which denotes an increase of PKR 321 million as compared to the previous year.

Another area of focus was building the institution's capacity to diversify its sources of funding and building pipelines with local commercial banks while developing lines with foreign funding sources to ensure continuity of the program with reasonable growth in the upcoming years. This year, the overall level of liquidity has been well maintained and has met all the targets set for the institution. A total of PKR 3.6 billion was received in the shape of fresh loans, and debt repayments worth PKR 3.05 billion was recorded in the books of accounts during the year.

The declining KIBOR and well maintained PAR have resulted in improved financial ratios which are summarized below:

| Description | 2016 | 2015 |
|---------------------------------------|---------|---------|
| Surplus for the Year (PKR in million) | 741.68 | 321.12 |
| Operational Self Sufficiency (OSS) | 150% | 116.63% |
| Financial Self Sufficiency (FSS) | 142.39% | 107.06% |
| Adjusted Return on Assets | 10.31% | 5.21% |
| Adjusted Return on Equity | 74.41% | 71.16% |
| Debt-Equity Ratio | 78:22 | 89:11 |
| Admin Efficiency | 18.81% | 20.14% |

Kashf's overall PAR over 1 day stood at approximately 0.82% at the end of the year compared to 1.17% at June 2015 closing. The weighted average cost of funds for the year has been 8.42%, with COF for commercial loans at 9.02% and PPAF loans at 7.73%. The return on assets (RoE) has increased from 5.21% in June 2015 to 10.31% in June 2016. There has also been an increase in return on equity which has increased from 71.16% in June 2015 to 74.41% in June 2016. These changes correspond to improved profitability and increase in equity for the company.

Debt to Equity Ratios

| Ratios | June 2016 | June 2015 |
|----------------------|-----------|-----------|
| Debt to Equity Ratio | 78% | 89% |

As mentioned above, the company's overall financial health has significantly improved as compared to the previous year. The increased surplus is primarily attributed to the increased revenue which has ultimately resulted in the increased equity base of the company. These improved financial ratios are the result of the conscious efforts by the management and field teams which have been successful in maintaining a high quality portfolio throughout the year.

Portfolio at Risk

| Ratios | June 2016 | June 2015 |
|------------------------------|-----------|-----------|
| Portfolio at Risk | 0.82% | 1.17% |
| Kashf Karobar Karza | 0.74% | 1.08% |
| Kashf Ibtida-e-Karobar Karza | 0.88% | 1.09% |
| Kashf Murabaha | 2.81% | 4.47% |
| Kashf School Sarmaya | 1.90% | 1.99% |

The table above shows that there has been an improvement in the overall, as well as the product level, Portfolio at Risk. This can be attributed to improved screening and targeting of loan, streamlined incentive policies, and improvement in overall PAR management capacities of the organization.

“Gender Lens” Investing





“Gender Lens” Investing

Impact assessments of microfinance have shown that financial services for female micro-entrepreneurs create a virtuous cycle for it allows them to improve their lives by increasing their incomes and enhancing their capacity to pay for food, education, and health care. The degree of impact a microfinance program will have is dependent on the following factors :

- Outreach: Who is the MFI targeting?
- Product Characteristics: Are the loan sizes, terms, and access adequate?
- Length of exposure: How long has the client been associated with the MFI?
- Ancillary Services: What else is the MFI offering for social transformation?

Kashf Foundation's Enterprise Lending Approach provides a holistic model with immense transformative potential for its clients.

**Poverty
Targeting**

**Kashf's
Enterprise
Lending
Approach**

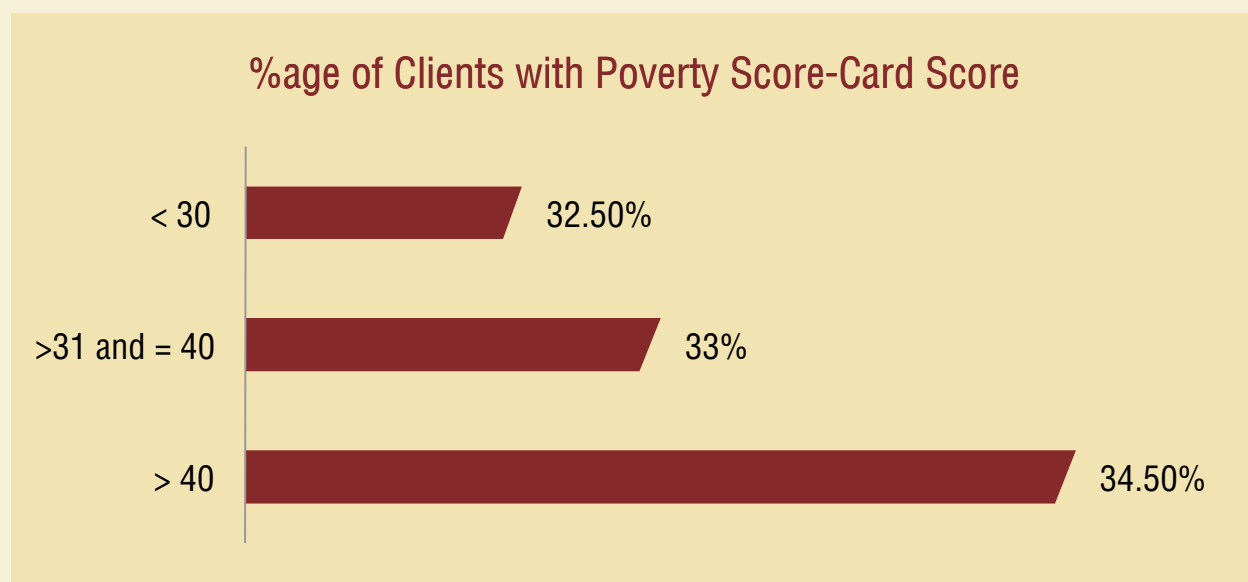
**Pro-poor
Product
Design**

**Focus
on Client
Retention**

**Capacity
Building**

Client Level Targeting

Financial institutions must reach poor clients to have an impact. To ensure that Kashf is targeting the right clients, Kashf uses the 2 USD /day per capita income definition of the poverty line as the criteria for client acquisition. Kashf also measures the Poverty Score Card data for its clients and reports it on a bi-annual basis through the Social Performance Dashboard. Additionally, Kashf also maps the percentage of clients belonging to less developed areas. In June 2016, 36% of Kashf clients belonged to lesser developed areas, as defined by the World Bank and the Government of Pakistan. Moreover, the Poverty Score-Card (PSC) distribution of first loan cycle clients showed that over 32% were less than 30 on the PSC while 33% of the clients were under 40 on the PSC. PSC scores of 30 – 40 cover segments characterized as 'transitory vulnerable' and 'transitory non-poor' , i.e. clients that are just at or below the poverty line.



Ensuring that clients that enter the program fall within a well-defined poverty criterion allows Kashf's program to impact their lives in a more meaningful manner. This can be seen through Kashf's impact assessments, as according to a research undertaken in 2015, 96% of Kashf's clients reported an increase in income, which was positively correlated to both the loan cycle and the loan amount and also to participation in Kashf's financial trainings. The research also showed that 94% of Kashf's clients were undertaking savings and the clients that had attended Kashf's Financial Trainings saved PKR 1,222 more than clients that had not attended the trainings, thus highlighting the importance of investing in the capacity building of Kashf clients.

Product Specifications

Kashf has a pro-poor and women centric lending methodology; after a potential client applies for a loan, Kashf staff visit her business place and household to assess her credit needs and determine her eligibility for a loan

as per Kashf's poverty criteria. This is undertaken to ensure proper targeting of the loans to women that fall in the poverty criteria. The Kashf staff then review and examine the cash-flows of the client to determine the debt absorption capacity of the household and analyse overall business need. This entire process allows Kashf to focus on prioritizing women led businesses, and in June 2016 48% of loans disbursed by Kashf were being used for women-led businesses while 13% were being used in businesses jointly run by women and men. Once the loan is approved, Kashf trains the client on financial literacy and the importance of using the capital productively.

Even before a new product is launched, the research and product development department undertakes extensive research on client needs and preferences, along with studying the context within which the product is to be introduced. A product prototype is developed keeping women centricity at the core, and a pilot study is undertaken to understand product uptake and challenges. Before the product is mainstreamed and rolled out, Kashf reviews the findings of the pilot and makes necessary changes and amendments.

Kashf offers four main kinds of loans as shown in the following figure.



Kashf Foundation has been an early adopter of alternate delivery channels for collection of repayments. Being an early mover has helped Kashf mainstream the use of alternate delivery channels across its network; as of June 30 2016, Kashf had over 10,000 agents from Easy Paisa, UBL Omni, JazzCash, and NADRA mapped onto its network. 71% of all repayments are being routed through the alternate delivery channels. Alternate delivery channels increase convenience for clients, as they can deposit their installments with nearby agents instead of going to the branch. Moreover, it also reduces costs incurred for transport and opportunity cost of travel time for clients. Clients also have the ability to deposit their installments after branch working hours and on the

weekends. Over the past year 23% of repayments were received after branch closing hours, i.e. 5:00 PM and 12% were received over the weekend, thus adding to client's convenience.

Client Retention and Impact

Kashf is focused on client retention as increased exposure to microfinance enables low-income households to reap the benefits of improved incomes and invest in better opportunities for their families. This includes improved food security, access to better educational facilities for their children, and improved access to health-care.

Kashf's client retention rate can be seen in the table below:

| | June 2016 | June 2015 | June 2014 |
|----------------|-----------|-----------|-----------|
| Retention Rate | 70.80% | 67.83% | 65% |

To enhance client retention, Kashf Foundation has been undertaking the following:

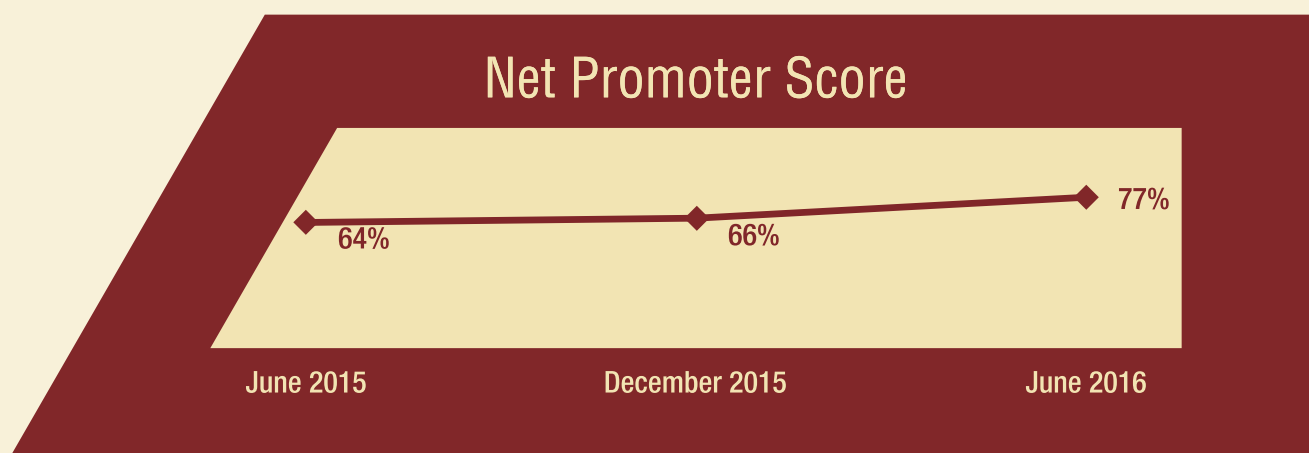
- Enhancement of loan size and limits to meet the growing business needs of repeat clients;
- Reduction in documentary requirements for repeat clients to reduce turn around time of repeat loans;
- Revision of health insurance premium from an upfront payment to 12 monthly payments;
- Provision of free life insurance services to all clients.
- Realignment of staff incentives to include client retention in the incentive assessment system.

Customer satisfaction is another important factor for retention; Kashf Foundation measures this through the Customer Satisfaction Index (CSI) across 4 main areas; (1) customer care, (2) convenience of delivery channels, (3) pricing, and (4) products and services. Kashf's overall satisfaction rating was 77%, i.e. 77% of the clients were satisfied with their association with Kashf Foundation. The ranking with respect to their areas of satisfaction, from most satisfactory to less satisfactory, is as follows:

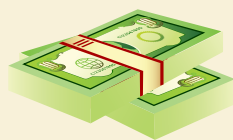
1. Customer care aspects – clients especially commended the complaint resolution mechanisms, staff behavior, transparency and treatment of clients;
2. Delivery Channels – clients especially commended the low turnaround time and use of alternate delivery channels for repayments;
3. Pricing – clients were satisfied with the overall pricing but some were feeling the burden of the upfront life and health insurance payments. Subsequent to customer satisfaction surveys, the cost of the life insurance was subsumed by Kashf Foundation and the health insurance premiums were changed from an upfront one-time payment to monthly installments;

4. Products and Services – clients were largely satisfied by the products and services offered but wanted some improvements in the health insurance claims processing and reduction in documentary requirements. Kashf is working with the health insurance company to improve claim processing and piloting a tablet led loan application process to reduce documentary requirements.

Another dimension of retention is the net promoter score which has shown an increasing trend since 2015. The net promoter score measures the level of satisfaction clients have with Kashf's products and services and whether they would recommend Kashf's products and services to others. The graph below shows the net promoter scores since June 2015.



Kashf's impact assessments have shown the following trends vis-à-vis client retention and impact:



The loan cycle is positively linked with business income and with every loan cycle the business income increases



Household income increases with every loan cycle showing the transformative impact of the loans



An increase in loan amount results in an increase in the monthly savings



The likelihood of business expansion increases by 1.1 times with increase in every loan cycle.

Capacity Building Interventions

Kashf's financial access program is complemented with a vibrant capacity building program that enables low-income micro-entrepreneurs to use the credit they access from Kashf in a more meaningful way. Kashf offers the following capacity building services to clients:

| Systemized Financial Education | Business Incubation Services | Vocational Skills Trainings |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> Module based training on savings, debt management, budgeting and financial transactions Available for all Kashf Clients Uses experiential learning, games, role-plays and story-telling to improve financial management skills | <ul style="list-style-type: none"> 3 months training on business development coupled with market visits and linkages creation support Available for Kashf clients that want to expand their businesses Uses participatory approaches to theory and practical examples along with visits to the market | <ul style="list-style-type: none"> 3 months skills training to increase employability and skill level for women and girls Available for Kashf clients and other women and girls in the community Class-room sessions with fixed format that cover 30% theory and 70% practical work. |
| Outreach | Outreach | Outreach |
| 252,000 women trained and 192,000 women retrained in refresher trainings | 25,000 women graduated from the program | Over 900 women and girls have been trained in the program |
| Impact | Impact | Impact |
| <p>91% of SFE participants reported to have undertaken savings in the last year (Impact Assessment FGDS, 2016)</p> <p>39% more respondents reported maintaining household budgets post SFE training. (Impact Assessment FGDS, 2016)</p> <p>15% of respondents reported using a savings account in a bank after training. (Impact Assessment FGDS, 2016)</p> | <p>17% businesses reported increase in permanent employees and 23% of businesses reported increase in seasonal employees. (GAF Analysis for 6th BIL Batch, 2016)</p> <p>88% women reported increase in their business sales and 96% reported an increase in their monthly gross profit. (GAF Analysis for 6th BIL Batch, 2016)</p> <p>55% of the clients observed an increase in their business savings with the average increase in savings being PKR 3,056. (GAF Analysis for 6th BIL Batch, 2016)</p> | <p>Over 12% of graduates took loans to set up businesses</p> <p>Graduates were satisfied by the trainings and their skill enhancement</p> <p>Over 500 trainees are undergoing vocational skills trainings through various centers</p> |

Through the Systemized Financial Education training and Business Incubation Lab program I have been able to learn financial management tools that have helped me with book-keeping, budgeting and managing my expenses better. Besides this I have also been able to learn about different ways of dealing with customers and vendors with confidence.

–Farkhanda Naz (Kashf client from Rawalpindi)

The Systemized Financial Education trainings have made a vital contribution towards teaching me the importance of savings. As a result of the trainings I have become more confident and empowered to take decisions.

– Iqra Nasir (Kashf client from Haripur)



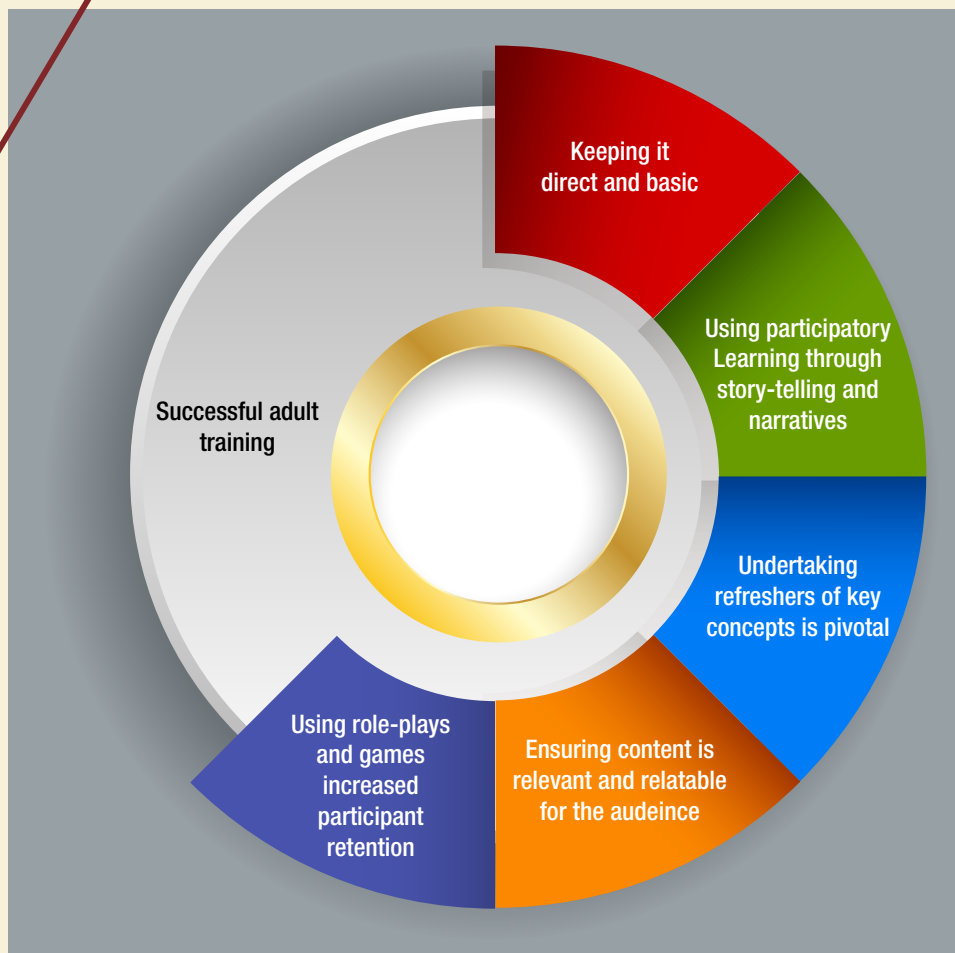
Energizing Entrepreneurial Capacity



Energizing Entrepreneurial Capacity

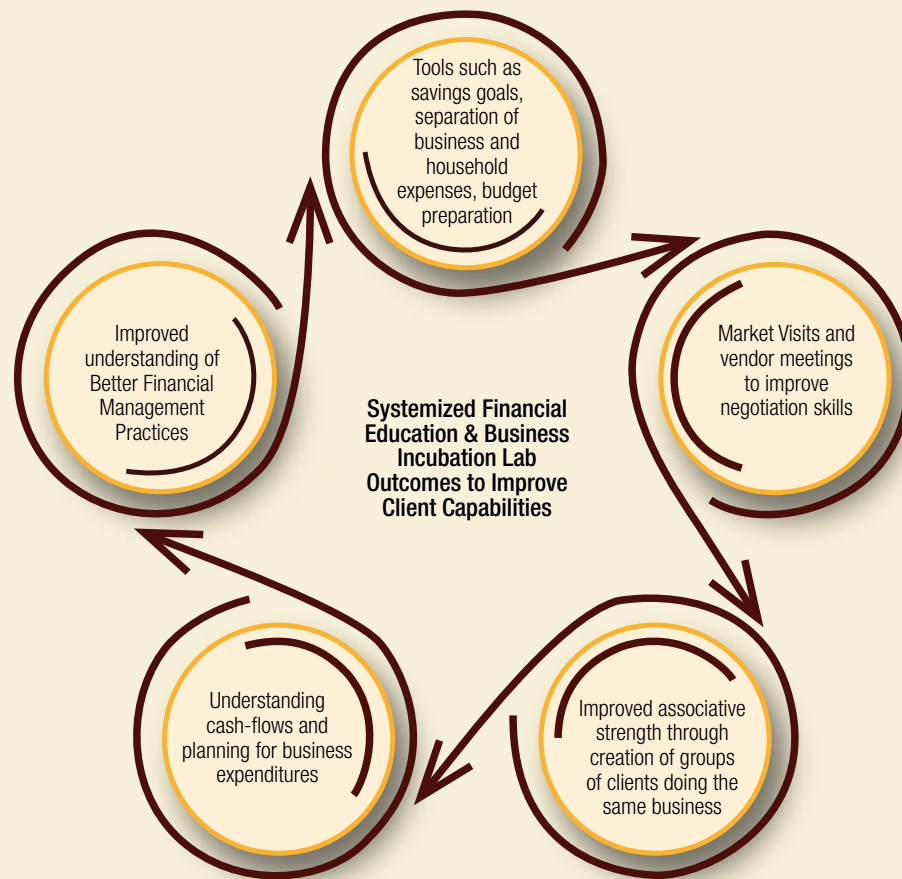
As microfinance penetration in Pakistan increases, previously unbanked low-income communities are gaining the chance to improve their lives through access to financial products and services. Having access to these services holds great potential for their futures but also poses significant risks of failure. Failure is not just limited to the poor or previously unbanked and is a real risk for better-off users also, however, a significant difference is the greater ability of higher-income users to mitigate these risks via access to proper training and information, networking and mentoring through peer groups, and establishment of safety nets. Therefore, the exposure risks of new entrants in microfinance are much higher. This necessitates significant investment for improving new entrant's capability to manage their finances so that they can avoid common pit-falls such as over-indebtedness, lack of clarity on rates and fees, staff fraud and collusion. This needs to be coupled with trainings and initiatives that enhance their leadership skills and self-confidence to improve the likelihood of their success so that the risk of failure can be mitigated. Furthermore, advocacy for social change at the household and community level also improves chances of their success as a positive environment can be generated for promoting access to finance and entrepreneurship, especially for female led micro-businesses.

Building this capability requires significant investment in communication and training with an equal emphasis on what is communicated and how it is communicated. Some broad guidelines with respect to best practice include the following:



Kashf Foundation's capacity building and social advocacy program are premised on these principles of best practice and use adult learning methods to educate low-income households and women on means of improving their financial capabilities, enhancing their leadership skills and self-confidence, and creating awareness and dialogue on relevant social issues.

Kashf's Capability enhancement interventions for clients include the Systemized Financial Education Trainings and the Business Incubation Lab Trainings. Under the Systemized Financial Education Trainings, Kashf uses participatory learning techniques to train clients on budgeting, savings, financial transactions, and debt management. Undertaken through specialized trainers with groups of 10-15 clients, these trainings walk the clients through financial management theory and tools to help improve their financial capability. The Business Incubation Lab program is a three month graduation program for women micro-entrepreneurs that want to expand their businesses. The sessions include trainings on product design, marketing, market development, and business management coupled with networking and linkage building support through market visits and vendor meetings.



"I attended Kashf's Systemized Financial Training during the time I was struggling to establish my stitching business. The training helped me get a good grasp of effective strategies for expanding my business and taught me smart financial management skills, which has helped my business grow by a great deal"

—Rani Rafi, New Karachi



"Kashf's Systemized Financial Training taught me budgeting and the importance of separating my household and businesses expenses. By creating a budget I discovered the extra expenses my business was incurring which I was able to cut down by locating a cheaper procurement alternative"

—Zeenat Yasmeen, Sargodha

Capacity Building interventions aimed at gender empowerment and confidence building include gender justice trainings for Kashf's female clients, their husbands, and young boys from their communities. Kashf's approach thus focuses on both males and females to create gender sensitization, respect and protection for women and girls. As poverty, male domination and gender discrimination are endemically linked, it is therefore important to ensure that men in society are also part of the change. In other words training women, whilst important, is not enough. Till the time that men become part of the solution, they will continue to be a part of the problem. There have been many instances where men have reported changes in their opinions about a women's place in society after being part of Kashf's Gender Trainings.

- An impact assessment undertaken in 2015 showed that 64% of participants of the Gender Training reported that after the training their opinion on age at marriage had altered and they felt that girls should not be married until they are mature enough.
- Moreover, a resounding majority of women (around 99%) reported an increase in self-confidence owing to Kashf's micro-credit program and training initiatives.
- The research also showed that a mature Kashf client, i.e. a client that had been with Kashf for over 3 years, reported to be more mobile than a first time client. Moreover, clients that had attended Kashf's gender training reported 45.7% higher likelihood of mobility

Kashf's Gender Training: Engaging Men & Boys as Advocates of Change

Tariq Masih, husband of Kashf's client Rebecca participated in a Gender Training conducted by Kashf in 2015. Prior to participating in the Gender Training, Tariq's opinions and perceptions were quite conservative and were reflective of his community. The thought of allowing Rebecca to work outside the home struck him as a threat to his honour, but worsening financial circumstances when Tariq lost his job made him concede to Rebecca's decision of starting her own business. Rebecca started a livestock business from which she began earning a decent income. With time, the business grew and so did the profits. When Tariq eventually found a job he was again at a crossroad: whether there was a need for Rebecca to continue her business? It was during this unresolved time in his life that Tariq participated in Kashf's Gender Training. Through various activities and participatory learning techniques, the Gender Training created a thought-provoking learning environment, where culturally sanctioned norms and attitudes were questioned. The training included practical examples of the extent of systematic discrimination that exists in our societies. Discussions about the importance of equal rights and opportunities for men and women were focused on.

Tariq has now become fully supportive of Rebecca's business venture, and beams with pride when he speaks about her success. He includes her in the household decision making, and trusts her opinion on important matters.



"Ever since I attended Kashf's Gender Training I have become more conscious of the gender biases that exist in my home and outside it. I now consciously try that the women in my home are not victims of the same attitudes."

"My family and friends often taunt me for the change in my behavior towards my wife-they say I am not man enough. But I am not a coward to be insecure of my wife's abilities. Seeing her strength makes me proud of her every day".

—Tariq Masih

Kashf has used multiple media tools to undertake social advocacy and convey positive messages about the role of women in the economy; this includes street theatre performances, newspaper articles and features, public service messages, radio campaigns, and television series. Kashf has undertaken over 1,000 theatre performances in the last 5 years on issues ranging from child marriage to gender discrimination, violence against women, girls education, preference for the male child, family planning etc. Television has massive potential in reaching out to a great number of people and providing a new narrative to society on issues faced by women and practical ways of addressing these issues.



"Kashf's theatre program is an essential platform for awareness-raising and edu-tainment. Through its interactive nature, Kashf's theatre program can effectively communicate important social messages to a large audience in a subtle and nuanced manner.

The theatre program also offers an innovative channel for introducing Kashf products, and educating current and potential beneficiaries about Kashf's work"

—Imtiaz Aslam, Senior Associate, Gender Empowerment Social Advocacy

Kashf's Theatre Performances: Stimulating Dialogue and Social Change through Interactive Theatre



“Through its theatre program, Kashf’s impact spills over not only to Kashf beneficiaries and their families but the wider community in which they live in. The program also offers an effective medium for strengthening the relationship of Kashf staff with its beneficiaries, by providing them an interactive platform through which they can not only learn about Kashf products and imperative social issues, but also provide their feedback”
-Saeeda, Area Manager Rawalpindi

Kashf's first television production, *Rehail* was focused on the issue of child marriage and through its multiple sub-plots and powerful characters, it effectively highlighted the issues and constraints faced by women from low-income households in Pakistan. The series empowered women to recognize their own worth and find sustainable solutions to empowerment through their associative strength. Kashf's second television production, *Udaari* had child sexual abuse as its main theme and explored other themes such as economic empowerment of women, legal hurdles and issues faced by low-income households, social taboos around music, and differences between urban and rural life. Kashf's television productions have laid great emphasis on the positive spillover effects of women's economic empowerment, while also questioning deeply held views about women and girls in society. Kashf based its television series on real life stories and narratives to ensure that the dramas were relatable for people.

Kashf's television productions have charted a new path for television and shown that edu-tainment, when done right, can be popularly and critically acclaimed. These shows have resulted in many new ventures being undertaken on social messages, namely *Sammi* which is based on the archaic and misogynist practice of *waani* –giving women as brides for blood compensation and/or to settle disputes, and *Muqabil* on child sexual abuse. It has inspired writers, producers, and most importantly television channels to look at newer more socially relevant topics instead of remaining within the conventional realm. Some of the press coverage *Udaari* has received can be seen below



Nailing the art of social behaviour change communication

Published in Jan-Feb 2017

By Sadiya Siddiqui

How using edutainment, storytelling and music can bring a positive change in society



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Editorial managed to highlight issues which have been ignored by the mainstream media. PHOTO: PAKISTAN

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10 Comments



Are Pakistanis always losing the plot?

14 Comments



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14 Comments



It isn't hard to see why "Pakistan is never", it's just how he feels

14 Comments



Why did you read, share, comment and like Daily Pakistan's story maligning Syeda Ghosia Fatima, Pakistan?

14 Comments



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12 Comments

Building Social Safety Nets





Building Social Safety Nets

The poor and non-poor face many of the same risks and vulnerabilities but have markedly different levels of resilience owing to availability of formal coping mechanisms and safety nets. Risk is thus a function of both the shock and a person's vulnerability to the shock. A simple endogenous shock such as death or illness can be managed effectively by the non-poor through using formal safety nets such as insurance, institutionalized savings, and family support. These coping mechanisms are usually not available to the poor. In fact, according to the ILO less than 20% of the world's population has adequate social security and in South Asia, only an estimated 5-10% of the working population has some form of social security coverage. On the other hand, being poor increases vulnerability due to systemic factors such as greater risk of illness and disease as a result of living in congested areas with little or no environmental regulation, lack of adequate sanitation, improper levels of hygiene and higher food insecurity. Lack of access to preventative health-care also increases the risk of serious diseases and illnesses.

Risk management for the poor is therefore primarily dependent on informal mechanisms which include asset ownership, rotating savings (committees), and local moneylenders. These mechanisms are inadequate as the magnitude of personal savings amongst the poor is low, rotating savings are infamous for breaking down mid-cycle and debt from money lenders is very expensive. Contrasted to personal informal mechanisms, micro-insurance provides an effective way forward for poor to deal with shocks and contingencies.

Kashf offers the following micro-insurance products for its clients

Kashf Credit for Life Insurance

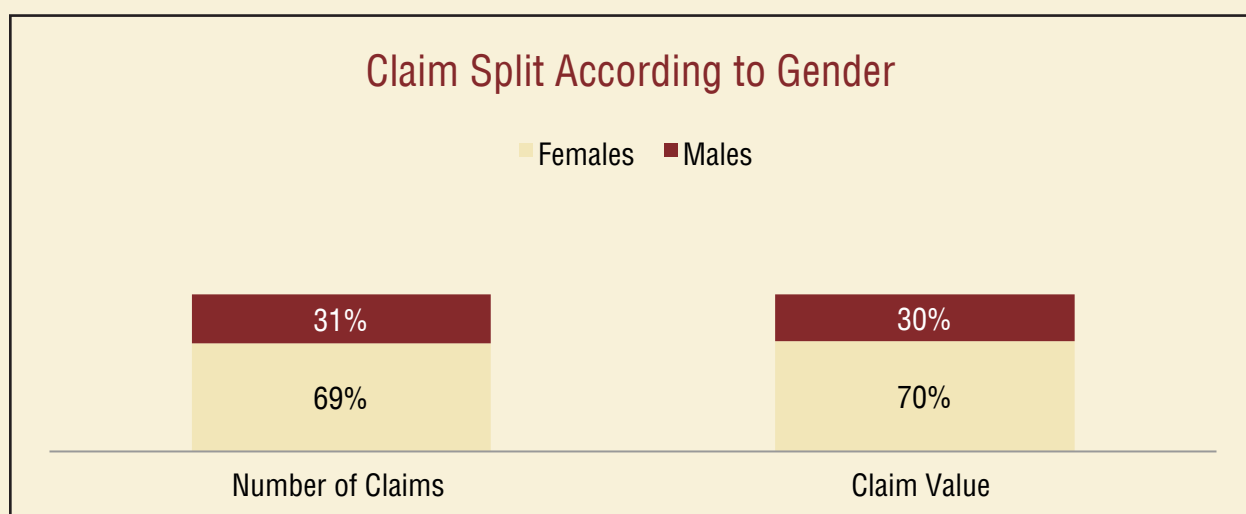
- Year Introduced: 2000
- Premium paid for by Kashf Foundation
- Coverage for the client and her nominee (primarily her spouse)
- Insurance coverage for outstanding loan in case of death or permanent disability
- Payout to cover expenses of funeral and burial
- Cumulative Life Insurance Policies undertaken: over 5.8 million

Kashf Health Insurance

- Year Introduced: 2014
- Premium payments spread across 12 months
- Coverage for the entire family
- Work-Compensation Benefit for the major bread-earner
- No exclusion of common pre-existing conditions
- Accidental Emergency coverage
- Cashless option at over 200 panel hospitals
- Cumulative Health Insurance Policies undertaken: 2,356,829
- Cumulative Health Insurance Claims: 26,673

Kashf's life insurance program in 2000 was the first collaboration between an insurance company and an MFI in Pakistan and it set the standard in the microfinance sector to offer life insurance coverage to low income clients. Keeping in view the importance of this service, Kashf currently provides this free of cost to the client and their spouse. The insurance covers the outstanding loan in case of death or permanent disability of the client or her nominee, while also providing a nominal payout to cover costs of burial.

Kashf's women centric health insurance product covers the entire family for a premium of USD 127 per month. The micro-health insurance currently covers over 1 million individuals making Kashf the largest provider of insurance in Pakistan. Once enrolled into the program each family member receives in-patient coverage for upto Rs 30,000 per individual irrespective of family size. An analysis of the health insurance claims has shown that more than 69% of the claims were from females. The chart below shows that 69% of the 14,047 total claims processed were for women which accounted for 70% of the total claims value which was PKR 231 million.



A further break-down of the gender data shows the following trends:

| Demographic Group | Number | Percentage |
|--------------------------------------------------------------|--------|------------|
| Married Females (< 45 years age) | 5,686 | 40% |
| Husband (<65 Yrs) | 2,250 | 16% |
| Female (unmarried, single/separated/divorced , >45years age) | 2,164 | 15% |
| Son (Unmarried, < 25 Yrs.) | 2,114 | 15% |
| Daughters | 1,833 | 14% |
| Total Claims | 14,047 | 100% |

The average claim amount for females was PKR 16,843 while that for males was PKR 15,607. In terms of illnesses covered, the chart below shows the most frequently occurring illnesses:

| Major Diseases | Percentage of Claims Processed |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| Medical Illnesses requiring hospital admission - Fever of unknown origin, Infectious, Acute Asthma/ bronchitis, Acute Hepatitis, Cerebro vascular diseases/ stroke. Complications of diabetes complications, Hyper tension, and Chronic liver diseases | 38% |
| C-Section Delivery Cases | 32% |
| GIT - Acute gastroenteritis | 9% |
| General Surgery - Cholecystectomies(removal of gall bladder), Appendectomies(removal of appendix) & laparotomies for various abdomino pelvic pathologies | 9% |
| OB/GYN - Hysterectomies, Removal of ovarian cysts, Cystectomies and Myocardial Infarction | 8% |
| Cardiology - Heart diseases including coronary artery disease, angina/ angioplasty & By pass (CABG) procedures | 2% |
| Accident & Injury - Emergency Treatment & management of Fractures & other injuries | 2% |

These are promising trends and further research has shown that for most women this was the first time they had accessed formal health-care, which highlights the fact that often women under value their own health, and it was only after the health insurance cover that they addressed some of their primary health care issues. Access to the micro-health insurance has thus provided women from low-income households access to high quality medical services, which will reduce both maternal and infant mortality in Kashf's cohort.

As part of the health insurance program, Kashf also offers free health camps for Kashf clients and their families to provide preventative health-care and also raise awareness about contractible and infectious diseases. Kashf also tackles women-related health issues periodically in these camps and creates awareness on good practices related to disease prevention and hygiene to reduce the incidence of both communicable and non-communicable diseases. Free over the counter medicines are also given in these camps. In the last year there have been over 68 health camps with around 3,500 persons attending the health camps. Some pictures from these camps can be seen below:





Furthermore, the health insurance also provides a work compensation cover for income loss during times of illness for the major bread-earner in the household. This means that not only is the medical expenditure and costs incurred for treatment covered by the insurance, but also the income lost as a result of not being able to work is covered through the insurance. Over PKR 1,480,693 were given as work-compensation to 1,882 families from July 2015 – June 2016 with an average pay-out of over PKR 787 per family.

Over the last year, Kashf has also made some significant changes to the product based on client feedback, field observation, and staff advice. The largest and most significant change has been the conversion of the upfront premium into equal monthly installments. This has been a big step and has required Kashf to lobby with the insurance provider and extensively advocate for this change. This change has been very well-received by clients and has improved their satisfaction with the product. Another important change has been in the prompt issuance of insurance documents, earlier Kashf used to centrally dispatch insurance cards in batches to branches after receiving them from the insurance company. This had inherent problems of delays and added inefficiencies to the program, moreover, clients who needed to use the insurance in the ‘waiting-period’ struggled and had to deal with delays in accessing services, especially at panel hospitals. In the last year, Kashf introduced a special certificate for clients which is given to them at the time of disbursement. The certificate enables them to avail panel hospital facility from the day of policy commencement and reduces delays and inefficiencies in the process of receiving and delivering health cards.

“

“I rushed my 16 year old daughter to the closest panel hospital in the emergency when she complained of unbearable abdominal pain. I was told that she needed urgent appendix surgery. After the surgery the doctor told us that we had brought her to the hospital in the nick of time. Without the insurance I would have never thought of bringing her to a private hospital and God knows what would have happened while we waited to be seen in the government hospital.”

– Testimonial from Humaira Baji from Jorapul Branch

“

“I was able to get a hysterectomy operation due to the Kashf insurance coverage. Without the insurance not only would I not have been able to afford this surgery but it would have never gotten diagnosed as I only went and saw a specialized gynecologist on the suggestion of my BDO.”

– Testimonial from Rahila Baji from Fatehgarh Branch

“

“Initially clients did not understand the concept of insurance as very few people in Pakistan have insurance coverages. So it was not easy to convince clients, but thanks to the demonstration effect where our clients have been able to get high quality treatment at zero cost, clients are warming up to the idea of insurance and are better able to understand it.”

– Ammara, Branch Manager, Fatehgarh Branch

“

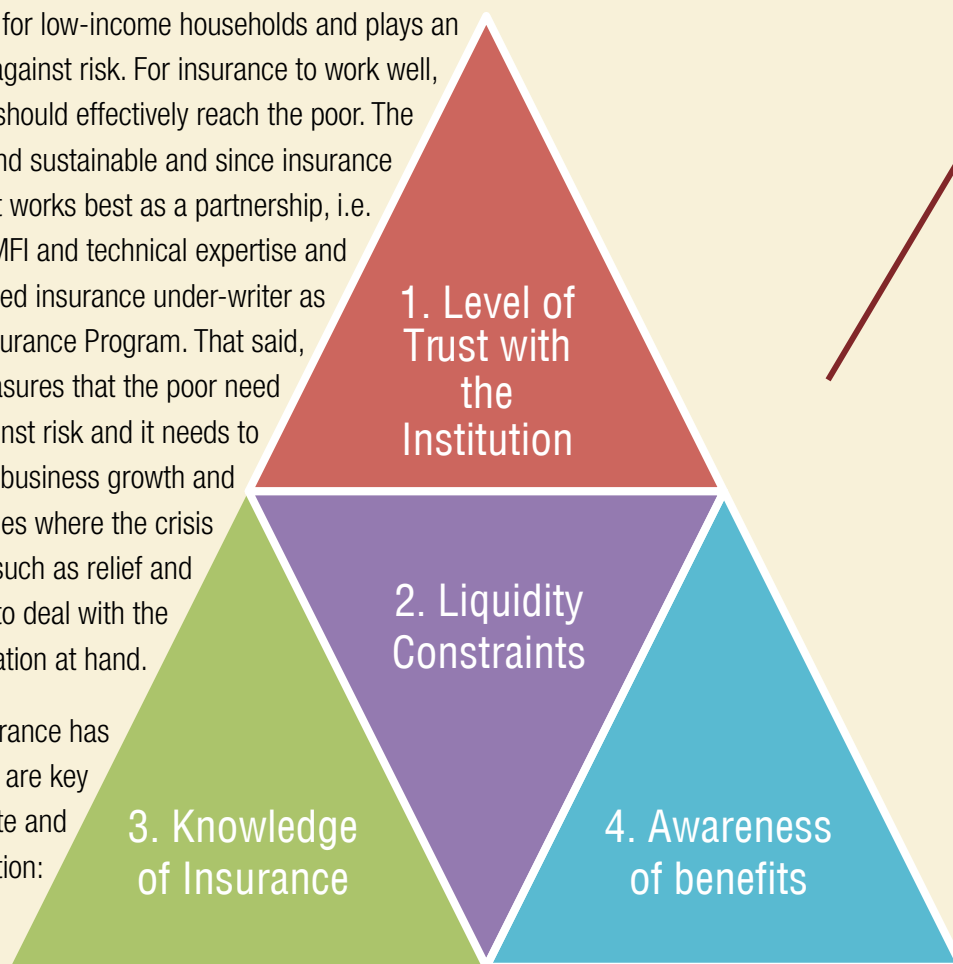
“With the monthly payments for premiums I tell clients that they are only spending Rs. 150 per month for health coverage in access of Rs. 150,000 (for a family of 5). This is the best way to convince them about the benefits and concept on insurance”

– Babar, Business Development Officer,
Kainchi Branch

Insurance is an integral safety net for low-income households and plays an important role in protecting them against risk. For insurance to work well, it must be properly targeted and should effectively reach the poor. The system must be cost-effective and sustainable and since insurance provision is a specialized service it works best as a partnership, i.e.

targeting and provision by an MFI and technical expertise and product management by a specialized insurance under-writer as is the case in the Kashf Health Insurance Program. That said, insurance is one of the ex-ante measures that the poor need to take to protect themselves against risk and it needs to be complemented with savings, business growth and expansion, and asset building. In times where the crisis has occurred, ex-post measures such as relief and cash transfers need to be used to deal with the situation at hand.

Kashf’s experience with insurance has shown that the following factors are key determinants of insurance uptake and satisfaction:





Kashf is in the process of integrating these into the insurance programs and continuously innovating to make the insurance more meaningful to the clients. For the future Kashf is planning on experimenting with research on other kinds of insurance products such as livestock insurance and insurance for digital payments.

Benefiting from Gender Diversity

The single most important resource that MFIs have for meeting the many challenges that confront them is the capability of their staff. Whether it is developing and delivering products and services or understanding client needs, it is the organization's staff that becomes the key to successful growth. A research undertaken by MIX Market has shown that 'the more progressive the human resource policies implemented by MFIs, the higher the productivity of their staff'. Experience from private sector firms has also shown similar trends where improved human resource management practices have led to reduced staff attrition and increased productivity and profitability. Kashf offers a fair, equitable, and merit-based environment where diversity management practices help employees grow according to their diverse needs and goals.

Some key Human Resources KPIs can be seen in the table below:

| KPI | 2016 | 2015 |
|---------------------|-------|-------|
| Head Count | 2,210 | 2,088 |
| Staff Retention | 83% | 83% |
| Gender Balance | 50% | 50% |
| Internal Promotions | 100% | 95% |

At the level of the individual, Kashf has put in place policies that create equal opportunities for men and women; and a salient feature of the Kashf approach is thus addressing life-cycle changes for both men and women. While life-cycle changes experienced by men do not increase their domestic workload or reproductive burden in the same manner it does for women, Kashf has introduced a paternity leave for men to encourage a culture where a part of the burden of caring for a new born is assumed by the father, and not only by the new mother. Kashf also has maternity leaves for women, encouraging women to continue their professional path despite their rising familial responsibilities.

Kashf also maps staff retention across gender and analyzes the reasons for attrition. The table below gives the attrition trends for the last four years.

| Year | Overall | Female | Male |
|------|---------|--------|------|
| 2016 | 19% | 8% | 11% |
| 2015 | 17% | 9% | 7% |
| 2014 | 19% | 10% | 9% |
| 2013 | 16% | 8% | 8% |

While analyzing the reasons for attrition the main reasons for attrition in females are life cycle changes such as marriage, health issues, and relocation. On the other hand the major reasons for attrition amongst males are better job opportunities. Kashf has instituted many programs and initiatives to address these reasons. To address attrition attributed to marriage, which is the largest reasons for female employee turn-over, Kashf has introduced an initiative where the future in laws of Kashf female staff members are invited to visit the workplace of their daughter in law. In these sessions, the branch manager undertakes an orientation of the new family members with Kashf and familiarizes them with the work environment. At the same time, counseling is provided to staff members on how to strike a healthy work-life balance and manage the new demands that would emerge as they embark on a new phase in their lives.

To address career progression and better job opportunity linked attrition, Kashf aims to ensure equity in leadership po-

"I have been with Kashf for the past 15 years and have grown up the ranks from a Business Development Officer to an Assistant Regional Manager. Over the course of these years I have also gotten married and have two children. Managing my career with my personal life would never have been possible had it not been for the accommodating environment, institutional policies that allowed me flexible hours, and the support of my supervisors."

— Noreen Shaukat, Assistant Regional Manager

sitions through a comprehensive gender responsive training program which prepares and pipelines its staff for internal promotions. The training is specifically segregated by the leadership gaps experienced by, and observed in, each gender: for females it focuses primarily on decision-making, negotiation, and communication, while for males it concentrates primarily on delegation and work-place management. Preventing the glass ceiling for women employees is another important imperative, which is reviewed annually through the compensation and performance management system in order to remove inherent assessment biases. These policies were introduced in 2009 and the table below gives the trends of male: female promotions over the last few years:

| Year | Females Promoted | Males Promoted |
|------|------------------|----------------|
| 2015 | 47% | 53% |
| 2014 | 45% | 55% |
| 2013 | 43% | 57% |
| 2012 | 47% | 53% |
| 2011 | 56% | 44% |
| 2010 | 35% | 65% |
| 2009 | 30% | 70% |
| 2008 | 26% | 74% |

As illustrated by the table, specific policies on these aspects need to be introduced and the trends and statistics need to be monitored to ensure that the intended impact is being achieved. Kashf measures the impact of its human resources policies through the following tools:

These initiatives are part of a larger pool of diversity-management strategies aimed at creating a gender inclusive work-

Mapping
Gender
ratios across
tiers

Mapping Staff
Retention

Mapping
the %age of
employees
with a female
boss

Mapping
promotions
by gender

Studing
climate survey
outcomes

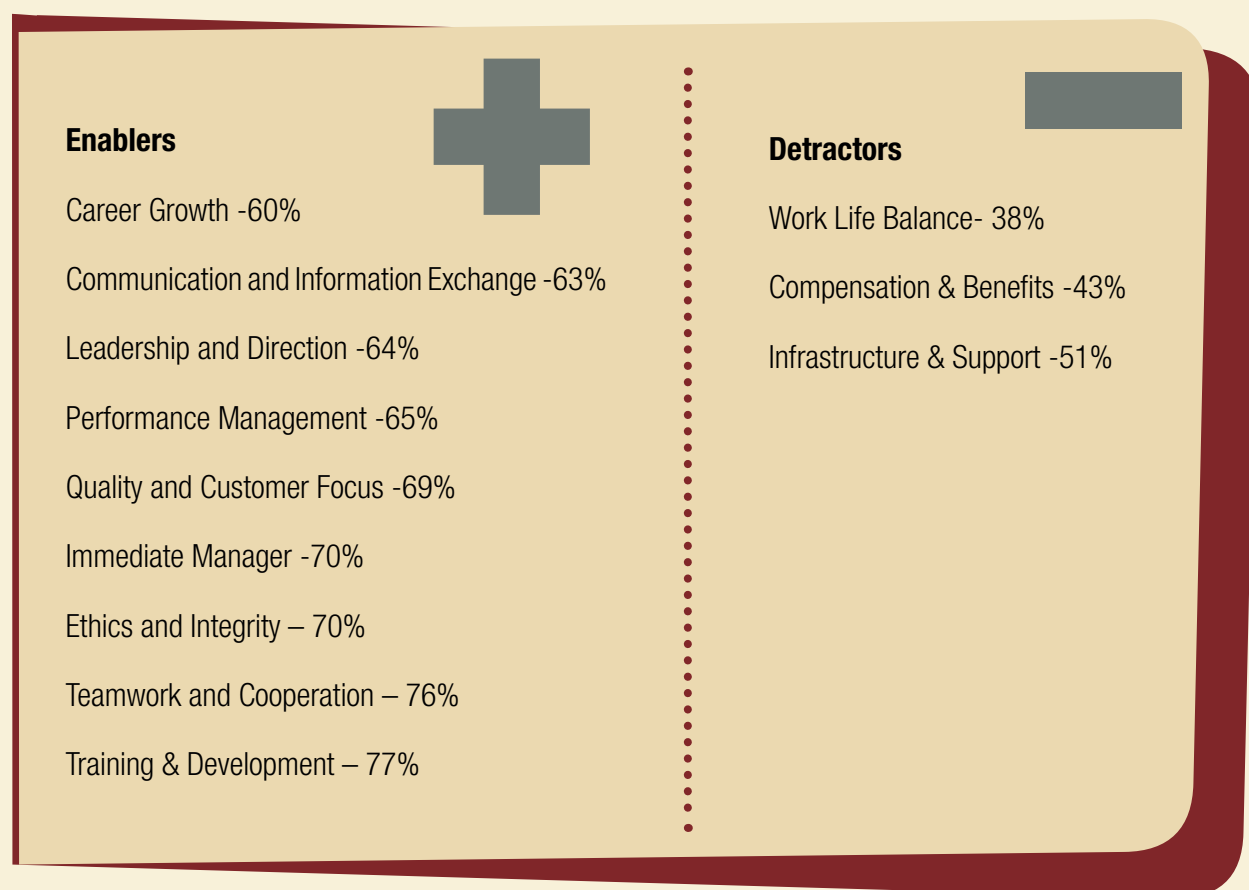
Reviewing
staff exit data
segregated by
gender

force at Kashf Foundation. Beginning with recruitment, Kashf ensures that it hires locally and that both men and women are considered and hired for all available positions, depending on the gender-ratio of the tier for which the hiring is being undertaken; e.g. if the hiring is being undertaken for the Business Development tier where the gender ratio is 50:50, the gender split of the hiring will also be 50%.

With respect to staff development, Kashf ensures that both female and male staff members are well-prepared for the responsibilities set out for them in current and new roles through learning/training needs assessments which are undertaken at a bi-annual basis to identify gaps and to enable the training team to create relevant content and trainings for staff. Staff is also sent on local and international trainings and exposure visits to help build their knowledge and skill-set vis-à-vis micro-credit and innovations in product and process design. Kashf also runs numerous initiatives for staff retention, such as specialized programs for staff recognition and performance, face-time with management through staff conferences and events, internal promotions and growth (both horizontal and vertical), and ensuring that an enabling work environment, which is free from harassment, nepotism and inequity, is provided to all staff.

The figure below shows the climate survey outcomes for 2016

To address the detractors, areas where less than 60% of the staff has given a favorable response, Kashf is undertaking



the following:

- Initiatives for Married Female Staff Members including 'Not-Without-My-Mother-in-Law', Baby spaces at branches and Head Office, flexible hours
- Initiatives for Work-Life Balance including monitoring of late branch closing, communication and awareness on mandatory leave policy.
- Compensation related initiatives including right-sizing of travelling allowance, increase in health insurance limits, and alignment of incentive policy.
- Infra-structure related initiatives including brand re-branding exercise and branch furniture upgradation.

Kashf's human resource management strategies are thus effective in maximizing individual contributions and leveraging on existing talents to support strategic objectives. Kashf's HR policies have also been commended by the SMART Campaign assessment and SPI 4 Audit that Kashf has recently undertaken. The big lesson from human resource management though is that MFIs need to continue to innovate and introduce policies that help their staff develop and excel. These policies need to be assessed for their efficacy in meeting institutional goals. Approaches cannot be replicated across the board and with a growing branch network Kashf is looking to contextualize its policies across the varying cultures it is working with respect to both clients and staff.

(Endnotes)

- 1 Adapted from CGAP (2003) Helping to Improve Donor Effectiveness in Microfinance: The Impact of Microfinance
- 2 This has been increased to USD 3.10 by the WDR and will be reflected in client acquisition criteria in the coming years
- 3 PPAF (2012) Assessment of Measuring Impact of PPAF Interventions using Pakistan Poverty Scorecard
- 4 Kashf Foundation (2016) Social Performance Dashboard
- 5 Gonzalez (2010), Microfinance Synergies and Trade-offs: Social versus Financial Performance Outcomes in 2008, MIX Data Brief No. 7

KASHF SUPPORTERS

Kashf would like to thank the following organizations for their continuing generosity and commitment to Kashf's mission and vision in this year.





A COMPANY SET UP UNDER SECTION 42
OF THE COMPANIES ORDINANCE 1984

Financial Statements for the year ended 30 June, 2016



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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 2016 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 the 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 except for the change in accounting policy as referred to in note 4.1 with which we concur;
 - 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 2016 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).

Lahore
Date: 07 October 2016



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

Balance Sheet

As at 30 June, 2016

| | Note | 2016 Rupees | 2015 Rupees |
|-------------------------------------------------------|------|----------------------|----------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Operating fixed assets | 5 | 379,135,446 | 304,261,545 |
| Capital work-in-progress | 6 | 186,605,483 | 95,497,760 |
| Intangible assets | 7 | 253,766 | 761,305 |
| Long term investments | 8 | 195,000,000 | 840,000,000 |
| Long term loans - considered good | 9 | 261,239,935 | 216,196,348 |
| Long term Micro-credit loan portfolio | 10 | 14,147,584 | 2,490,543 |
| Long term deposits | | 463,360 | 5,270,200 |
| | | 1,036,845,574 | 1,464,477,701 |
| Current assets | | | |
| Micro-credit loan portfolio | 11 | 4,363,483,196 | 4,359,335,148 |
| Kashf Murabaha | 12 | 139,097,188 | 117,976,522 |
| Short term investments | 13 | 432,275,052 | 343,730,919 |
| Advances, deposits, prepayments and other receivables | 14 | 101,641,010 | 139,854,078 |
| Accrued service charges | | 70,728,681 | 70,561,263 |
| Accrued Murabaha profit | | 50,194 | - |
| Cash and bank balances | 15 | 1,225,894,209 | 514,869,815 |
| | | 6,333,169,530 | 5,546,327,745 |
| Total assets | | 7,370,015,104 | 7,010,805,446 |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Donated funds | 16 | 206,585,110 | 195,960,238 |
| General funds | | 1,080,175,246 | 402,733,477 |
| Loan loss reserve | | 68,220,915 | - |
| Grants related to fixed assets | | 12,815,689 | 16,059,256 |
| Fair value reserve | | 5,602,475 | 5,397,586 |
| | | 1,373,399,435 | 620,150,557 |
| Surplus on revaluation of land | 17 | 201,647,080 | 131,598,330 |
| Non-current liabilities | | | |
| Borrowings from financial institutions and others | 18 | 1,965,127,183 | 2,998,790,396 |
| Current liabilities | | | |
| Current maturity of non-current liabilities | 19 | 3,510,544,901 | 2,916,929,478 |
| Short term borrowings | 20 | 59,530,178 | 51,838,681 |
| Capacity building grants | 21 | 28,553,713 | 48,362,558 |
| Other grants un-utilized | 22 | 350,565 | 350,565 |
| Advance Murabaha Income | | - | 86,196 |
| Accrued markup | 23 | 115,020,235 | 150,155,172 |
| Trade and other payables | 24 | 115,841,814 | 92,543,513 |
| | | 3,829,841,406 | 3,260,266,163 |
| Contingencies and commitments | 25 | | |
| Total equity and liabilities | | 7,370,015,104 | 7,010,805,446 |

The annexed notes 1 to 40 form an integral part of these financial statements.

07 OCT 2016

07 OCT 2016

Lahore



Chief Executive



Director

Statement of Income and Expenditure

For the year ended 30 June, 2016

| | Note | 2016 Rupees | 2015 Rupees |
|---------------------------------------------------------------|---------------|----------------------|----------------------|
| Service and other charges on micro-credit loan portfolio | 26 | 1,904,471,196 | 1,594,299,085 |
| Profit on Kashf Murabaha | | 53,004,116 | 32,487,860 |
| Return on investments and bank deposits | 27 | 128,606,906 | 159,936,153 |
| Other income | 28 | 49,962,308 | 35,110,744 |
| | | <u>2,136,044,526</u> | <u>1,821,833,842</u> |
| Less: | | | |
| Finance cost | 29 | (562,273,322) | (640,629,630) |
| | | <u>1,573,771,204</u> | <u>1,181,204,212</u> |
| Less: Operating expenses | | | |
| General and administrative expenses | 30 | (879,021,516) | (805,702,866) |
| Impairment on loan to associate | 9 | - | (87,337,348) |
| Seminar, workshop, research and staff training expenses | | (8,056,757) | (8,433,011) |
| Reversal/(Provision) of loan loss | 11.5 & 12.1.2 | 25,326,943 | (20,286,630) |
| | | <u>(861,751,330)</u> | <u>(921,759,855)</u> |
| Capacity building grants recognized as income - core business | 21.1 | 20,619,862 | 50,176,258 |
| | | <u>732,639,736</u> | <u>309,620,615</u> |
| Add: Non operating income | | | |
| Capacity building grant - non core business | 21.1 | 187,626,665 | 125,377,602 |
| Other income | 31 | 4,295,126 | 11,193,994 |
| | | <u>191,921,791</u> | <u>136,571,596</u> |
| Less: Non operating expenses | | | |
| Capacity building grant - non core business | 32 | (182,884,376) | (125,067,570) |
| Surplus for the year | | <u>741,677,151</u> | <u>321,124,641</u> |

The annexed notes 1 to 40 form an integral part of these financial statements.

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07 OCT 2016

Lahore



Chief Executive



Director

Statement of Comprehensive Income

For the year ended 30 June, 2016

| | 2016 Rupees | 2015 Rupees |
|----------------------------------------------------------------|--------------------|--------------------|
| Surplus for the year | 741,677,151 | 321,124,641 |
| Items that will not be reclassified to profit and loss account | | |
| Fair value gain on available-for-sale investment | 204,889 | 384,867 |
| Total comprehensive income for the year | <u>741,882,040</u> | <u>321,509,508</u> |

The annexed notes 1 to 40 form an integral part of these financial statements.

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07 OCT 2016

Lahore



Chief Executive



Director

Statement of Changes in Funds

For the year ended 30 June, 2016

| | Donated funds | General funds | Reserve for loan loss | Grants related to operating fixed assets | Fair value reserve | Total |
|---------------------------------------------------------|---------------|---------------|-----------------------|------------------------------------------|--------------------|---------------|
| | Rupees | | | | | |
| Balance as at 30 June 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 | 620,150,557 |
| Balance as at 01 July 2015 | 195,960,238 | 402,733,477 | - | 16,059,256 | 5,397,586 | 620,150,557 |
| Assets recognized during the year | - | - | - | 741,966 | - | 741,966 |
| Grants related to fixed assets utilized | - | 3,985,533 | - | (3,985,533) | - | - |
| Fair value gain on available-for-sale investment | - | - | - | - | 204,889 | 204,889 |
| Surplus for the year | - | 741,677,151 | - | - | - | 741,677,151 |
| | - | 741,677,151 | - | - | 204,889 | 741,882,040 |
| Micro credit loan portfolio recognized | 10,624,872 | - | - | - | - | 10,624,872 |
| Transferred from general funds to reserve for loan loss | - | (68,220,915) | 68,220,915 | - | - | - |
| Balance as at 30 June 2016 | 206,585,110 | 1,080,175,246 | 68,220,915 | 12,815,689 | 5,602,475 | 1,373,399,435 |

The annexed notes 1 to 40 form an integral part of these financial statements.

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07 OCT 2016

Lahore



Chief Executive



Director

Cash Flow Statement

For the year ended 30 June, 2016

| | Note | 2016 Rupees | 2015 Rupees |
|------------------------------------------------------------------------------|------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Surplus for the year | | 741,677,151 | 321,124,641 |
| Adjustments for non cash items: | | | |
| Depreciation on operating fixed assets | | 9,368,535 | 9,312,657 |
| Amortization on intangibles | | 507,539 | 507,539 |
| Impairment on loan to associate | | - | 87,337,348 |
| Capacity building grants recognized as income | | (208,246,527) | (175,553,860) |
| Return on investments and bank deposits | | (128,606,906) | (159,936,153) |
| Accrued mark up recoverable on long term loans | | (45,043,587) | (29,906,668) |
| Amortization of transaction costs of commercial borrowings | | 33,805,016 | 177,95,032 |
| Finance cost | | 528,468,306 | 622,834,598 |
| (Gain) on disposal of fixed assets | | (33,715) | (1,752,802) |
| Provision against doubtful receivables | | 160,186 | 7,361,276 |
| Reversal/(provision) of loan loss provision | | (25,326,943) | 20,286,630 |
| | | 165,051,904 | 398,285,597 |
| Surplus before working capital changes | | 906,729,055 | 719,410,238 |
| Effect on cash flow due to working capital changes | | | |
| (Increase)/Decrease in loan portfolio | | (11,598,812) | (821,668,434) |
| Decrease/(Increase) in Accrued service charges | | (303,808) | (13,399,518) |
| (Increase)/Decrease in advances, deposits, prepayments and other receivables | | (31,227,026) | (32,048,131) |
| Increase /(Decrease) in trade and other payables | | 21,484,725 | 44,682,893 |
| (Decrease)/Increase in borrowers' security deposits | | 1,813,576 | (3,388,518) |
| | | (19,831,345) | (825,821,708) |
| Cash used in operations | | 886,897,710 | (106,411,470) |
| Finance cost paid | | (563,603,243) | (551,671,313) |
| Net cash used in operating activities | | 323,294,467 | (658,082,783) |
| Cash flow from investing activities | | | |
| Fixed capital expenditure | | (105,623,110) | (48,611,093) |
| Sale proceeds from disposal of fixed assets | | 355,416 | 4,415,788 |
| Long term deposits | | 4,806,840 | 0 |
| Return on investments and bank deposits | | 197,886,815 | 103,716,078 |
| Long term investment - net | | 645,000,000 | (760,000,000) |
| Short term investment - net | | (88,339,244) | 31,281,800 |
| Net cash (used in) / generated from investing activities | | 654,086,717 | (669,197,427) |
| Cash flow from financing activities | | | |
| Capacity building grants | | 199,804,520 | 166,639,123 |
| Transaction costs paid for borrowings | | (6,097,945) | (33,824,002) |
| Proceeds from borrowings | | 3,644,825,475 | 3,335,000,000 |
| Repayments of borrowings | | (4,112,580,337) | (2,078,321,389) |
| Net outflow from financing activities | | (274,048,287) | 1,389,493,732 |
| Net increase in cash and cash equivalents | | 703,332,897 | 62,213,522 |
| Cash and cash equivalents at the beginning of the year | | 463,031,134 | 400,817,612 |
| Cash and cash equivalents at the end of the year | 33 | 1,166,364,031 | 463,031,134 |

The annexed notes 1 to 40 form an integral part of these financial statements.

07 OCT 2016

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Lahore



Chief Executive



Director



A COMPANY SET UP UNDER SECTION 42
OF THE COMPANIES ORDINANCE 1984

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