Annual Report 2020

Kashf FOUNDATION

Annual Report 2019-2020

ABOUT KASHF FOUNDATION

Kashf a registered Non-Banking Micro Finance Company which is regulated by the Securities and Exchange Commission of Pakistan. Set up in 1996 as the first specialized microfinance institution of Pakistan Kashf has successfully carved out a distinct and unique niche for itself in the microfinance sector by offering a suite of innovative and transformative products and services to low-income households especially women. Kashf offers appraisal backed individual lending to its clients along with nonfinancial services to create a transformative impact at the household level. Kashf believes in creating an enabling environment for women micro-entrepreneurs and is committed to creating products and services driven by client needs and demands which leverage on experiences of successful programs from across the world. Kashf's main spheres of intervention include (1) Financial Services, (2) Insurance and Safety Nets, (3) Capacity Building Trainings, and (4) Social Advocacy Interventions. Run by a senior and competent Management Team under the guidance of a diverse and capable Board of Directors Kashf ensures transparency, equity, and gender mainstreaming not just through its programmatic interventions but also across the institution. With a 50% gender ratio at all staff tiers Kashf demonstrates best practice in gender diversity and leadership development.

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Kashf
FOUNDATION

Vision

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

Mission

"Serving all with dignity by providing high quality and sustainable microfinance services to low-income families and micro-entrepreneurs to enhance financial capabilities, alleviate household poverty and enable all, especially women, to become active agents of social and economic change".

Kashf
FOUNDATION

Core Values

Commitment to service with integrity and responsibility:
Kashf Foundation ensures that all interactions with clients and amongst staff are based on honesty and mutual dignity with the aim of espousing integrity across the board and meeting all promises as per commitments.

Commitment to merit, diversity, dignity of all and team-work:
Kashf Foundation believes in team work and dignity at the workplace which includes mutual respect and care for each other along with ensuring equal opportunities and a fair and transparent appraisal mechanism with access to adequate re-dressal channels.

Commitment to innovation in products and processes:
Kashf Foundation believes in learning, adapting and growing thereby responding positively to change.

Commitment to institutional and client level 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.

Commitment to transparency and fiduciary responsibility:
Kashf Foundation ensures the highest level of quality in all outputs with the aim of being market leaders. Kashf ensures customer satisfaction through a respectful and professional attitude and aims towards a problem solving approach in all actions. Kashf conducts all its activities with complete transparency and high level of accountability for all its business practices.

Commitment to social and environmental responsibility:
Kashf Foundation is committed to a long-term sustainable approach to caring for and safeguarding the environment. Kashf constantly endeavors to balance environmental and social responsibility with its business goals.

Kashf FOUNDATION

Corporate Information

Board of Directors
Dr. Attiya Inayatullah, Chairperson
Mr. Syed Asim Zafar, Director
Mr. Tajammal Hussein, Director
Mr. Syed Hassan Iqbal, Director
Ms. Rabia Khan, Director
Mr. Amjad Ali Arbab, Director
Ms. Fatima Asad-Said, Director
Dr. Mehjabeen Abidi Habib
Mr. Arif Masud Mirza

Board Committees
Board Credit, Program and Finance Committee
Mr. Asim Zafar – Chair
Mr Amjad Arbab – Member
Dr. Mehjabeen Abidi Habib – Member

Board Audit Committee
Mr. Tajammal Hussein - Chair
Mr. Syed Hassan Iqbal – Member
Ms. Fatima Asad-Said – Member

Board Investment Committee
Mr. Tajammal Hussein - Chair
Mr. Syed Hasan Iqbal – Member
Ms. Fatima Asad-Said – Member

Board Human Resources Committee
Ms. Rabia Khan – Chair
Ms. Fatima Asad-Said – Member
Mr. Arif Masud Mirza - Member

Chief Financial Officer
Mr. Shahzad Iqbal

Company Secretary
Ms. Saira Soofi

Auditors
Deloitte
134-A, Abubakar Block,New Garden Town,
Lahore, Punjab
Phones: + 92 (0) 42 35913595-7
Fax: + 92 (0) 42 35864021
Web: https://www2.deloitte.com/pk/en.html

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

Tax Advisors
KPMG Taseer Hadi & Co
Chartered Accountants
351 Shadman-1, Jail Road, Lahore
Tel: +92(42) 111-576-484

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Shahrah-e-Nazaria-e-Pakistan,
Lahore,
Pakistan
Phone: +(92-42) 35248901-25
Website:www.kashf.org


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Board of Directors

Dr Attiya Inayatullah – Chairperson

Dr. Attiya Inayatullah is globally recognized for her work in the fields of international relations, human rights, women's empowerment, population planning and social welfare. She has served as Federal Minister for Women's Development, Population Planning and Social Welfare three times. As the longest serving woman parliamentarian she has a record of initiating women and child related legislation. She has also served as the Chairperson/President of International Planned Parenthood Federation for a decade.

Mr Syed Asim Zafar – Director

Mr. Asim Zafar has served as the Chairman of South Asian Federation of Exchanges (SAFE), Chairman of the Lahore Stock Exchange and as a member of the board of Directors of the Lahore Stock Exchange (LSE), Zafar Securities, National Commodity Exchange and World Call Multi Media. Mr. Zafar has been pivotal in professionalizing and improving the performance of the Lahore Stock Exchange in his three terms as its Chair. Mr. Zafar holds a degree in Nuclear Engineering from Purdue University, USA and an MBA from Virtual University Pakistan.

Mr Tajammal Hussain – Director

Mr. Tajmmal Hussain is a Chartered Accountant with extensive experience and in-depth knowledge of business processes in a wide range of sectors including information technology, manufacturing, financial services, education and charities. Mr. Hussain is a partner of his own Accounting firm, Fakhruddin Yousafali and Company since 1991. He is a graduate of Cambridge University, London School of Economics and trained to be a Chartered Accountant with Arther Andersen & Co., London.

Mr Syed Hassan Iqbal – Director

Mr. Hassan Iqbal has a Bachelors Degree of Chemical Engineering from Punjab University Lahore. He has worked with the ZELIN (PVT) Limited as an Assistant Manager Sales and has worked with the Mian Ghulam Mohiuddin (Individual Member, Lahore Stock Exchange) as a Managing Partner. Currently he is working in MGM Securities as a Nominee Director.

Ms Rabia Khan – Director

Ms. Rabia Khan is a lawyer by profession and also holds a Masters Degree in Policy and Management from the Carnegie Mellon University, USA. She has worked in the field of gender and development for many years with the Canadian International Development Agency (CIDA) and has also worked with the International Union for the Conservation of Nature (IUCN) on sustainable development. Currently, Ms. Khan works as a freelance consultant and is based in Karachi.

Mr Amjad Ali Arbab - Director

Mr. Amjad Arbab has been working in the development and commercial banking sectors for the past 30 years, with a focus on financial inclusion, SME, Agriculture and digital finance. Until recently he served as Senior Advisor, South Asia with CGAP/ World Bank. Prior to this, he served as Regional Director at Enclude and has also been the CEO of the Microfinance Investment Support Facility for Afghanistan (MISFA). He was also a founding member of the management team of the Bank of Khyber in Pakistan's Khyber-Paktunkhwa Province. In addition, he has served in senior positions with the Aga Khan Rural Support Program and the Agricultural Development Bank of Pakistan. Amjad Arbab holds a Masters in International Relations from The Johns Hopkins University/SAIS, Washington DC as well as a Masters in Political Science from the University of Peshawar.

Ms. Fatima Asad-Said – Director

Ms. Fatima Asad-Said is an integral member of the top leadership at Abacus Consulting, a leading international professional services firm. She is the CEO of AbacusELS (a subsidiary of Abacus Consulting) offering HR outsourcing solutions, and responsible for strategically managing the alliance partnership with Mercer, a leading global HR consulting firm. She has over twenty years of change management, organizational structuring and human capital development experience through strategic formulation and project management roles. After an MBA from LUMS, she started her career with Coopers & Lybrand International and then moved to PricewaterhouseCoopers before joining Abacus Consulting.

Dr. Mehjabeen Abidi Habib

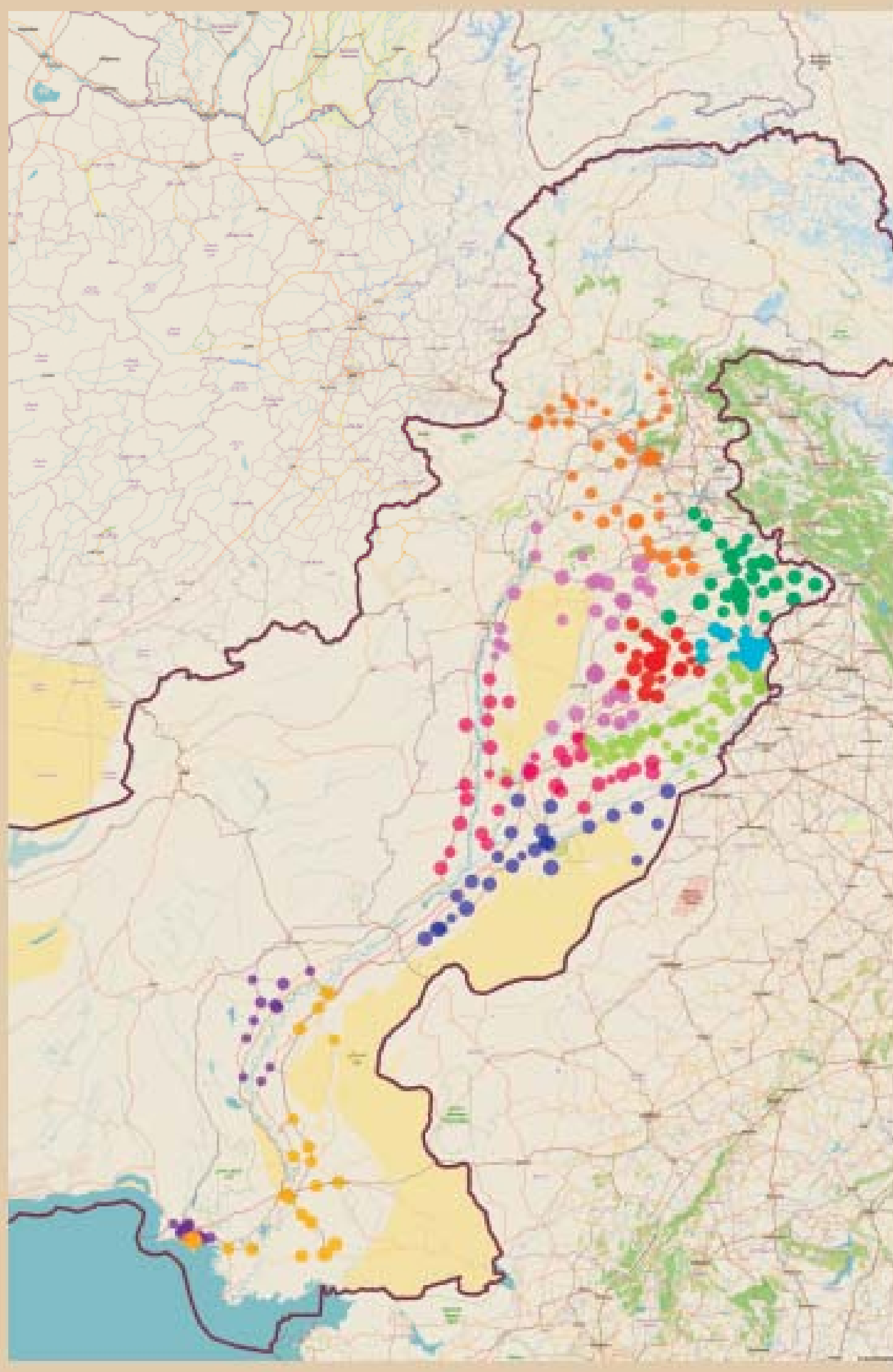
Dr. Mehjabeen is a social ecologist and scholar of institutional innovations that change society based on social context, leadership, and adaptation in law and policy. In 2011, she completed her PhD on Resilience which was conferred by Government College University Lahore, with a fellowship to the University of Oxford; its research was awarded the international 2007 Science and Society Award by the Resilience Alliance.Currently she is a Board Director of the Lahore Museum; she has been a Board member of the Lahore Waste Management Company, National Steering Committee on REDD+, a Board member of the Lahore Zoo Advisory Committee, a Board member of the Soan Valley Development Programme in district Khushab and Advisor to the Pakistan Girl Guides Association.

Arif Masud Mirza-Director

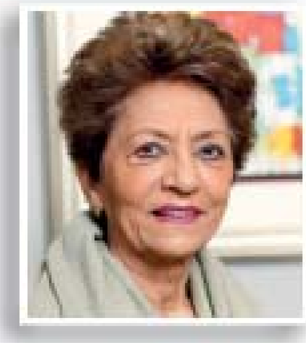
Mr. Arif Masud Mirza is a chartered accountant by profession and the Regional Head of Policy for ACCA MENASA (Middle East North Africa and South Asia) of the Association of Chartered Certified Accountants since 2014. Mr. Masud has headed senior positions at various organizations; he was the CEO/Head of ACCA Pakistan of the Association of Chartered Certified Accountants and Manager Finance & company secretary at International Investment Bank Ltd.

Geographical Outreach

Kashf Foundation currently operates in 37 districts of Punjab, 14 districts in Sindh, 8 districts in KPK and 1 district in Balochistan through a network of more than 300 branches.



Chairman's Message



Dear Friends and Supporters of Kashf,

This past year has been the first of its kind; the entire world has been brought to a standstill by Covid 19 however, despite the socio-economic disorder and uncertainty, Kashf has continued to stand tall in the face of adversity. This is a testament to its persevering commitment to low-income women micro-entrepreneurs as well as its adaptable leadership that is continuing to lead it through these uncertain and unprecedented times. In light of the economic shutdown brought upon by Covid Kashf was quick to respond to the needs of its clients by rescheduling all loans for the month of April 2020 and also introducing a relief program through the provision of ration packages to the most vulnerable clients. Kashf also restarted its disbursements in May 2020 and was able to fund micro-businesses that needed recapitalization.

In the year, Kashf has made disbursements of over PKR 21.30 billion to over 440,000 clients. It closed June 2020 at 104.00% OSS, 97.42% FSS and 80:20 debt to equity ratio.

Kashf's inspiration in these times has been the Kashf clients that have demonstrated exemplary resilience. According to a research undertaken by Kashf, an overwhelming majority of clients had a positive outlook for the future and over two-thirds of them were confident that they would be able to take their businesses back to their original levels within 2 months of the lock-down ending. Kashf's success and perseverance during these unprecedented times would not have been possible without the commitment and versatility of my fellow Board Members, and the efforts put in by the management team and the field staff.

Additionally, the help and support of Kashf's partners has been especially critical and highly valuable in light of the unique set of circumstances brought forth due to Covid 19. I would like to thank all lenders and stakeholders for continuing their partnerships with Kashf and supporting the Kashf mission and vision.

Regards
Dr. Attiya Innayatullah
Chairman
Board of Director
Kashf Foundation

Managing Director's Message

Dear Friends of Kashf,

As I look back at the last year, I am reminded of a quote from Nassim Taleb's book on Black Swan: The Impact of the Highly Improbable: "You think that the loss of your fortune or current position will be devastating, but you are probably wrong. More likely, you will adapt to anything, as you probably did after past misfortunes."

2020 will be known in history as the year of Covid 19; a virus that has impacted the entire world and challenged the economic, social and political status quo. But it will also be known as the year of adaptation and resilience. It has been heartening and encouraging to see the world change and adjust itself to the 'new normal'. Starting from Kashf itself, it was for the first time since inception that we were able to have the entire workforce "work from home" during the lock-down period, something which hitherto had always seemed unthinkable. The "work from home" environment has made us all re-consider the dimensions of the work place, and this will definitely have an impact on the way future organizations plan and sustain their work force.

Kashf, along with microfinance providers across Pakistan, has also been able to adapt business processes, create flexibilities, and make customizations at the client level. To better cope with the effects of Covid 19, Kashf has followed a 'Don't Leave any Client behind' approach, which essentially entails providing clients with options of rescheduling, restructuring, and recapitalization based on their individual circumstances. Alongside, Kashf has also started a training program entitled 'Don't let Corona happen to your Business', which looks at engaging with clients to help them re-think their business models.

The shining stars of adaption have, however, been Kashf's women micro-entrepreneurs. Just a few weeks back, I met Shazia Baji in the field in Gujranwala. She had been a Kashf client for the past 7 years and ran a thriving adda (hand embellishment) business. However, adda businesses were impacted severely by Covid; markets had shut down so there was no place to sell her products, and even after the lockdown ended, product demand sharply declined due to reductions in consumer spending on non-essential items. Within a week of the lock-down, Shazia Baji had realized that she would have to diversify, so she used her savings to invest in purchasing toy cars and stickers. During the lock-down, she along with her family started pasting stickers on toy cars and supplying them to the local shops, as she realized (from her own experience of being a mother and grandmother) that the demand for children's toys is almost inelastic!

For Kashf, the coming year will be focused on client centric innovations and flexibilities, with respect to business processes and new products to help clients and their businesses recover from the impact of Covid 19. The road ahead may seem uncertain, but I am confident that with the continued guidance of Kashf's board of directors, support of our investors and funders, and the hardwork of Kashf staff we will be able to lead all our clients onto the road to rehabilitation and success.

As we truly believe, in every crisis there lies an opportunity for transformation!

Regards
Roshaneh Zafar
Managing Director
Kashf Foundation

KASHF FOUNDATION

SOCIAL PERFORMANCE DASHBOARD – JUNE 2020

Kashf has the largest micro-insurance market share and 5th largest active clients market share

Loan Utilization Snapshot

- 63% loans used in Female Led Business
- 32% loans used in Male Led Business
- 5% loans used in Family Business
- 91% loans used for Business Purposes

Program Scale

- Active Outreach - 495,893
- Health Insurance Policyholders 1.32M
- Cumulative Non Financial Services Program Beneficiaries 39,435

Customer Care

- 98% clients are satisfied by customer care
- 83% clients are satisfied by services and delivery channels
- 64% of clients stated an 80% chance of recommending KF to others
- 87% staisfied by pricing
- 0.36% reported a violation of Consumer Protection Code

Program Focus & Segmentation

Regional Segmentation;
Rural: 37%, Semi Urban: 29%, Urban: 34%
Segmentation by type;
Business Loans: 92%, Emergency: 7%, Ultra-Poor Loans: 0.10%, Low-cost Schools: 1.14%
HH Segmentation for
PSC: PSC 16 - 30: 11%, PSC 31 - 40: 46%, PSC>40:43%

Credit Burean Checks Performed for 100 % clients

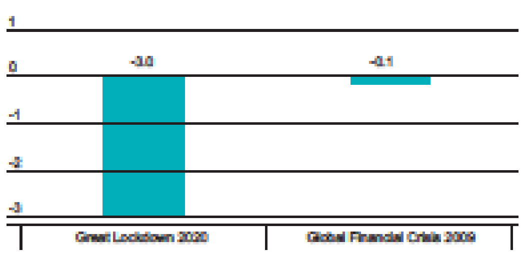
The Impact of Covid 19

Covid 19 has led to an unprecedented global crisis with losses not only with respect to health but also at the economic, social and political level. There has been a cascading collapse of production, financial, and transportation systems, due to a vicious combination of supply and demand shocks.

Covid linked restrictions on movement of people and goods, along with containment measures such as business closures have sharply cut demand across the world. Economies of countries and sub-regions within countries have also been negatively impacted due to restrictions on business travel and tourism. Early stage analysis by the OECD[1] predicted that the initial direct impact of the shutdowns could be a decline in the level of output of between one-fifth to one-fourth in many economies with consumer expenditure potentially dropping by around one-third. This decline is far greater than that experienced during the 2008-2009 financial crisis.

The Great Lockdown
The world economy will experience the worst recession since the Great Depression.

(real GDP growth, year-on-year percent change)



Source: IMF, World economic Outlook

INTERNATIONAL MONETARY FUND

According to the World Bank, another alarming impact of Covid 19 will be that for the first time since 1998 global poverty rates are expected to rise as economies across the world fall into recession[2]. The World Bank[3] predicts that most of the progress made in poverty alleviation at the global level in the past 5 years will be reversed as a result of Covid 19 and 40 million to 60 million people will fall into extreme poverty (under $1.90/day) in 2020. Moreover, the percentage of people living on less than $3.20 a day could rise by 0.3 - 1.7 percentage points, an increase of about 40 million to 150 million people.

The Covid 19 pandemic and measures to counteract it disproportionately affect poorer people. Low-income individuals often work in the informal economy with limited or no options for working remotely and have thus had to forego earnings as result of missing work due to illness, quarantine, or government mandated closures. Micro-businesses with elastic demand and those that require high degree of contact with a range of customers such as transport, beauty salons, food set-ups and door to door retailers have also been impacted more by anti-Corona measures. Informal workers that make up 60% of employment globally and 90% across all sectors (besides agriculture) in developing countries have suffered massive layoffs due to the supply-demand shocks.

Moreover, women have been affected worse by the effects of the pandemic. The Institute of Women's Policy Research has called the recession stemming from Covid 19 a 'she-cession'. Women from both the formal and informal sector have been impacted.

[1] OECD Interim Economic Outlook March 2020

[2] World Bank, April 2020
[3] Ibid

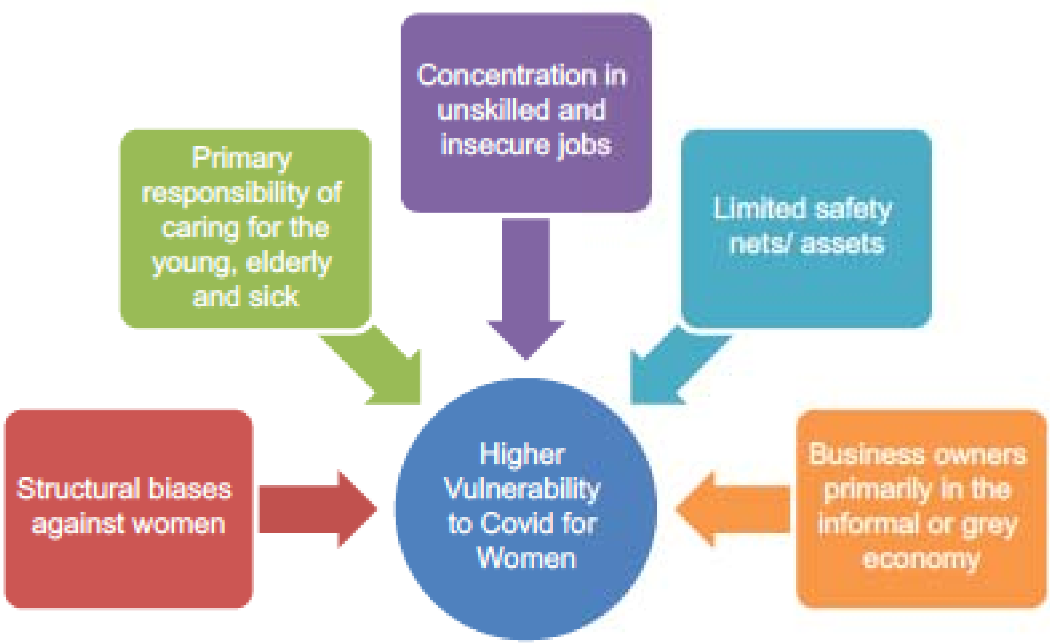
According to the ILO, there are 3.3 billion workers worldwide of whom 2bn work in the informal sector and in developing countries. Due to lockdowns and reduced demand, over 50pc of such workers have either lost their jobs or are at risk of losing them. Women workers are concentrated in low-value, unskilled and insecure jobs. In South Asia alone, 85pc of women who work are employed in the 'grey' economy. This leaves them without the protection of labor laws including job security, paid sick leave and child care. Women rely on such jobs as they lack the education and requisite skills that are necessary for them to compete with men for employment in the formal sector[4].

Small and medium enterprises (SMEs) with under 20 employees have been hit the hardest during the pandemic, and because women are more likely to own newer and smaller businesses, they are most affected. During the pandemic, 40.6 percent of small businesses in Canada had to lay off employees. Among them, women-owned businesses laid off a disproportionately higher percentage of their workers — 62 per cent laid off 80 per cent of their employees, which is much higher than the 45 per cent observed for most businesses[5].

In the formal sector women accounted for over 55% of the 20.5 million jobs lost in April 2020 alone[6]. The industries hit most by Covid 19 include leisure, hospitality, and education, which are disproportionately women oriented[7].

Moreover, the closure of schools, daycares and summer camps have had a compounded impact on women; on one hand, working women have been negatively impacted due to increased childcare burden during remote working. While on the other hand, schools, daycares and summer camps have greater number of women employed who have faced cutbacks in wages/salaries and/or completely lost their jobs. Furthermore, women from low-income households who are working in more menial roles such as cleaning staff have been laid off compared to their white collar counterparts[8].

Women across the economic spectrum have been contending with varying degrees of challenges and set-backs, those that have been the most negatively impacted have been the low-wage workers, small business owners, and women micro entrepreneurs.



[4]Roshaneh zafar, Covid and Shecession-Dawn (2020)
[5]Department of Statistics-Government of Canada. https://www150.statcan.gc.ca

[6]Bureau of Labor Statistics
[7]Penn Wharton Budget Model
[8]New Republic

Microfinance and Covid 19

During and after the coronavirus pandemic, financial inclusion is more critical than ever. As mentioned earlier, low-income families, especially women have been acutely vulnerable to the health and economic impact of a global pandemic. The microfinance industry across the world has been stepping up to the challenge of helping their clients build their lives back.

As a first response to Covid 19, microfinance institutions were focused around protecting clients and staff members and trying to control the local transmission of Covid 19 in their communities. Many microfinance institutions initiated awareness campaigns at the community level to provide information on how Covid 19 spreads and what can be done at the individual and family level to control its spread. Microfinance institutions made efforts to augment the public service campaigns being run by the government through numerous initiatives including creation of visual content in local languages, telephonic follow-ups with clients on safety protocols, and dissemination of pamphlets on safety measures.

At the same time microfinance providers were also focused on increasing safety measures at branches and instituting Covid 19 SOPs for staff interaction with each other and with clients. Educational campaigns were supplemented by provision of necessary gear and supplies such as masks, gloves, sanitizers, and disinfectants.

Microfinance and Relief Efforts

Being one of the few organizational structures with deep connections to low-income households, microfinance institutions have also been at the forefront of provision of relief to households impacted by Covid 19. This has included provision of food rations to the most vulnerable groups whose incomes and businesses had completely stalled as a result of the government mandated lockdowns. Some microfinance institutions have teamed up with the Government and provided relief on the Government's behalf, while others have mobilized their own resources to undertake similar relief drives.

Flexibilities at the Client Level

Microfinance institutions have also created flexibilities and customizations for their clients based on the degree of support required. Many microfinance institutions stayed in touch with their clients during the lock-downs and tried to assess the situation of their clients. This included not just an analysis of their micro-enterprises but also an analysis of how other sources of income had been impacted by Covid 19. Based on client assessment and needs most microfinance institutions provided flexibility in repayments collection.

While some institutions removed penalties with late payments or partial payments, some institutions actually provided clients with a one month relief on their loans by extending the loan tenures without any increase in the services charges due on the loan. In the context of customization of options, group lending models were disadvantaged as most group lending microfinance institutions do not track client level transaction or business data. This has made customization of options more difficult: as an illustration, solidarity lending groups often have members that have invested in different kinds of businesses but since group lending models transact with the entire group as one entity they are unable to customize options for group members who may be impacted to different degrees by the pandemic.

This has limited the kind of support these entities can provide to individual clients. At the policy level, this has created a debate around the need for tracking key information metrics for group lending models.

Post Lock Down Options Given by Microfinance Providers

Clients with Running Businesses	Clients with Illiquid Businesses	Clients with Insolvent Businesses
Rescheduling	Rescheduling	Rescheduling
Adjustment (if needed) in loan tenure	Business Trainings	Customized payment plans
Business Trainings	Top up loans	Recapitalizations loans with longer tenures
	Recapitalization Loans	

Back-to-Business Strategies

As shut-downs have ended and economic activities have resumed to some extent, individual lending programs have been able to create rehabilitation strategies for their clients based on their levels of resilience to the crisis. Resilience has depended on multiple factors:

1. The kind of business being run by clients as some clients have been able to bring their businesses back into operation faster than others – these include businesses in the essential sectors, intra-city transport, and businesses that are part of government supported value chains.

2. Other sources of income in the household – households where business income was supplemented by other family members have been able to retain business assets and do not require capital injection to re-start their businesses.

3. Health profile of the household – households which did not suffer health related issues as a result of Covid 19 and did not have to make financial outlays with respect to health in the lock-down period have more resilience to Covid 19. Households with access to health insurance coupled with their loans have been particularly resilient as they have been able to secure treatment for covid and other health related contingencies via the health insurance.

4. Households asset profile – household which were part of informal or formal savings programs have greater resilience to Covid 19 related shocks.

Microfinance institutions have worked with different segments of clients to provide customized solutions for repayments. These have included rescheduling, back-to-business trainings, restructuring of the loans, and recapitalization loans. The key success factor for all these strategies has been, and will continue to be, the ability of the microfinance institutions to engage with the individual context of the specific client.

Going Forward

Some of the key success factors across microfinance programs have been the following:

1. Ability of the microfinance provider to make timely decisions and communicate them to clients and staff members.

2. Ability of the leadership at all levels to adapt to changing external circumstances.

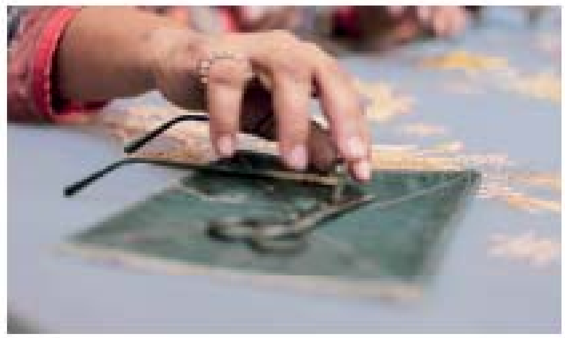
3. Degree of digitization of client records and the ability to easily access client level information.

4. Technological capability of the organization to communicate and work from home during closures and lock downs.

5. Management information system robustness and ability to profile/segment the client base.

6. Ability to understand the context and situation of the client and taking evidence based decisions.

7. Customized loan repayment and rescheduling plans at the client level.



Kashf Foundation's Response Strategy for Covid 19

Being Pakistan's first specialized microfinance institution with a gender focus Kashf Foundation was cognizant of the gendered impact of the pandemic from the beginning and has taken a pro-active approach to enable its clients to mitigate the impact of the pandemic. This chapter highlights some of the activities in line with best practice that Kashf has been undertaking in order to empower staff and clients to be better equipped to deal with Corona.

Kashf's Break the Chain Campaign

By the middle of March 2020, Kashf had mainstreamed its 'Break the Chain' Campaign wherein special content was created for dissemination in all 325 branches spread across 61 districts of Pakistan. This content was multi-media and was circulated through email, whatsapp and social media pages owned by Kashf. This was complemented by a special 'covid protection' budget which was made available to all branches and area offices for the purchase of sanitizers, masks, gloves, and disinfectants. Detailed SOPs on client contact, field visits and branch operations were created and disseminated to the field. Kashf's Human Resources department and Compliance department ensured that these SOPs were being followed via telephonic reminders and checks to all branches.

At the client level, a short video was circulated on covid prevention and awareness where smart phones were available. Moreover, Business Development Officers were tasked with calling clients and speaking to them regarding Covid and telling them how it spreads and how they could protect themselves and their families. These calls continued throughout the period when Kashf's branches were closed due to the government mandated lock-down.

Lessons from earlier awareness campaigns run by Kashf were utilized to reduce the value-action gap; these lessons included triangulation of messaging, i.e. using multiple media to convey messages, follow-ups and reminders of the messages, and check-ins via telephonic calls.

Basing Decisions on Evidence

Being an evidence backed organization, Kashf has undertaken numerous client level researches linked to the pandemic and its impact on clients to drive decision-making.

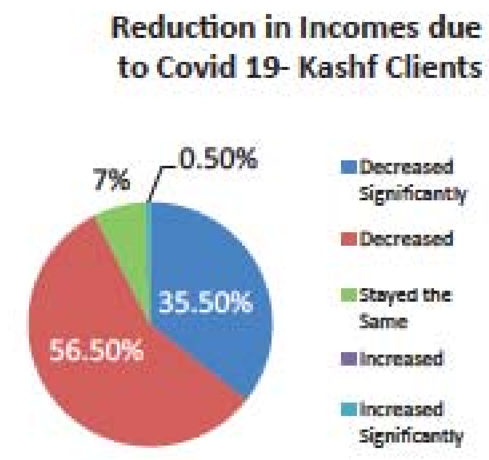
Results from a rapid assessment undertaken with over 2,000 clients in March and April across the 61 districts where Kashf operates showed extreme economic distress stemming from business closures and reductions in incomes. 92% of respondents stated that their household incomes had reduced as a result of the lock down and pandemic. Out of these around 35.5% clients said that their income had decreased significantly. Amongst the clients that stated their incomes had reduced significantly, the top business types were stitching/tailoring, cattle trade, cloth trade and rickshaw. These business types form a high percentage of micro-businesses in Pakistan which shows the far reaching impact of Corona on micro-businesses.

In the same study, when respondents were asked about the main reasons for the decrease in their incomes, the following trends emerged:

Top Reasons for Reduction in Income	
Market Closures	46.5%
Travel restrictions	14.5%
Loss of Jobs	19.5%

Based on the results of this research Kashf was one of the first microfinance institutions to reschedule all loans for the month of April 2020 without penalty. Research findings, coupled with feedback from Kashf's field staff and other local and international practitioners, were used by Kashf's to decide to roll over April 2020's due installments to May 2020 and extend the loan tenure for clients without any additional service charges.

Kashf's Business Development Officers contacted all clients to inform them regarding the rescheduling and also re-iterated messages on prevention of Corona and safety protocols to be followed. The Branch Managers and Area

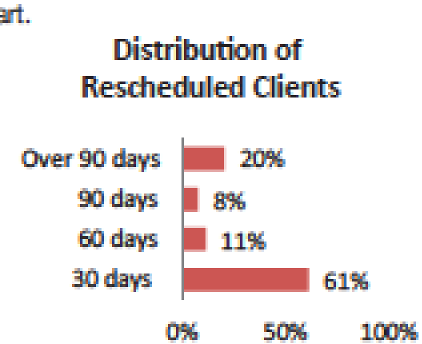


Managers also called a sample of clients to ensure that the message had been disseminated and that clients did not have to worry about paying back their installments.

By the end of April, Kashf opened its branches with skeletal staff and Kashf's staff members started assessing client's comfort level with loan repayments. Some clients' businesses started being operational again while others were comfortable in repaying their installments as they had other sources of household income. From May 2020 onwards Kashf has had a more contextualized approach to rescheduling.

Each individual client was contacted and the Business Development Officers discussed the individual context of each case and chalked out a repayment plan. Rescheduling options have ranged from 30 days rescheduling of loans to 12 months rescheduling.

The distribution of the rescheduling options taken by Kashf clients can be seen in the following chart.



Ration Distribution Program

Kashf's research showed that the major spending priority of clients and their families was rations; the research also showed that clients were under financial duress and that around 40% of respondents only had financial resources to sustain themselves for 15 days[9].

Major Spending Priority	
Ration	87%
Loan Repayments to MFPs	5%
Medical Expenses	4%
Utilities Bills	2%
Others	2%

In light of this, Kashf decided to run a ration program with support from its partners. Kashf was able to target the most vulnerable clients by using client level data and targeting clients that were under 30 on the Poverty Score Card. Out of these clients preference was given to female headed households, especially households where clients had lost their husbands in the last 6 months, or had had a major surgery undertaken in the last 6 months.

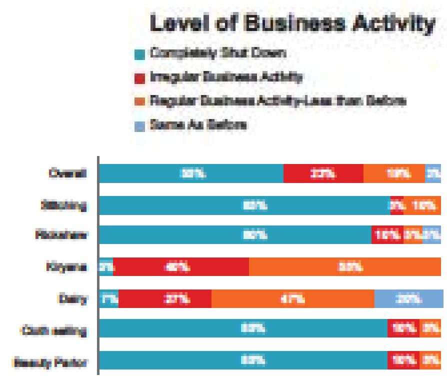
The districts where the ration distribution was undertaken included Karachi, Bahawalpur, Bahawalnagar, Multan, Khanewal, Khushab, Sahiwal, Okara, Lahore, Faisalabad, Gujranwala, Sialkot, Narowal, Mardan, Charsaddha, Takht Bhai, Chakwal, Attock, and Jhang. Overall Kashf was able to reach 7,750 households through the ration program. The ration packs also had covid protection leaflets to create awareness about the disease.

Special SOPs for ration distribution were created to ensure that over-crowding does not take place at branches during distribution and social distancing is maintained. All Kashf staff wore safety gear during the distribution.

Back to Business Initiatives

Kashf undertook an in-depth sector wise analysis on the economic impact of Covid 19 on Kashf's borrowers. For this research 7 main micro-enterprise segments namely (1) Stitching/ Tailoring, (2) Cloth Trade, (3) Kiryana/ grocery stores, (4) Beauty Parlors, (5) Rickshaw Business (loan user: husband), (6) Vegetable/fruit vending, and (7) Livestock were selected across major towns and cities of Punjab, Sindh and KPK.

The research results showed that all seven business types were adversely impacted because of the lockdown, however, businesses engaged in non-essential items and services had been more severely hit (Beauty Parlor and Cloth Trade) than those engaged in essential items (Kiryana, Dairy and Fruit/Vegetable Vending). Overall, 55% of the businesses had completely shut down, 23% had irregular business activity, 19% had regular limited activity while 3% were operating at the same level as before.



Findings from this research further supported Kashf's customization approach.

For recapitalization loans, new guidelines and appraisal techniques for business assessment were created in consultation with field input and new screening processes were put in place for the due-diligence of the new loans. Moreover, the research department at Kashf also undertook extensive research to understand what new financial products and services are needed by Kashf clients. Based on this, new products have been developed and prototyped which would be offered to clients by the end of the year.

Kashf also created training modules and contents for clients on how to adapt their businesses to

[9] Research undertaken with over 2,000 clients over March 2020 and April 2020 by the Kashf research department.

increase productivity and returns in a Corona impacted market. The program is called "Don't Let Corona Happen to Your Business" to be offered to clients in August/September 2020 as the markets reopen and clients restart their businesses in a post lock-down world.

These training contents include diversification in channel, new product development, enhancing margins through efficiencies, and leveraging on technology to enhance sales.

Summary

In conclusion, Kashf's response to Covid 19 has been based on Kashf's approach of 'leaving no client behind' i.e. Kashf has been customizing its products and processes to make sure that all clients can be given options to re-continue their business. The ethos behind this approach has been to understand that Covid 19 has had a disproportionate impact of micro-businesses run by women and delays in repayments are not an effect of credit behavior but the exogenous shocks brought by Covid 19.

Kashf has offered, and will continue to offer, a wide array of options for clients to choose from to stabilize and grow their businesses.

These options have been informed by Kashf's internal researches with clients, review and assessment of international best practices, and advice and suggestions from Kashf's field level management tiers.

Kashf Supporters

Kashf Foundation

(A Company Setup Under Section 42 of Companies Act, 2017)

Audited Financial Statements for the Year ended 30 June 2020

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the members of Kashf Foundation

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Kashf Foundation (the Company) which comprise the statement of financial position as at June 30, 2020, and the statement of income and expenditure and the statement of comprehensive income, the statement of changes in accumulated funds, the statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information, 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 the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, statement of income and expenditure and the statement of comprehensive income, the statement of changes in accumulated funds and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2020 and of the income, the changes in accumulated funds and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance opinion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior the date of this auditors report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Deloitte.

Deloitte Yousuf Adil
Chartered Accountants

We communicate with the board of directors regarding, among other matters, the planned scope and timing of audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);

b) the statement of financial position, the statement of income and expenditure and the statement of comprehensive income, the statement of changes in accumulated funds and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;

c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and

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

The engagement partner on the audit resulting in this independent auditors' report is Rana M. Usman Khan.

Deloitte Yousuf Adil
Chartered Accountants

Lahore
Date: October 05, 2020

Kashf Foundation *(A Company Setup Under Section 42 of Companies Act, 2017)*

Statement of Financial Position

As at June 30, 2020

	Note	**2020 Rupees**	2019 Rupees
ASSETS			
Non-current assets			
Property and equipment	5	**732,425,128**	664,047,530
Intangible assets	6	**23,490,152**	14,890,873
Investment property	7	**82,503,900**	82,503,900
Long term investments	8	**-**	-
Long term loans	9	**626,924**	916,982
Long term micro-credit loan portfolio	10	**35,743,313**	6,412,016
Financial assets used for hedging	11	**540,788,445**	1,145,411,333
Long term deposits	12	**4,978,660**	4,978,660
		1,420,556,522	1,919,161,294
Current assets			
Micro-credit loan portfolio	13	**12,228,496,867**	13,262,691,419
Kashf Murabaha portfolio	14	**405,701,513**	418,468,817
Accrued service charges	15	**637,442,247**	162,095,998
Short term investments	16	**2,301,094,893**	1,482,377,335
Financial assets used for hedging	11	**809,083,642**	576,910,532
Advances, deposits, prepayments and other receivables	17	**566,258,692**	448,652,934
Cash and bank balances	18	**6,111,038,513**	2,606,202,690
		23,059,116,367	18,957,399,725
		24,479,672,889	20,876,561,019
FUNDS AND LIABILITIES			
Funds			
Donated funds	19	**235,395,910**	235,395,910
Reserves	20	**3,978,633,956**	3,753,454,533
Hedging reserve		**(107,241,160)**	129,210,385
Surplus on revaluation of land	21	**300,203,137**	209,478,137
		4,406,991,843	4,327,538,965
Non-current liabilities			
Long term financing	22	**13,014,743,858**	9,874,066,637
Lease liabilities	23	**-**	8,782,489
		13,014,743,858	9,882,849,126
Current liabilities			
Current portion of long term financing - secured	22	**5,998,382,280**	5,751,337,833
Lease liabilities	23	**8,269,385**	7,578,652
Short term borrowings	24	**133,555,461**	127,050,252
Deferred grants	25	**34,321,415**	46,539,166
Accrued markup	26	**632,807,411**	433,079,199
Trade and other payables	27	**250,601,236**	300,587,826
		7,057,937,188	6,666,172,928
Contingencies and commitments	28		
		24,479,672,889	20,876,561,019

The annexed notes 1 to 47 form an integral part of these financial statements.

DYA

Chief Executive Officer

Chief Financial Officer

Director

Kashf Foundation *(A Company Setup Under Section 42 of Companies Act, 2017)*

Statement of Income and Expenditure

For the year ended June 30, 2020

	Note	**2020 Rupees**	2019 Rupees
Mark-up and other charges on micro-credit loan portfolio	29	4,979,034,703	4,547,644,042
Profit on Kashf Murabaha		171,858,449	133,370,678
Grant income	30	79,129,085	58,456,184
Return on investments and bank deposits	31	626,108,560	258,806,186
		5,856,130,797	4,998,277,090
Programme cost	32	(2,174,153,000)	(1,669,160,187)
Grant expenses	33	(79,129,085)	(57,277,910)
Finance cost	34	(2,622,723,654)	(1,722,369,494)
		(4,876,005,739)	(3,448,807,591)
		980,125,058	1,549,469,499
Management and administrative expenses	35	(410,998,612)	(467,278,114)
Other expenses	36	(375,466,765)	(1,254,238)
Other income	37	31,519,742	112,785,158
		(754,945,635)	(355,747,194)
Surplus for the year		225,179,423	1,193,722,305

The annexed notes 1 to 47 form an integral part of these financial statements.

Chief Executive Officer

Chief Financial Officer

Director

Kashf Foundation *(A Company Setup Under Section 42 of Companies Act, 2017)*

Statement of Comprehensive Income

For the year ended June 30, 2020

	2020 Rupees	2019 Rupees
Surplus for the year	**225,179,423**	1,193,722,305
Items that may be reclassified subsequently to statement of income and expenditure		
Hedging reserve - changes in fair value	**(372,449,778)**	1,722,321,865
Hedging reserve – reclassified to profit or loss	**135,998,233**	(1,593,111,480)
Items that may not be reclassified subsequently to statement of income and expenditure		
Surplus on revaluation of property plant and equipment	**90,725,000**	-
Total comprehensive income for the year	**79,452,878**	1,322,932,690

The annexed notes 1 to 47 form an integral part of these financial statements.

DYA

Chief Executive Officer

Chief Financial Officer

Director

Kashf Foundation *(A Company Setup Under Section 42 of Companies Act, 2017)*

Cash Flow Statement

For the year ended June 30, 2020

	Note	2020 Rupees	2019 Rupees
Cash flow from operating activities			
Surplus for the year		225,179,423	1,193,722,305
Adjustments for non cash items:			
Depreciation	5.1	96,374,011	94,767,630
Amortization	6.1	1,434,197	1,286,671
Liabilities written back		(668,077)	(210,295)
Lease markup		2,222,342	2,226,323
Return on investments and bank deposits		(626,108,560)	(258,806,186)
Amortization of transaction costs of long term loans		86,228,011	56,625,964
Finance cost		2,531,500,077	1,660,743,987
Gain on disposal of fixed assets		(206,081)	(1,644,379)
Grant income		(79,129,085)	(58,456,184)
Deferred loss on sale and lease back		2,773,224	2,773,220
Fair value gain on mutual fund		(48,863)	-
Dividend income		(1,694,984)	-
Exchange gain		(3,389,329)	(57,265,335)
Modification loss on financial assets		375,447,618	-
Provision for loan loss		368,318,299	68,194,506
		2,753,052,800	1,510,215,922
Surplus before working capital changes		2,978,232,223	2,703,938,227
Effect on cash flow due to working capital changes			
Decrease / (increase) in micro-credit loan portfolio		292,073,854	(3,245,935,343)
Decrease / (increase) in Kashf Murabaha		3,896,349	(121,702,222)
Increase in accrued service charges		(497,451,810)	(45,481,505)
Increase in advances, deposits, prepayments and other receivables		(51,633,026)	(75,256,851)
Decrease in deferred grants		66,911,334	96,983,734
(Increase) / decrease in trade and other payables		(49,318,513)	95,570,789
		(235,521,812)	(3,295,821,398)
Cash generated from / (used in) operations		2,742,710,411	(591,883,171)
Finance cost paid		(2,331,771,865)	(1,515,558,667)
Net cash generated from / (used in) operating activities		410,938,546	(2,107,441,838)
Cash flow from investing activities			
Capital expenditure incurred		(93,159,884)	(121,581,109)
Sale proceeds from disposal of operating fixed assets		9,305,880	4,380,501
Long term loan		290,058	(916,982)
Return on investments and bank deposits		557,362,604	253,972,598
Long term investment - net		-	340,000,000
Short term investment - net		(813,584,382)	(712,908,561)
Net cash used in investing activities		(339,785,724)	(237,053,553)
Cash flow from financing activities			
Transaction costs paid for borrowings		(147,360,406)	(80,258,337)
Payment of asset subject to lease		(10,314,098)	(13,356,531)
Proceeds received against financing		7,869,353,322	7,180,400,000
Repayments of financing		(4,277,995,817)	(3,856,002,748)
Net cash generated from financing activities		3,433,683,001	3,230,782,384
Net increase in cash and cash equivalents		3,504,835,823	886,286,993
Cash and cash equivalents at the beginning of the year		2,606,202,690	1,719,915,697
Cash and cash equivalents at the end of the year		6,111,038,513	2,606,202,690

The annexed notes 1 to 47 form an integral part of these financial statements.

Chief Executive Officer

Chief Financial Officer

Director

Kashf Foundation *(A Company Setup Under Section 42 of Companies Act, 2017)*

Statement of Changes in Accumulated Funds
For the year ended June 30, 2020

	Donated funds	Reserves: General reserve	Reserves: Loan loss reserve	Hedging reserve	Surplus on revaluation of land and building	Total
	Rupees					
Balance as at June 30, 2018	226,210,110	2,158,119,759	401,612,469	-	209,478,137	2,995,420,475
Total comprehensive surplus						
Surplus for the year	-	1,193,722,305	-	-	-	1,193,722,305
Other comprehensive income for the year	-	-	-	129,210,385	-	129,210,385
	-	1,193,722,305	-	129,210,385	-	1,322,932,690
Micro-credit loan portfolio disbursed against grant	9,185,800	-	-	-	-	9,185,800
Transferred from general funds to loan loss reserve	-	(114,807,019)	114,807,019	-	-	-
Balance as at June 30, 2019	235,395,910	3,237,035,045	516,419,488	129,210,385	209,478,137	4,327,538,965
Total comprehensive surplus						
Surplus for the year	-	225,179,423	-	-	-	225,179,423
Other comprehensive income for the year	-	-	-	(236,451,545)	90,725,000	(145,726,545)
	-	225,179,423	-	(236,451,545)	90,725,000	79,452,878
Transferred from general funds to loan loss reserve	-	(161,975,033)	161,975,033	-	-	-
Balance as at June 30, 2020	**235,395,910**	**3,300,239,435**	**678,394,521**	**(107,241,160)**	**300,203,137**	**4,406,991,843**

The annexed notes 1 to 47 form an integral part of these financial statements.

Chief Executive Officer

Chief Financial Officer

Director

Kashf
FOUNDATION

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

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