
Kashf Foundation

Towards the Economic Empowerment of Women

Quarterly Report

Period: January-March 2006

Kashf Foundation

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1. Summary of the Main Outcomes

This quarter has been full of achievements for Kashf. Our success and best practices were recognized by the Government of Pakistan and the Kashf President and Founder, Ms Roshaneh Zafar was awarded the Tamgha-i-Imtiaz, one of Pakistan's highest civilian awards by President General Pervaiz Musharraf.

During the course of the Quarter Jan-March 2006, many branches over achieved their center targets. The programme reached an outreach of 80,000. In terms of amount disbursed, the disbursement of all loan products, that is the general loan, the emergency loan and business surmaya loan increased over this quarter and can be attributed to greater turn around time of repeat clients and reduction in the exit ratio. Due to better monitoring polices and weekly tracking of pending centers client delinquency and dropout rates have been checked to a considerable extent.

The recovery rate has been maintained at 100%, while PAR has fallen from 0.32% to 0.27% this quarter and can be attributed to the continuing emphasis on strong portfolio management and strong client screening procedures. The total and monthly amount saved also underwent an increase, which has been a positive change over the past several quarters. The pilot phase of the home improvement loan has been started in two of Kashf's branches: Ravi Rayon and Jorah Pull, while more flexible field procedures are being tested in one area to improve client satisfaction.

Over this quarter, the organization has continued to concentrate on maintaining a strong portfolio quality, curbing the client attrition rate, propelling portfolio growth and catering to the needs of its clients by offering them a wider range of even more flexible services.

2. Kashf's Economic Empowerment Programme

True to its meaning, Kashf is an organization that has become the means of a 'miracle' or a 'revelation' for its clients. Through a sustained financial window, clients have been able to overcome their destitution by realizing their own potential and discovering that poverty is assailable through determination and enterprise. Kashf commenced as an action research programme in 1996, to evaluate whether formal credit opportunities for women from low income households would serve to enhance their productivity and facilitate opportunities for them to earn a steady income in order to ensure a dignified standard of living for their families. Having been spurred by 15 poor women who decided to put their faith in Kashf, the organization has been able to sustain rapid growth and currently caters to thousands of clients involved in various enterprises including livestock, basket making, shoe making, carpet making, weaving, sewing, and trading in cloth, wheat, rice etc and other accessories. The centerpiece of Kashf's methodology is the alleviation of poverty by greater investment in gender empowerment. Therefore even while maintaining a household focus, at present Kashf is one of the few microfinance institutions in Pakistan that provides micro credit exclusively to poor women.

Kashf's economic empowerment strategy is based on the provision of the following services:

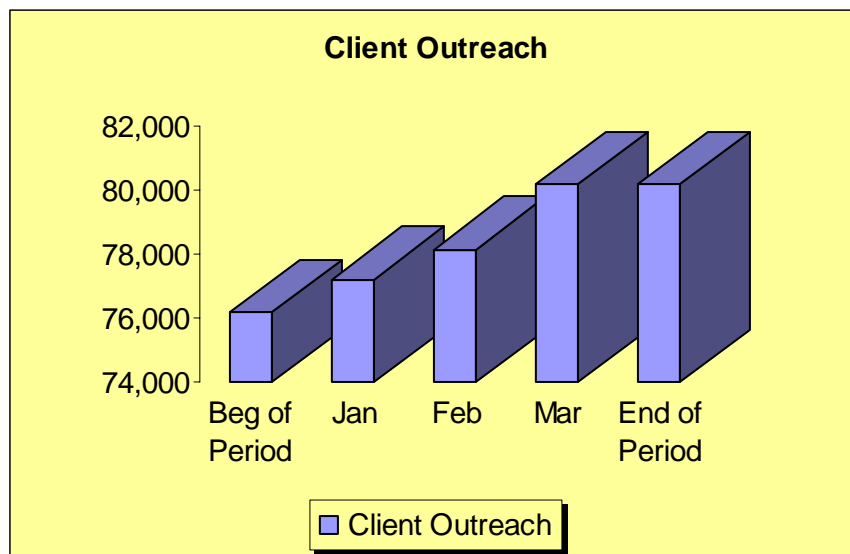
- **Microfinance Services:** Kashf offers sustained access to small loans and micro deposit services to its customers. The loans are provided without any physical collateral or personal guarantees. However, in order to qualify for loans, women must self-select into a center of 25 members, who then take responsibility for loan repayment.
- **Capacity Development:** In addition to its microfinance programme, Kashf also offers its customers a host of training opportunities: these range from leadership trainings and gender

awareness trainings to basic functional trainings. Kashf provides all trainings to its customers within their own communities.

3. Achievements of the Microfinance Programme

3.1 Outreach

Total Outreach For Programme					
	Beginning of Period	Jan	Feb	Mar	End of Period
Outreach	76,170	77,212	78,165	80,191	80,191
Customers (drop out)	2019	695	564	1,832	3,091
Customers attrition rate (%)	2.65%	0.92	0.73	2.3	4%

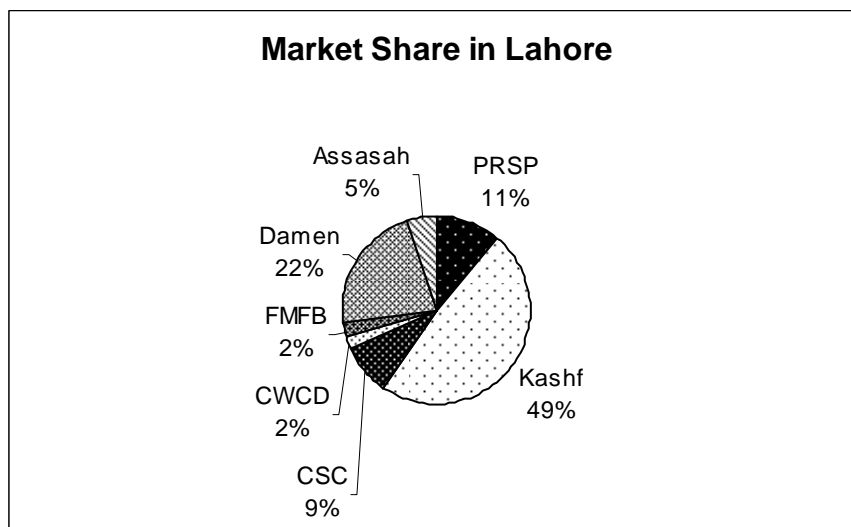
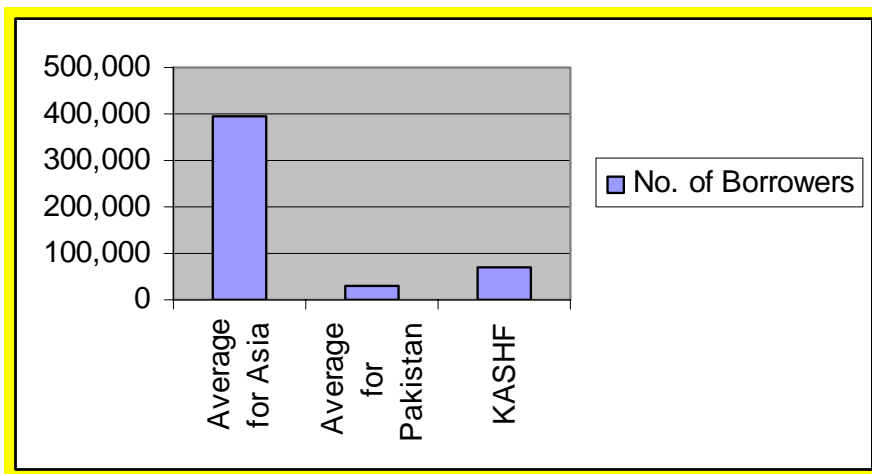


The above graph illustrates the total outreach of the programme across the three months of the quarter Jan-March 2006. The graph above illustrates that total outreach of the programme continued to rise throughout the quarter from 76,000 clients at the beginning of the quarter to 80,000 clients at the end of the quarter, implying a quarterly growth rate of 5%. In the first quarter of 2005, the quarterly growth rate was 7.26%, however it is projected that given the establishment of several new branches in this quarter, the growth rate in the 2nd quarter will be much higher.

The increased outreach this quarter can be explained by the fact that operations of 9 new branches were started including Lahore, Kasur and Faisalabad districts. Furthermore, keeping in

view the need for intensifying penetration in existing areas several branches have been upgraded by providing a 6th loan officer, which has also helped to increase the outreach of the programme in the current period.

Kashf's outreach is far higher than the average for Pakistan i.e. 28, 443¹ but is far lower than the average for Asia i.e. 395, 411. A comparison has been depicted in the graph below between Kashf, the average for Pakistan and the average for Asia.



The figure above shows the market share of the key microfinance players in Lahore. Kashf with a market share of 49% is the largest player in Lahore followed by Damen at 22%.

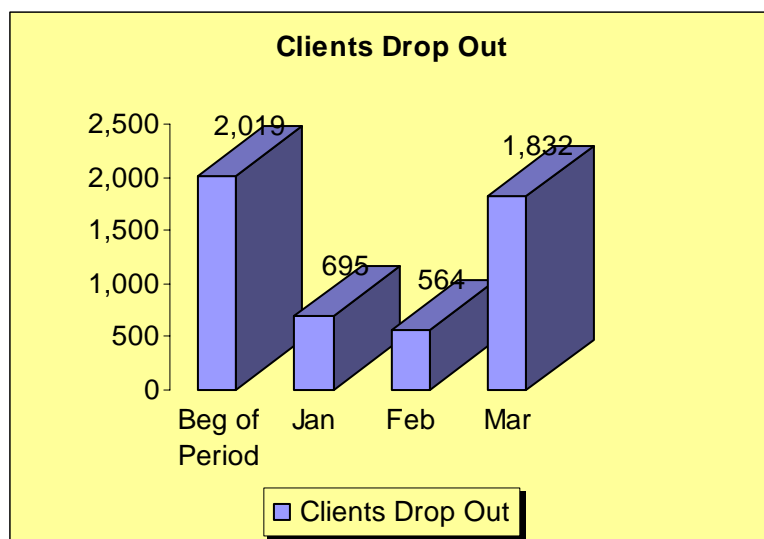
The number of drop out clients has decreased from 2,019 at the beginning of the quarter to 1,832 at the end of the period. The client attrition rate has decreased slightly from 2.65 per cent at the beginning of the quarter to 2.3 per cent at the end of the quarter. Comparing the client exit rate of

¹ Pakistan Microfinance Network: Performance Indicators Report 2004

the Quarter Jan-March 2006 to that of Jan-March 2005, it can be seen that the client exit rate has dropped by 25%, which is a tremendous achievement and highlights the slogan for the year 2006, that is Delight the Customer.

During this quarter excellent monitoring tools were applied to all the branches and pending centers were tracked on a weekly basis. The reduction in the client exits can be largely attributed to these policies. A significant percentage of clients who had dropped out earlier, rejoined due to the concerted efforts of the field staff to activate the pending centers. Furthermore important policy changes such as offering a larger loan amount and coverage of spouse in the insurance policy, have also resulted in higher outreach for the programme, along with relaxing the procedural steps for approving repeat client loans.

The figure below shows the number of drop out clients per month for this Quarter:-



In the month of January and February, client exit was maintained at a minimum. We see an increase in the number of client drop outs in March because Koth Radha Krishan Branch was closed, which resulted in the exit of 732 clients. This branch was closed as its portfolio was heavily overdue.

3.2 Portfolio Growth and Quality

Disbursement General Purpose Loan

Currently the General loan constitutes one of Kashf's most popular services since it has enabled a number of clients to benefit from a marked increase in their income by granting them an opportunity to invest in various small enterprises.

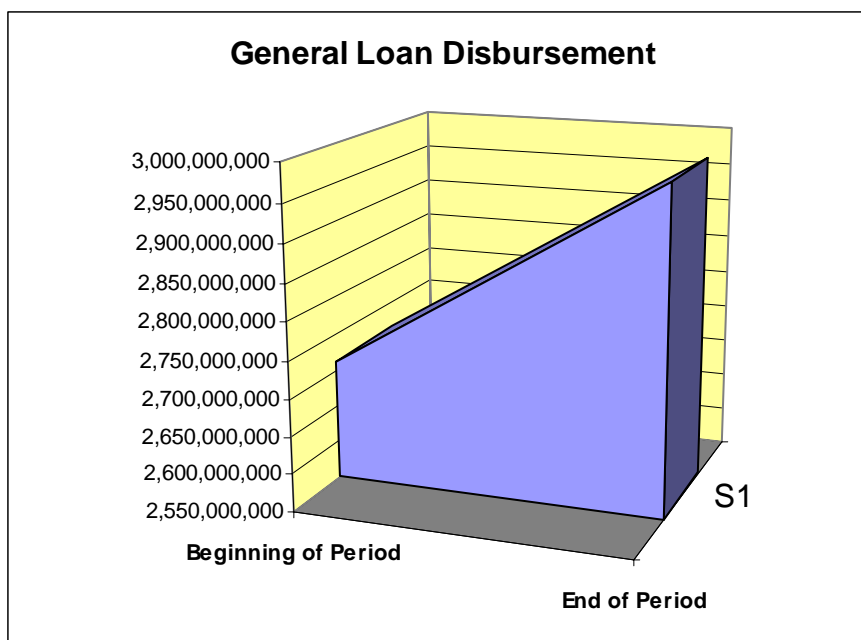
Type of Business	Net Profit Margin
Plastic Molding	51%
Shoe Making	41%
Jewelry Making	11%
Hand Embroidery	22%

Running a Grocery Store	48%
Tailoring/Stitching	35%
Running a Beauty Parlor	13%
Vegetable Selling	45%

The table above lists the findings of a “Business assessment of successful Kashf’s clients” study. Eight most popular businesses practices were identified. Their financial analysis revealed that small entrepreneurs can manage their businesses well but require credit injections.

Disbursement-General Loan					
Beginning of Period		Jan	Feb	Mar	End of Period
Loan Amount Disbursed (Rs.)	2,712,715,983	65,237,100	75,857,000	126,904,000	2,980,714,083
Number of Loans	246,127	4,051	4,775	8,151	263,104
Average Loan Size (Rs.)	14,775	16,104	15,886	15,569	15,569

The table above illustrates the trends in GL disbursement over the last two quarters. The total amount of loans disbursed in the quarter Jan-March 2005 have registered a rise of 9.8% while that of the number of loans granted have registered a rise of 6.8%, the respective indicators for the last quarter were 18.84% and 4.95%. These statistics indicate an increase in GL disbursement; this may be explained by the increase in the Average Loan Size, which increased by 5% this quarter. Previously due to lack of monitoring thorough out the year branches tried to reach their targets at year end i.e. during the Quarter Oct-Dec. However, now that branches are being monitored on a monthly basis, disbursements are expected to be equally staggered through out the year. The difference between the two quarters, the current and the previous can be explained by this practice.



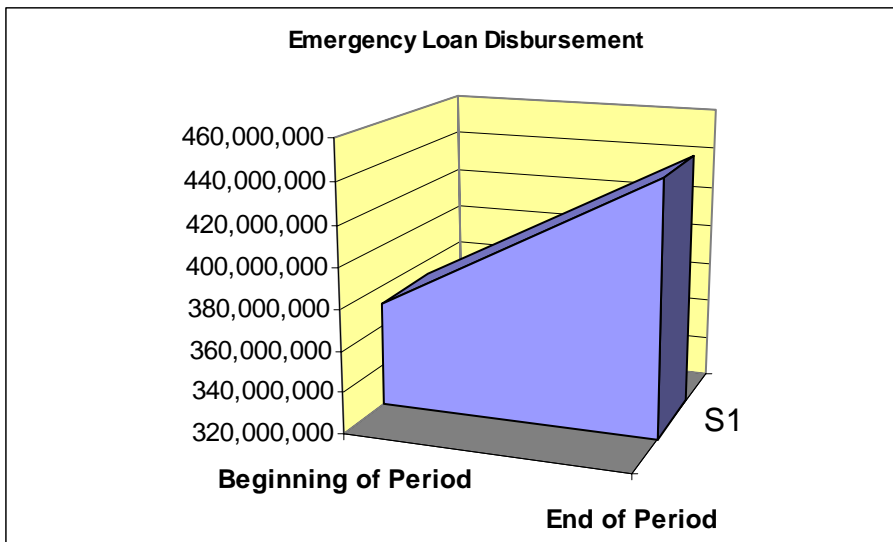
Disbursement- Emergency Loan

Disbursement-Emergency Loan					
	Beginning of Period	Jan	Feb	Mar	End of Period
Loan Amount Disbursed (Rs.)	371,786,669	18,480,000	22,915,000	30,567,000	443,748,669
Number of Loans	159,773	5,165	6,367	8,542	179,847
Average Loan Size (Rs.)	3,530	3,578	3,599	3,578	3,578

The Emergency loan is a substitute for a credit card for the lower income groups and is mainly utilized for fulfilling unforeseen demands of the household or for day to day running expenses which have to be incurred immediately. The particular value of the emergency loan can be seen by the fact it is a particularly women friendly product and enables the clients to access ready cash in the case of any small family contingency. Informal evidence has shown that the EL is often used to pay school fees or meet basic health care expenditures.

The average loan size has remained more or less constant when compared with the previous Quarter. The loan amount disbursed has shown an increase of 19.3% in the Quarter Jan-March 2006, the respective indicator for the Quarter Nov-Dec 2005 was 22%. In other words, the growth in disbursement of the EL has been sustained over this period. The total number of loan disbursed has increased from 159,000 loans in the last quarter to 179,000 loans in this quarter, which is an increase of 12.56% over the previous quarter. The number of loans disbursed has undergone an increase due to change in policy of the loan,

which was previously disbursed once a year and is now available twice a year to the same client. The subsequent figure highlights the difference in the cumulative disbursement of the consumption loan, between the last two successive quarters:-.



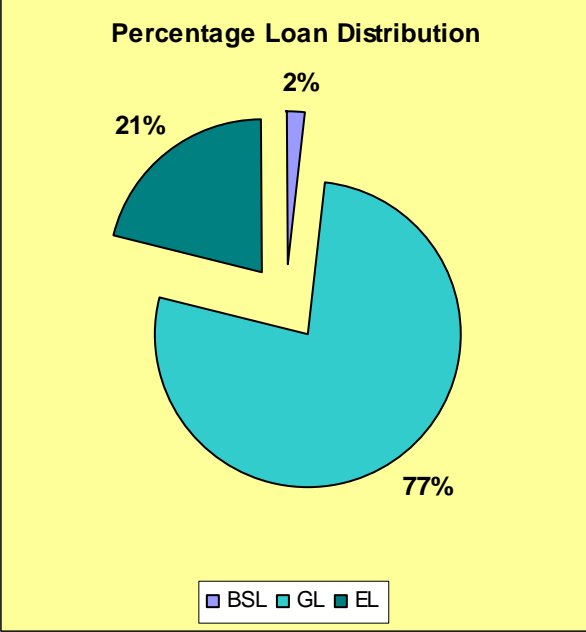
Disbursement – Business Surmaya Loan

Disbursement-Business Surmaya Loan					
Beginning of Period		Jan	Feb	Mar	End of Period
Loan Amount Disbursed (Rs.)	12,965,000	2,880,000	2,250,000	2,310,000	20,405,000
Number of Loans	326	75	56	61	518
Average Loan Size (Rs.)	39,770	38,400	40,179	37,869	39,392

The provision of the Business Sarmaya Loan (BSL) represents Kashf’s commitment to providing quality services to its customers according to their evolving needs. This product targets the missing middle of the market, that is, small entrepreneurs with existing businesses who require greater amounts of capital for developing their enterprises.

The table above illustrates the trends in BSL disbursement over the last two quarters. The total amount of loans disbursed in the quarter Jan-March 2006 have registered a rise of 57% while that of the number of loans granted have registered a rise of 58%. In January 2006 a BSL branch on Ferozepur Road started its operational activity, which explains the increased disbursement rate this quarter.

In the quarter Oct-Dec 2005, the general loan represented 77% of the product demand, the emergency loan represented 21% and business surmaya loan represented 2% of the product demand. The respective indicators for last quarter for emergency and general loan respectively were 26% and 74%. The emergency loan has had a decreased share in the total disbursements because of the weekly tracking of pending centers; a lot of clients have been disbursed general loans.

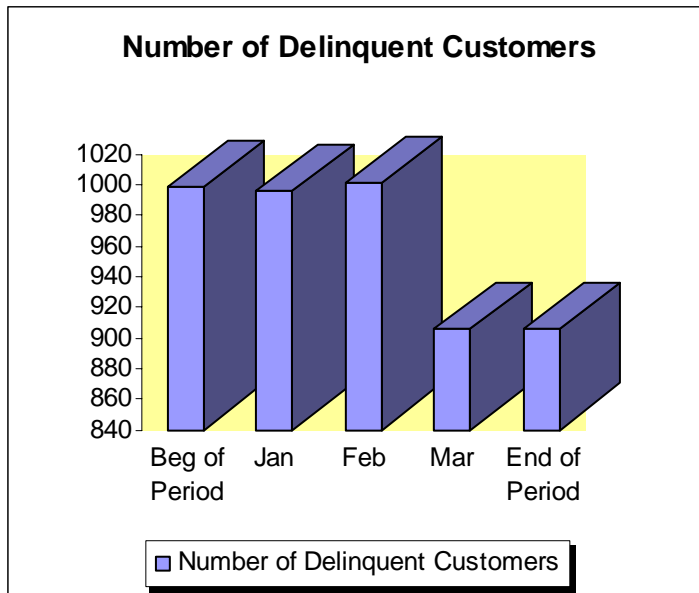


3.3 Portfolio Quality-Recovery & Portfolio at Risk Analysis (PAR)

Portfolio Quality-Recovery & Portfolio at Risk Analysis (PAR)					
	Beginning of Period	Jan	Feb	Mar	End of Period
Recovery %	100%	100%	100%	100%	100%
PAR	0.32%	0.31%	0.29%	0.27%	0.27%
Number of Delinquent customers	998	996	1,001	906	906
% of Delinquent customers	1%	1%	1%	1%	1%
Overdue amount	2,309,500	2,268,542	2,096,308	2,062,735	2,062,735
Outstanding balance Portfolio	767,166,233	762,851,395	750,302,491	775,366,656	775,366,656

Indicators attesting to portfolio quality and recovery rates are essential to gauge the success and feasibility of any micro finance institution. Kashf’s recovery rate has continued to be maintained at 100% this quarter. The table above shows the trends of the PAR and % of delinquent customers over the Quarter

Jan-March 2006. The PAR declined from 0.32% last quarter to 0.27% this quarter. The reduction in the PAR can be ascribed to the fact that further clients have not been added to the delinquent portfolio while new loans have been disbursed over this period, thus bringing down this ratio.



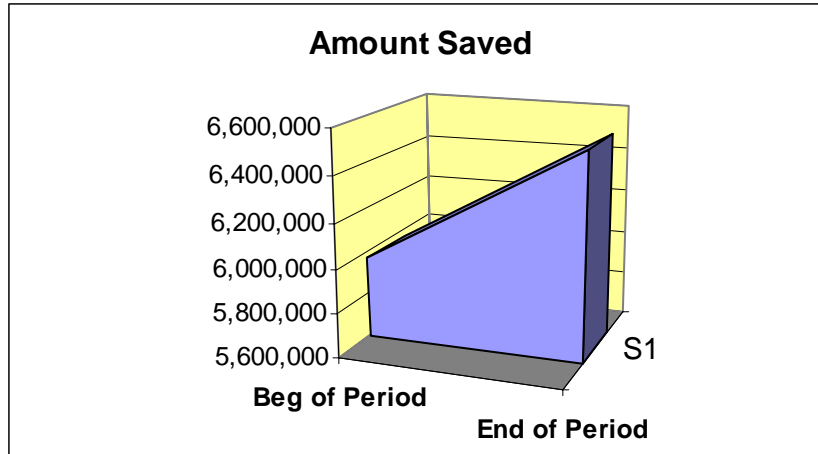
As illustrated by the figure above there is a marked decrease in the number of delinquent customers this quarter. This can be attributed to the fact that one branch was closed down and the clients were divided over two other branches, while some of the delinquent clients were retired. The monitoring polices applied this quarter also helped to reduce the number of delinquent customers.

3.4 Savings

	Savings				
	Beginning of Period	Jan	Feb	Mar	End of Period
Savings	5,968,287	6,369,132	6,603,727	6,520,632	6,520,632
Saving per client (Rs.)	78	82	84	81	81

The savings product has exhibited a slight upward trend. In this quarter, the total amount saved increased by 9.2%, while the respective indicator for last quarter was 6.3%. Savings per client remained more or less constant at Rs. 81, highlighting that there is a need for improving outreach and access of this product considerably.

The increase in the amount of savings can be attributed to the fact that a 5th and 6th LO was introduced in some branches, which increased the client base of these branches from 2,400 to 3,000. The increase in the amount saved is elucidated by the figure below.



4. *Financial Sustainability*

4.1 **Income from Financial Services**

This section provides an overview of the financial health of the program. The most important component is the income secured through service charges since it attests to the ability of the MFI to generate profit and whether the branches are fulfilling their role as mini profit centers adequately.

Income from Financial Services	Quarterly Income From Financial Services				
	July-Sept 2005	Oct-Dec 2005	Jan-March 2006	Percentage Change	Percentage Share
Income from Service Charge	44,685,033	50,822,995	61,123,562	20	94
Income from Investments	2,871,741	10,195,468	2,480,444	(-)76	3.8
Other Income	2,369,395	5,994,604	1,483,991	(-)75	2.2
Total Income	49,926,169	67,013,067	65,087,997	(-)2.8	100

As compared to the last quarter total income of the programme decreased slightly from 67 million to 65 million this quarter, which is a decrease of 2.8%. In terms of overall percentages 94% of the income generated over the quarter was from service charges, while 4% was from investment income and 2% was income from other finance related services. The respective indicators for last quarter were 81%, 14% and 5%.

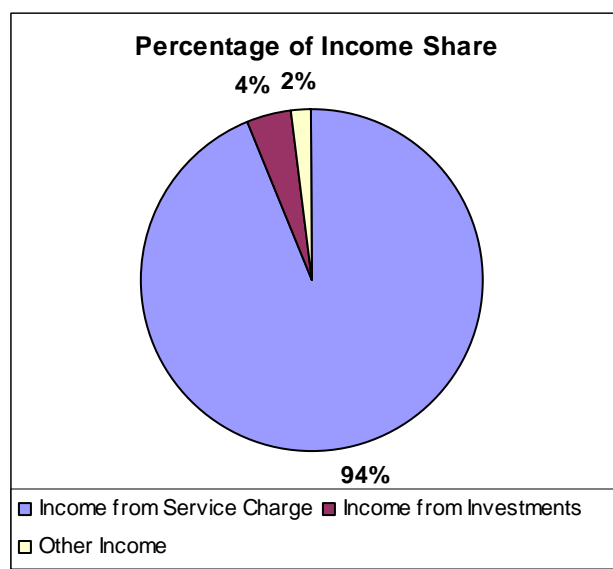
This quarter the share of income generated from service charges has increased and the share of income from investments have decreased. Investments are booked on receipt basis as they mature, since there are no mature investments this quarter, amount of investment income has reduced significantly.

Income from other financial sources has also decreased significantly when compared to the last quarter. This can be attributed to the decrease in insurance income which is linked to the number of loans disbursed. The number of GL loan disbursed were 28,800 in the quarter Oct-Dec 2005, and 16,977 in the quarter Jan-March 2006.

Income from Financial Services	Jan-Dec 2005	Jan-March 2005	Jan-March 2006	Percentage Change
Income from Service Charge	178,391,492	40,719,494	61,123,562	50%
Income from Investments	15,808,327	298,080	2,480,444	732%
Other Income	10,745,431	944,573	1,483,991	57%
Total Income	204,945,250	41,962,147	65,087,997	55%

The table above compares the quarters Jan-March 2005 and Jan-March 2006. Income from service charge has shown an increase of 50%, this shows that the programme's ability to generate income on its own has undergone a marked improvement over the last year. Investment income is recognized on actual receipt basis in quarterly financials. The trend fluctuates due to different maturity dates of each investment. Higher income in current quarter shows increase receipts due to shorter maturities and higher rate of return.

The pie chart below provides the breakup of the sources of income of the programme for this quarter.



Indicator	Kashf	Average for Peer Group(Pakistan)
Financial Revenue from Loan Portfolio	146,369,622	59,086,003
Operational Self Sufficiency	186.97%	141.71%
Financial Self Sufficiency	154.81%	114.53%

Source: PIR 2004

The table above compares Kashf's financial performance in FY 2004 to that of its peer groups within Pakistan. Kashf's financial revenue from loan portfolio is 147% higher than that of the average for its peer group with in Pakitan. Kashf's operational and financial self sufficiency is also higher than that of its peer group.

4.2 Profitability Ratios

Profitability Ratios	Profitability Ratios		
	FY to Sept 2005	FY to Dec 2005	FY to March 2006
Return on Assets (Adjusted)	7.55%	6.01%	2.70%
Return on Equity (Adjusted)	13.02%	9.96%	5.01%
Yield on Portfolio	38.43%	33.35%	36.03%

Definition of important ratios:

The Return on Assets maps the ability of the organization to generate income from all of its assets, i.e. how profitable has the organization been in investing its resources.

The Return on Equity maps the ability of the organization to generate income relative to the equity (donor funds).

The Yield on Portfolio maps the ability of the organization to generate income from its loan portfolio.

The return on assets ratio declined from 6.01% last quarter to 2.7% this quarter, while the return on equity ratio declined from 9.96% to 5.01%. Both these ratios are affected by the investment in new branches which are unproductive, by the decline in the investment income and by the slower growth in the portfolio as compared with the previous quarter. Yield on portfolio has increased from 33.35% last quarter to 36% this quarter and has resulted from better realization of growth targets.

4.3 Efficiency Ratios

Efficiency Ratios	Efficiency Ratios		
	July- Sept 2005	Oct-Dec 2005	Jan- March 2006
Administrative Efficiency	17.21%	15.53%	18.56%
Operational Efficiency	21.14%	20.51%	23.15%
Operational Self sufficiency	196.58%	185.02%	165.74%
Financial Self Sufficiency	149.79%	143.78%	112.98%

This table above illustrates the trend of administrative efficiency, operational efficiency, operational self sufficiency and financial self sufficiency over successive quarters from July-Sept 2005 to Jan-March 2006.

Administrative efficiency, which is the cost of maintaining Rs 1 in the market has increased from 15.53 % last quarter to 18.56% this quarter since 9 new branches were opened in this period, along with the increase in salaries in line with the market.

Operational efficiency highlights the efficiency of the loan disbursement system. It has slightly increased from 20.51% last quarter to 23.15% this quarter and can again be attributed to the above factors, along with an increase in the imputed cost of funds.

Operational self-sufficiency decreased from 185.02% last quarter to 165.74% this quarter. Financial self-sufficiency decreased from 143.78% last quarter to 112.98% this quarter. The former is a measure of whether the revenue generated by the program is sufficient to cover its costs and the latter estimates whether the program would still be sustainable if it is compelled to borrow at market rates.

The major reason for declining profitability ratios as compared to the previous quarter is increase in personnel costs due to new salary scales.

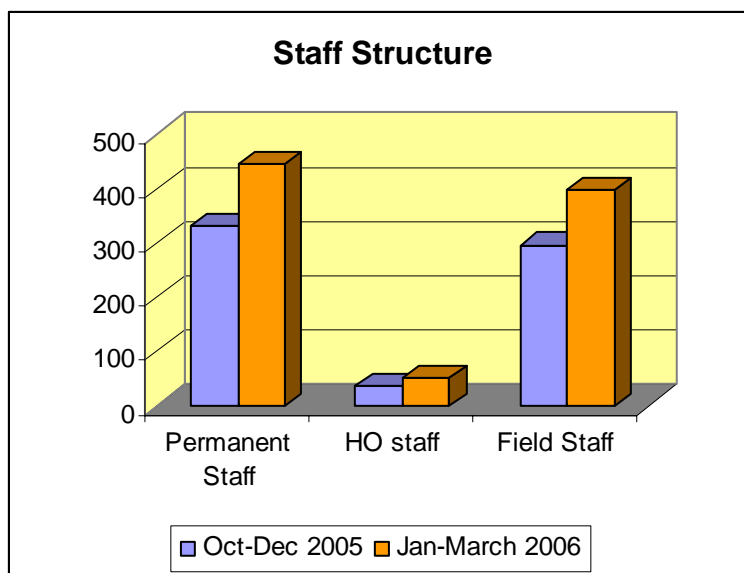
5. Human Resource Management

As a dynamic, sustainable and enterprising organization, the expansion, capacity building and development of its staff represent some of Kashf's integral policy objectives. During this quarter HR implemented an extensive exercise of salary mapping for Kashf staff on upgraded compensation and grading structure along with the completion of the annual performance management system. The career development of staff particularly field staff remained a special focus of attention during this quarter, which has resulted in 17 field staff promotions to branch managers and area managers. The current focus of the institution is to promote from within.

In this quarter, HR & Administration Department has also been involved in strengthening, image building and visibility among staff through regular field visits and staff meetings.

The below table gives the structure of the Kashf staff:-

	Oct-Dec, 2005		Jan-Mar, 2006	
Total Permanent Staff	332		446	
Total Staff (HO)	36		50	
Total Staff (Field)	296		396	
Gender Ratio	Male	Female	Male	Female
	57%	43%	58%	42%



As can be seen from the graph above, there has been a significant increase in the number of staff hired by Kashf in the quarter Jan-March 2006, when compared to the previous quarter. Total permanent staff has increased by 34% due the increase in new branch set up.

Staff Capacity Development

In order to further develop staff skills, incorporate more efficient practices and systems into the Kashf programme; the following trainings were held:-

Objective of Training	Trainer Institution
Conference on Women in Politics & Decision Making	CAPWIP (CIGGL)
Leadership Training To enhance the Leadership Skills. team Management, Conflict Management	PMN
Training on Report Writing Skills, To improve writing skill.	SDPI
Workshop WWB Women in Leadership To improve the Leadership Skills	WWB
World Social Forum To discuss global issues and Social Problems and propose solutions	Sap
Diploma on HRM To learn about HR Development, Recruitment, Training & Development Tips	PIM

6. Research & Development

The environment in which Kashf operates is constantly evolving. In order to keep abreast with these changes, Kashf places research at the core of decision making.

The ever-growing research department is continuously exploring new arenas for development. In the Quarter Jan-March 2005 a “Business Assessment of Kashf’s successful clients” was conducted. The key findings of the report are that continuous access to microfinance provides opportunities for small entrepreneurs to grow and to develop their businesses over the medium term. The report also

highlighted the fact that along with managing their household expenditures clients also manage to pay the service charge from within the cash flows of the on going businesses. Out of the eight businesses this study analyzed five, namely plastic molding, shoe manufacturing, hand embroidery, running a Parchoon shop and tailoring are generating net profit margins of between 50% and 20%.

A poverty assessment study was also conducted with the objective of assessing the poverty level of Kashf's clients. It included analysis and evaluations of their demographic, educational, monetary, health, hygiene, social networking, gender relations and personal growth indicators. It was found that currently disposable income of 89% of Kashf's clientele is less than \$0.9 per day per head (99 cents) and of 40% is less than \$ 0.55 per day per head.

6.1 Product Development

Increased competition has led Kashf to renew its already strong commitment to providing quality services and this commitment coupled with its bent towards innovation have brought about several new initiatives in the area of product development, among them is the proposed micro leasing product and the home improvement loan. Kashf understands that in order to successfully cater to client needs, new products need to be designed.

6.1.1 Home Improvement Loan

The Home Improvement Loan (HIL) is designed to offer Kashf's existing clients the finance to make changes to their homes or add on additional rooms, thereby increasing their wealth and improving their quality of life.

The pilot test for the HIL was launched in two of Kashf's branches on 20th March 2006. Two loan officers were placed at these branches to specifically handle the pilot phase of this project.

7. Gender Empowerment & Social Advocacy (GESA)

During the Quarter October – December 2005, GESA participated enthusiastically in various activities as part of its efforts to effectively disseminate information on a multitude of social issues. Research was conducted on client care practices by holding focus groups with field staff and management team and a concept paper was written based on the findings.

Two gender councils were set up at Karim Park and Ravi Rayon so that important issues related to female empowerment may be addressed effectively.

Theatrical Activities:

One theatre group has been hired and trained on the theme of "Gender Discrimination and Women Empowerment". Six theatre performances were conducted on gender discrimination, and a total of 1200 clients viewed these.

- Plan of theatre performances and coordination with branches has been done
- Hamida theatre group for Area 3, 6 was trained
- Theme on gender discrimination has been prepared
- Chanan theatre group for area 1,2 has been identified to make a play on Haddood Ordinance

Centre Strengthening Package:

A new and revised Centre Strengthening Package has been developed, containing participatory and interactive activities. Its module was tested out in two branches. The centre strengthening package consists of the following sections:

Media and Net Working

In this Quarter GESA has played a prominent role in promoting Kashf's media communication and networking. The following activities were carried out in this regard:

- Concept paper on communications strategy has been documented
- Membership with HRDN registered
- Press conference: 35 media officials participated in the press conference on AGFUND award for Kashf Foundation
- 5 interviews of Kashf clients were recorded for PTV