



(A Company set up under Section 42 of the Companies Ordinance, 1984)

Kashf Foundation

“Financial Services for All”

Quarterly Report

October-December 2006

Kashf Foundation

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OCTOBER-DECEMBER 2006: AT A GLANCE:

<i>Total Outreach For Programme</i>		
	As on Sept '06	As on Dec '06
Active Clients (Cum.)	105,568	133,363
# of Loans (GL) (Cum.)	322,589	379,616
# of Loans (EL) (Cum.)	221,119	252,400
# of Loans (BSL) (Cum.)	1,413	2,814
Total Loans (Cum.)	545,121	634,830
Savings (Cum.)	5,674,501	6,953,411
Saving per client (Rs.)	57	52
Attrition rate (%)¹	8%	10%

<i>Source of Income Generation</i>				
Income from Financial Services	Jul-Sept '06	Oct-Dec '06	%age Change	Share (%)
Service Charge	87,265,274	96,971,628	11.1%	91.7%
Investments	5,046,692	5,470,305	8.4%	5.17%
Other Income	2,322,685	3,267,609	40.6%	3.09%
Total Income	94,634,651	105,709,542	11.7%	100

<i>Portfolio Quality-Recovery & Risk Analysis</i>		
	Jul-Sep '06	Oct-Dec '06
Recovery %	100 %	100%
PAR (%)	0.08 %	0.08%
Overdue amount	785,639	825,717

<i>Efficiency Ratios</i>		
Efficiency Ratios	FY-Sep '06	FY-Dec '06
Administrative Efficiency	19.18%	18.37%
Operational Efficiency	24.04%	24.23%
Operational Self sufficiency	163.27%	146.00%
Financial Self Sufficiency	114.47%	104.95%

<i>Profitability Ratios</i>		
Profit Ratios	FY-Sep '06	FY-Dec '06
Return on Assets (Adj.)	3.20%	1.12%
Return on Equity (Adj.)	6.34%	2.45%
Yield on Portfolio	35.89%	36.60%

CHANGES THIS QUARTER:

This quarter was a ceremonious one to end the year 2006. Robina Ishfaque earned the Citibank PPAF awards runners-up award. The learning center was opened. Kashf received the Skoll award. Kashf Foundation also received CGAP Financial Transparency merit award. 9 GL branches and 1 IL branch was opened during this quarter. Karachi began operations in this quarter thereby geographically expanding its outreach

SUMMARY OF THE OUTCOMES

The disbursement of all loan products, i.e. **General Loan (GL)**, the **Emergency Loan (EL)** and **Business Surmaya Loan (BSL)** showed increases over the quarter and can be attributed to greater turn around time of repeat clients and proper monitoring of exit ratio. The active clients number Cumulative amount saved, however, took a hit this quarter. Pilot phase of the **Home Improvement Loan (HIL)** is continuing in two of Kashf's branches: Ravi Rayon and Jorapul. Client's response to the product has been very encouraging and inclusion of another branch to the pilot phase is being contemplated over in order to gain diverse experience from the field before the rollout next year.

Better monitoring, tracking of client delinquency and dropout rates have helped in expanding and consolidating Kashf's client base. Recovery rate this quarter has been maintained at 100% while PAR further declined from 0.1% to 0.08%, due to strong portfolio management and better client screening procedures. Over this quarter, the organization has continued to concentrate curbing client attrition rate, propelling portfolio growth while maintaining portfolio quality, tailor making products based on the needs of its clients by offering them greater flexibility

Corrections and Changes in the Quarterly Report

Certain changes have been made in the quarterly report which is as under:-

- Instead of using outreach (cumulative) in the table titled "*Total Outreach of the Programme*" we shall now be using active clients (cumulative)
- The formula for attrition (attrition rate = net exit clients/repeat centers) in the same table which had been introduced in the previous quarterly update has now been reverted to the original formula (attrition rate = exit clients/active clients) which was used in the April-June 2006 quarterly report. The latter formula is accepted as a standard for MFIs and hence our own formula was replaced in favor of a more standardized one.

PROGRAM PERFORMANCE DURING OCTOBER-DECEMBER

Total Outreach of the Programme

Outreach					
	As on Sep 06	Oct	Nov	Dec	As on Dec 06
Active Clients (cumulative)	105,568	111,623	120,054	133,363	133,363
Exit Clients (Cumulative)	8,230	9,583	10,952	13,383	13,383
Customers attrition rate (%)	8%	9%	9%	10%	10%

Disbursement – General Loan

The table on the right illustrates the trends in GL disbursement over the last two quarters. The total amount of loans disbursed in the quarter October-December 2006 has increased by approx. 22%, while the number of loans disbursed registered a raise of 18% vis-à-vis the previous quarter.

Disbursement-General Loan					
	Jul-Sep	Oct	Nov	Dec	Oct-Dec
Loan Amount Disbursed (cumulative)	3,903,662,166	235,419,000	237,821,000	366,786,000	4,743,688,166
Number of Loans	322,589	15,015	16,618	25,394	379,616
Average Loan Size (Rs.)	12,101	15,679	14,311	14,444	12,496

For the month of July

Disbursement-General Loan			
	Jul-Sep	Oct-Dec	% change
Loan Amount Disbursed (cumulative)	76,958,000	116,862,000	51.9%
Number of Loans	20,567	31,281	52.1%
Average Loan Size (Rs.)	3,742	3,736	-0.2%

These statistics indicate an increase in GL disbursement due to increased outreach by new branches and also retention of clients in higher loan cycles. This can be explained by the increase in the Average Loan Size, rising 3.3% compared to July-September 2006. Maturity of branches which has led to higher loan sizes for the clients is partly responsible for this. Furthermore, since branches are being monitored on a monthly basis, target achievement and monitoring of exits is now being taken care of with due diligence.

Disbursement – Emergency Loan

Disbursement-Emergency Loan					
	Jul-Sep 06	Oct	Nov	Dec	Oct-Dec
Loan Amount Disbursed (Rs.)	596,185,669	31,608,000	34,680,000	50,574,000	713,047,669
Number of Loans	221,119	8,484	9,181	13,616	252,400

Average Loan Size (Rs.)	2,696	3,726	3,777	3,714	2,825
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The average loan size has showed a modest increase when compared with the previous Quarter. The loan amount disbursed increased by nearly 20% in October-December 2006. In other words, the growth in disbursement of the EL has been sustained over this period. The availability of this loan twice a year to a client has increased its demand. The particular value of the emergency loan is that it is “women friendly” product and enables the clients to access ready cash in the case of any small family emergency.

Disbursement – Business Surmaya Loan

Disbursement-Business Surmaya Loan					
	Jul-Sep	Oct	Nov	Dec	Oct-Dec 06
Loan Amount Disbursed (Rs.)	55,565,000	15,198,000	18,460,000	21,020,000	110,243,000
Number of Loans	1,413	370	487	544	2,814
Average Loan Size (Rs.)	39,324	41,076	37,906	38,640	39,177

IL disbursement is summarized in the table to the left. The loan amount and number of loans granted have increased. The modest increases are showing an acceptability of the product in the market. The average loan size however dropped compared to previous quarter.

The provision of the Business Surmaya 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 and “running” their enterprises

Savings

Savings					
	Jul-Sept	Oct	Nov	Dec	Oct-Dec
Savings (cumulative)	5,964,756	5,893,733	6,558,796	6,953,411	6,953,411
Outreach (cumulative)	105,568	111,623	120,054	133,363	133,363
Saving per client (Rs.)	57	53	55	52	52

The average savings showed a bell shaped trend this quarter with average savings increasing and then decreasing as more clients were added. Focus needs to be given to improving our savings product by motivating clients to save.

FINANCIAL SUSTAINABILITY

Overall performance

The organization's equity stood at Rs 706 M [Dec 2005: Rs 592 M]. The growth of Rs. 114M in equity resulted from total income of Rs 344M. The income from loans increased to Rs. 315M from Rs176 M for the year ended Dec, 2006.

Personnel cost increased by 106% to Rs 119Million [Dec 2005: 58 M]. The major increase in personnel cost is due to hiring of more staff for new branches, new salary scales in 2006 and new management positions. Number of total staff has reached to 853 [Dec 2005:395]

The administrative costs increased by 145% to Rs. 59M over the year. The major increase is due to setup cost of new branches, Karachi region, residencies, operational and branding research, change in branch operating budget, depreciation costs etc.

Source of Income Generation				
Income from Financial Services	Jul-Sep '06	Oct-Dec '06	%age Change	Share (%)
Service Charge	87,265,274	96,971,628	11.1%	91.7%
Investments	5,046,692	5,470,305	8.4%	5.17%
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Total Income	94,634,651	105,709,542	11.7%	100%

Compared to the last quarter, income rose from 87 million to 96 million registering an increase of 11.1%. Percentage share of income generated over the quarter resulted from 91.7% income generation in service charges, 5.17% from investment income (on receipt basis) and 3.09% from other sources. The respective indicators for the previous quarter were 92.2%, 5.3% and 2.5%.

This quarter the share of income generated from

service charges has decreased slightly and the share of income from investments and other sources has slightly increased.

Profitability Ratios

Profitability Ratios		
Profit Ratios	FY-Sep '06	FY-Dec '06
Return on Assets (Adj.)	3.20%	1.12%
Return on Equity (Adj.)	6.34%	2.45%
Yield on Portfolio	35.89%	36.60%

The return on assets ratio decreased from 3.20% last quarter to 1.12% this quarter, the return on equity ratio decreased from 6.34% to 2.45%. Yield on portfolio increased slightly from 35.89% last quarter to 36.6% showing a positive trend this quarter. Kashf has a policy of disbursing repeat centers within 24 hours however upon inspection it was found that repeat centers were taking longer than 1 day to be disbursed thereby registering as a decrease in the portfolio yield and negatively reflecting on all factors.

Efficiency Ratios

<i>Efficiency Ratios</i>		
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Administrative Efficiency	19.18%	18.37%
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The above table illustrates the trend of administrative efficiency, operational efficiency, operational self sufficiency and financial self sufficiency over successive quarters from October– December 2006.

Administrative efficiency, defined as the cost required in maintaining Rs 1 in the market decreased from 19.18% last quarter to 18.37% this quarter. Operational efficiency highlights the efficiency of the loan disbursement system and has slightly increased from 24.04% last quarter to 24.23% this quarter.

Operational self-sufficiency measures whether the revenue generated by the program is sufficient to cover its overheads and financial self-sufficiency estimates whether the program would still be sustainable if it is compelled to borrow at market rates. Operational self-sufficiency decreased since last quarter dropping from 163.27% to 146.00%. Financial self-sufficiency also decreased slightly from 114.47% last quarter to 104.95% this quarter. This is due to the aggressive growth strategy that Kashf is undertaking, cost of funds increasing due to the use of running finance and limit on the amount of subsidized credit available.

Operational performance

The sustainability ratios shows a decreasing trend as compare to the previous year, OSS stood at 146% [Dec 2005: 185%] due to opening of 37 more branches, 4 area offices and Karachi Region. Since new branches take time to become operationally sustainable. Income on loans has shown increase of over 79% as compared to previous year. The operating efficiency ratio has gone up by 2% as compared to previous year this variation is due to additional costs of new branches, which are not yet fully operationalized.

HUMAN RESOURCES

	Jul-Sep, 2006		Oct-Dec 2006	
Total Permanent Staff	596		727	
Total Staff (HO Field)	68	528	67	660
Gender Ratio	Male 62%	Female 38%	Male 61%	Female 39%
Total Trainee Staff	168		123	
Total Trainees (HO Field)	7	161	2	121
Trainees Gender Ratio	Male 61%	Female 39%	Male 38%	Female 62%
Total Staff Recruited	173		146	
Staff Recruited (HO Field)	9	164	4	142
Gender Ratio	Male 62%	Female 38%	Male 37%	Female 63%
Turn Over (Quarterly)	Voluntary 91%	Involuntary 9%	Voluntary 100%	Involuntary 0%
Overall Turn Over	4%		4%	

Keeping in view Kashf's expanding portfolio of clients, research and opening up of branches in new areas and increased penetration in mature branches, staff numbers continue to increase with a greater chunk being hired for field operations. A 23% increase in staff registered this quarter taking total staff count to 732. Trainings of female staff also increased this quarter with trainee female staff outnumbering trainee male staff. Our intended goal is to increase female trainings to 75%, so this quarter was a step in the right direction.

S #	Objective of Training	Trainer/Institution
1	Personal Effectiveness Tools	Abbas Hussain
2	English fluency course	Punjab University
3	Essential for organizational Management	NGORC
4	Microfinance Management	PFAET
5	Mgmt & Soft Skills Development Course	PITB

The number of in-house trainers increased from 2 to 4, last quarter to provide in house trainings in the learning center which shall begin operations in January to fulfill the need for staff development as Kashf rapidly expands. In-house trainers shall be conducting frequent orientations, trainings and policy refreshers for new and existing staff.

A list of external trainings taken by our staff is given in the left column. We focus on staff retention through trainings and internal promotions

GENDER EMPOWERMENT & SOCIAL ADVOCACY (GESA)

Initiative	Out come
Theater	<ul style="list-style-type: none"> ▪ GESA has been at the forefront of promoting Kashf’s image as a responsible MFI and creating awareness among its clients through various initiatives. Theatre is the most effective interactive tool to delight and inform the clients on a multiple of social issues and involve them actively in the debate which naturally proceeds from open ended theatre performance. The performance is usually based on a true story depicting the socio-economic plight of women in the patriarchal set-up of our society. In the interactive session, true stories of the clients who voluntarily climb up the stage and share their experiences are recorded. ▪ GESA conducted focus groups to gauge theatre impact. Clients found theater as a unique and delightful feature of Kashf’s program which no other competitor offered and provided a platform to clients in sharing their problems ▪ 34 performances conducted ▪ 3 New Groups trained ▪ 6,000 clients out reach covered ▪ 6 Focus Groups conducted
Leadership	<ul style="list-style-type: none"> ▪ The purpose of leadership training is to make the Center managers (from among clients who are assigned responsibilities of managing their centers and meetings) become aware about their roles in their center as well as become efficient in solving center problems that arise. ▪ 2 branches covered ▪ 15 sessions conducted
Gender Client Council	<ul style="list-style-type: none"> ▪ Impact of GCC: ▪ The issue of cleanliness was highlighted in KP and RR and solved through the help of union councils ▪ Linkages has been identified for provision of maternity related health facilities for clients of Qainchi branch with the collaboration of “CAMP” NGO ▪ Legal aide provided regarding an inheritance dispute among Qainchi clients ▪ Anti-violence committees formed to reduce incidence of domestic violence ▪ Water and sanitation project initiated with IRC collaboration to generate awareness regarding water and sanitation service delivery at B.P / Y.G ▪ Client’s satisfaction gained, as no other competitor provide such services in these areas

	<ul style="list-style-type: none"> ▪ 2 new Gender Councils established at Qainchi and Baghbanpura ▪ Total 4 councils
GAD Workshop	<ul style="list-style-type: none"> ▪ Staff, play an active role in addressing gender related issues in communities and in developing gender-sensitive culture within the organization. ▪ 2 workshops ▪ 50 LOs and COs from Khushab and Sargodha were sensitized on gender issues and they will take forward Kashf's mission with conceptual clarity
Media and Networking	<ul style="list-style-type: none"> ▪ Media: The purpose of these media sessions is to market Kashf and make people aware of the work Kashf is doing within the microfinance sector. ▪ Initial contacts established with media for new districts like Multan, Okara and Sahiwal. ▪ New chairmanship coverage in news papers highlighted ▪ Participation in gender network meeting to generate awareness on social issues. ▪ Union councils: ▪ 12 Kashf orientation sessions were conducted with UCs for area 1, 2, 3 ▪ Ichra and Dharampura potential areas identified and data send to operation ▪ Operations Department ▪ Kashf's orientation conducted at District Okara for 30 lady councilors, also get media coverage ▪ 120 Councilors, 30-lady councilor, 12 Nazims outreach covered ▪ Contact list provided to HR and Ops for research and hiring ▪ 30 lady councilors were given Kashf's orientation from Okara Districts. ▪ Sahiwal opening ceremony coverage in news papers