



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

# Kashf Foundation

*“FINANCIAL SERVICES FOR ALL”*

QUARTERLY REPORT

OCTOBER-DECEMBER 2007

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## CHANGES THIS QUARTER

- Kashf Foundation ranked # 34 in Forbes' first ever list of the World's Top 50 microfinance institutions (MFIs). The list was prepared by taking into account the size of the gross loan portfolio, cost effectiveness of the institution, profitability ratios and PAR value.
- Kashf Foundation achieved a ranking of # 22 on the MIX Market list of top MFIs in the world.
- Home Improvement Loan pilot was closed in December and was handed over to the operations department in December 2007 to be made available to all clients of Kashf Foundation.
- There was an increase of 18% in the number of active clients, with the total number coming to 295,275 clients at the end of the year 2007.
- At the end of December 2007, the total number of branches went up to 154, with 139 GL branches and 15 BSL ones.
- The Learning Centre (LC) was officially opened at the Kashf Foundation in November 2007. The LC contains operational and managerial handbooks detailing organization-wide policies at Kashf Foundation.
- An Empowerment Study was conducted by GESA with an objective of gauging the extent of empowerment in order to identify factors that make women's empowerment and potential limited.



**OCTOBER - DECEMBER 2007:**

*AT A GLANCE*

Total Outreach for Program	As on Sep '07	As on Dec '07
Active Clients	239,550	298,241
# of Loans (GL) (Cum.)	564,182	661,025
# of Loans (EL) (Cum.)	371,026	422,649
# of Loans (BSL) (Cum.)	12,247	15,602
Total Loans (Cum.)	947,455	1,099,276
<u>Attrition rate (%)</u>	5%	8%

Portfolio Quality-Recovery & Risk Analysis		
	As on Sep '07	As on Dec '07
Recovery %	100%	100%
PAR (%)	0.34%	0.30%
Overdue amount	2,419,065	6,040,810

Profitability Ratios		
Profit Ratios	FY - Sept '07	FY - Dec '07
Return on Assets (Adj.)	4.11%	2.79%
Return on Equity (Adj.)	10.43%	7.46%
Yield on Portfolio	35.81%	31.66%

Efficiency Ratios		
Efficiency Ratios	FY - Sept '07	FY - Dec '07
Administrative Efficiency	16.13%	14.45%
Operating Efficiency	24.93%	23.31%
Operational-Self Sufficiency	152.91%	146.83%
Financial Self Sufficiency	117.79%	112.26%

## PROGRAM PERFORMANCE DURING OCTOBER - DECEMBER 2007

### *Disbursement – General Loan*

Outreach	As on Sep '07	Oct	Nov	Dec	As on Dec '07
Active Clients (cumulative)	239,550	251,904	264,814	282,396	282,396
Exit Clients (Cumulative)	12,046	2,439	2,725	4,446	21,656
Customers attrition rate (%)	5%	1%	1%	2%	8%

There was an increase of 18% in the cumulative client base. The client attrition rate, however, grew from 5% to 8%. This high attrition rate was the result of more repeat centers during this quarter, which led to the exit of 3-5 women from every repeat centre. Another major factor causing an increase in the client turnover was the socio-economic upheaval following various terrorist acts and suicide bombings in the country. The prevailing situation led to uncertainty in the clients with regards to their ability to pay back the loans, and translated into a high attrition rate for the Foundation.

Disbursement-General Loan	As on Sep '07	Oct	Nov	Dec	As on Dec '07
Loan Amount Disbursed (Cum.)	7,326,770,166	400,328,000	470,069,000	575,491,000	8,772,658,166
Number of Loans (Cum.)	564,182	27,355	31,784	37,704	661,025
Average Loan Size (Rs.)	12,987	14,635	14,789	15,263	13,271

The cumulative loan amount disbursed for GL in this reached Rs. 8.7 billion, showing a 19.3% increase over the last quarter. This increase is substantiated by a 17.2% increase in the cumulative number of loans figure. Thus, a direct relationship between the number of loans disbursed and the loan amount paid-out was observed. However, the average loan size remained at par with the last quarter's Average Loan Size (ALS) value. The last quarter of the year, October-December, 2007 witnessed more loan disbursements as the emphasis was on achieving year-end targets. This was one of the major factors leading to a spike in the number of loans disbursed during the period.

In this quarter, the loan amount disbursed escalated to 1.4 billion, registering a 33% increase over the last quarter.

This was matched by a 27% increase in the number of

Disbursement-General Loan	Jul-Sep'07	Oct-Dec'07	% change
Loan Amount Disbursed	1,083,511,000	1,445,888,000	33%
Number of Loans	76,218	96,843	27%
Average Loan Size (Rs.)	14,216	14,930	5%

loans disbursed during the period, October-December 2007. The average loan size rose up to 5% for this quarter.

### *Disbursement- Emergency Loan*

The EL remained in line with last quarter's and remained steady throughout the three months, resulting in an increase of 19% in the cumulative amount given-out at the end of the quarter October-December 2007. The cumulative number of loans depicted a slightly greater increase of 21%. The average loan size for the period displayed a diminutive decrease of 1%.

Disbursement-Emergency Loan	As on Sep '07	Oct	Nov	Dec	As on Dec '07
Loan Amount Disbursed (Cum.)	162,201,000	193,068,000	69,199,000	60,114,000	1,354,548,069
Number of Loans	42,822	51,623	18,445	16,162	422,649
Average Loan Size (Rs.)	3,788	3,740	3,752	3,719	3,205

### *Disbursement – Business Surmaya Loan*

The loan amount for BSL followed a decreasing trend, and fell dramatically in the last month of December, due to reduction in the number of loans advanced in subsequent months of the quarter. However, the cumulative loan amount registered a percentage increase of 28.6% with the cumulative number of loans reaching an approximate value of 16,000 and depicting an increase of 27.3% over last quarter's. But, the increase in cumulative amounts was less aggressive as compared with figures for the last quarter. The average loan size for the October-December quarter didn't deviate from the last quarter's figure.

Disbursement-BSL	As on Sep '07	Oct	Nov	Dec	As on Dec '07
Loan Amount Disbursed (Cum.)	454,965,000	49,330,000	47,915,000	32,570,000	584,505,000
Number of Loans	12,247	1,268	1,258	827	15,591
Average Loan Size (Rs.)	37,149	38,904	38,088	39,383	37,490

The PAR value for BSL rose to 2.4% as of December, 2007 as compared to last quarter's 1.8%. This increase is mainly attributed to more delinquency and policy violations in 8 BSL branches. Political instability, which led to poor economic performance affecting small-scale businesses, was the major force that resulted in delinquent payments schedules of clients, hence increasing the chances of default, and a high PAR value.



### *Health Insurance*

Kashf Foundation's health insurance product provides quality health services to the clients within their reach. The product has been devised on a partner-agent model where the Foundation works with the insurance company, New Jubilee Insurance, with a view of providing hospitalization coverage to all its clients. A survey was conducted earlier in the year 2006 to determine the demand of such a product amongst the clients of Kashf Foundation. The survey displayed an increasing awareness in clients regarding health care, but due to unavailability of funds, the clients were often deprived of it.

Determined to be at the forefront of customer care practices and innovate products in line with clients' requirements, the Research & Business Development department at Kashf Foundation designed the health insurance product to facilitate the Foundation's clients in receiving quality and cost-effective health care. The health insurance pilot was rolled out in November 2007 in three branches in Lahore: Dharampura, Green Town and Walton. The purpose of the pilot was to gauge the overall workability and feasibility of the product. Health insurance premiums are collected from the clients at the beginning of new centre formation. This product is made available to all new and repeat centre clients. A cover of up to Rs. 25,000 each is provided to the client and her nominee. The pilot is scheduled to end in mid-year 2008.

### *Disbursement- Health Insurance*

The total number of centers and clients disbursed till the end of December 2007 are 32 and 1,185 respectively, out of which 673 were female clients and 512 male husbands. The total premium collected for the month at Rs 350 is Rs. 414,750. The table below depicts the enrollment schedule:

Health Insurance Enrollment			
Branches	November	December	Total
Dharampura	272	400	672
Walton	200	218	418
Green Town	63	32	95
Total	807	650	1,185

### *Disbursement- Home Improvement Loan*

Disbursement-Home Improvement Loan					
	As on Sep '07	Oct	Nov	Dec	As on Dec '07
Loan Amount Disbursed (Cum.) (Rs.)	33,641,000	680,000	1,040,000	340,000	35,701,000
Number of Loans	498	11	16	5	530
Average Loan Size (Rs.)	67,552	61,818	65,000	68,000	67,360

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HIL displayed a downward trend as the total number of loans disbursed during the quarter totaled 32. HIL growth rate dampened in this quarter as compared with last quarter (July-September 2007). This quarter reported a growth rate of 6.25% against last quarter's 16%. Total numbers of loan disbursed in this quarter were 530. The average loan size didn't show any variation over last quarter's.

The table shows that the total loan amount disbursed went down by 58% over last quarter. The number of loans disbursed during this quarter dipped to 32 as compared to last quarter's figure of 73. 300 loans were

disbursed in the three branches that were selected for the pilot. In this quarter, the branches reached their maturity level,

Disbursement-Home Improvement Loan			
	Jul-Sep'07	Oct-Dec'07	% change
Loan Amount Disbursed (Rs.)	4,860,000	2,060,000	-58%
Number of Loans	73	32	-56%
Average Loan Size (Rs.)	66,575	64,375	-3%

due to which there was a negative growth in HIL, and the average loan size also fell by 3%.

### Insurance - Enrollment

Enrollment		July-Sep 2007	Oct-Dec 2007	Total
Premium Received	Lives Covered	80,253	99,978	245,307
	Amount (In Rs.)	23,536,919	30,005,338	72,277,506
Cumulative Lives Insured		323,111	423,089	989,058
Death Claims received from branches	No. of Claims	484	549	1,432
	Amount (In Rs.)	7,639,516	8,895,464	22,924,280

The table above shows the number of life insurance clients during the two quarters. Since, insurance is mandatory on all clients between the ages of 18 to 60 and who are accessing the GL loan, it follows the trend of disbursements. Hence, the life insurance showed a positive increase as compared to the previous quarter. The number of claims increased by 13.4% compared to a rise of nearly 27.4% increase in the premium collected. However, due to proper checks and balances and a procedure in place for follow-ups, the claims are monitored to avoid fraudulent use of the insurance.

## FINANCIAL SUSTAINABILITY

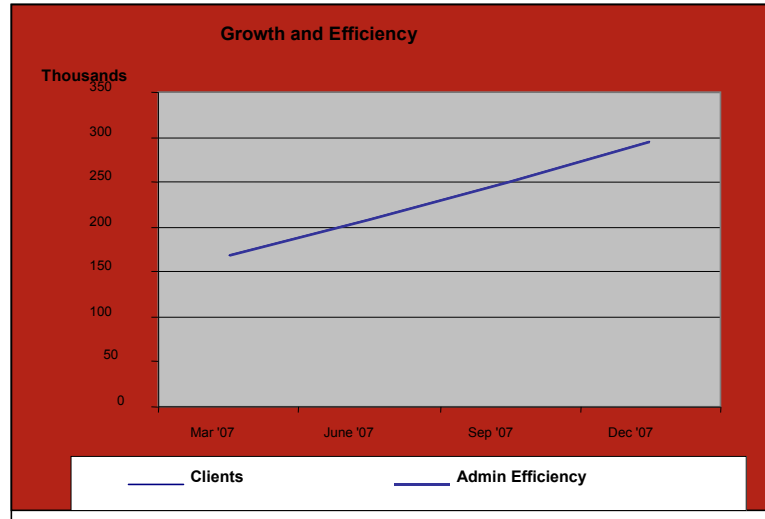
### Overall performance



## KF QR 2007 4<sup>th</sup> Quarter

The October to December quarter has ended with 295,275 clients, and over Rs. 3 billion in total outstanding loan portfolio. As of December, 2007, Kashf Foundation has a wide branch network of 139 GL branches and 15 BSL branches. The PAR value for its GL branches remained at less than 0.5%. The organization experienced a growth rate of 13% in its client base.

Growth Vs Efficiency is shown in graph on the right:



The organization's equity stood at Rs 1.179B (Dec 2006: Rs 932M). The growth of Rs. 247 in equity resulted from the revenue for the year of 633M which increased by 112% (Dec 2006: Rs 356). The total asset base for the Foundation rose to Rs. 3.89 billion as compared to last quarter's value of Rs. 3.1 billion. The asset mix by weight showed improvement in general, enhancing ability of the organization to generate income at a higher rate. The sources of finances changes during the year and on lending funds were met through PPAF funds and Commercial loans. Commercial bank loans for Rs. 1,142 million and PPAF Rs. 1,614 million have been utilized in this year. The average COF for the year is 9.56%.

The total overdue amount as on December 2007 was Rs. 6 million as there was a 31% rise in cumulative amount for GL and a corresponding increase in the number of loans disbursed for GL. The average loan size remained unchanged for the GL portfolio. PAR has gone down to 0.3% over last quarter's 0.34%, which is attributed to a lower PAR on GL portfolio.

Portfolio Quality-Recovery & Risk Analysis		
	As on Sep '07	As on Dec '07
Recovery %	100%	100%
PAR GL (%)	0.34%	0.30%
Overdue amount	2,419,065	6,040,810

<i>Source of Income Generation</i>				
Income from Financial Services	July - Sept '07 (In Rs.)	Oct - Dec '07 (In Rs.)	%age Change	Share (%)
Service Charge	198,156,993	205,837,439	3.97%	89.5%
Investments	8,261,882	16,248,806.24	96.7%	7%
Other Income	5,293,351	8,033,356	51.8%	3.5%
<b>Total Income</b>	<b>211,712,226</b>	<b>230,119,601.2</b>	<b>8.7%</b>	<b>100%</b>

There was a mere 3.97% rise in the income received from loans, as the number of loans disbursed went up. The total income amount went up to 8.7% as compared to previous quarter's 28%. Lower percentage earnings from service charge were mainly responsible for the diminishing percentage increase in total income. However, investments went up by a much larger percentage of 96.7% over the last quarter. Income generated from other sources also rose up to 51.8% over the last quarter.

### *Efficiency Ratios*

**Administrative Efficiency** is defined as the cost required in maintaining Rs.1 in the market. There has been a decrease of approximately 1.7% in administrative efficiency, depicting a downward trend in the administrative cost to the Foundation, which can be a result of effective cost management policies adopted by the organization, thus, implying that the same Rs.1 can be maintained in the market at a lower cost.

<i>Efficiency Ratios</i>		
Efficiency Ratios	FY - Sept '07	FY - Dec '07
Administrative Efficiency	16.13%	14.45%
Operating Efficiency	24.93%	23.31%
Operational Self Sufficiency	152.91%	146.83%

**Operating Efficiency** refers to the efficiency of the loan disbursement system. The operating efficiency ratio has gone down to 23.31% as compared with September's figure of 24.93%. This improvement is a result of an increase in average total portfolio has and effective budgetary controls.

**Operational Self-Sufficiency (OSS)** measures whether the revenue generated by the program is sufficient to cover its overheads, whereas **Financial Self-Sufficiency** estimates whether the program would still be sustainable if it is compelled to borrow at market rates. For FY - December'07, the OSS stood at 146.83% [FY - September'07: 152.91%]. Repeat centers in mature branches plus the fact that most branches carry out majority of their disbursements in the last quarter in order to realize year-end goals, has resulted in the OSS jumping up from the previous quarter. Financial Self-Sufficiency remained consistent with last quarter's trend and fell further from 117.79% in the previous quarter to 112.26% in this quarter, as there were less COF adjustments due to increase in commercial funding liabilities.

## HUMAN RESOURCES

The HR unit works closely with all other departments within the organization to accurately determine personnel needs and design efficient people's solutions that will achieve business goals. Due to rapid expansion, hiring was done at the managerial level as well as the field level. In all, 136 personnel were recruited over this quarter.

	July - Sep-07		Oct-Dec 07	
<b>Total Permanent Staff</b>	1096		1234	
Total HO Staff	74		76	
Total Field Staff	1022		1158	
<b>Gender</b>	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
Number	582	514	661	573
<b>Total Staff (Trainee + Perm)</b>	1335		1364	
Total Staff (HO)	79		84	
Total Staff(Field)	1256		1280	
<b>Gender (Trainee + Perm)</b>	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
Ratio	53%	47%	54%	46%
Number	709	626	736	628
<b>Total Staff Recruited</b>	148		136	
Total Staff Recruited(HO)	6		9	
Total Staff Recruited(Field)	142		127	
<b>Gender Recruited Staff</b>	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
Number	76	72	72	64

### *Staff Recruitment and Gender Balance*

- A 12.6% increase in staff strength was registered this quarter taking the total staff count to 1,234. The recruitment team continued to identify and employ talented and committed staff as 138 employees were inducted during the last quarter.
- Due to preference given to ensuring gender equality, the female gender ratio at the organizational level has increased from 41% to 46% at the end of the year 2007. Total 127 employees were recruited in the field in which 46% were female and total employees were hired for Head Office position including 67% females.
- The organization provides chances of vertical and lateral growth within the organization to its employees. Due to this, 15 CO's were promoted as ITO's including 20% females and 2 female Branch Managers were promoted as Area Managers.



### *New HR Initiatives*

Several functional initiatives were taken in HR department during the last quarter of 2007.

- HR teams conducted orientations for all newly hired staff, in order to orient them with the Kashf culture, vision and mission, in line with
- The HR unit reviewed and finalized HR Policy Manual to document and inform all staff members of Human Resource practices at Kashf Foundation.
- HR carried out a renewal of Health/Life Insurance Policy with improved benefits to serve as an incentive in retaining top talent with the organization.
- Focus groups and field visits were also conducted by HR team in order to interact with staff and to become aware of their issues to bring about positive changes in HR policies that are necessary for raising employee morale.



## KASHF LEARNING CENTER

The Learning Centre was officially opened in this quarter (October-December 2007) with the intention of imparting management and functional skills to the employees and creating a healthy learning culture within the organization. A training library was duly launched to cater to the ever-changing learning needs of the staff and to orient them with managerial and operational policies of the Foundation.

### *Internal Trainings: October – December 2007*

Internal trainings focused on giving policy refreshers, orientation for new loan officers, customer & care and fraud management and a host of other areas.

Serial #	Training type	Training Achieve Quarter 4	No. of people
1.	Orientation trainings For GL LOs	03	70
2.	Ext TBMs orientation + Internal TBM	01	15
3.	Personal Effectiveness Tool for Star performers	03	91
4.	refresher on ethics, fraud, customer care	05	148
5.	Leadership & management: Fraud mgt & customer care	02	55
6.	Leadership Development course” Impact leadership course” Phase-I	01	22
7.	Ethics & values	1	61

***External trainings: July – September 2007***

External trainings were concentrated in the second and the third quarters of the year 2007. Therefore, only four external trainings were held in the last quarter, October to December 2007. The detailed report for the trainings is as follows:

Sr #	Month	Training	Department	Training Objective	Training outcomes
1	Oct	Communication skills Development (5 weeks program)	Finance	- To enhance English language verbal & written	- improved confidence level in the use of verbal& written English language
2	Oct	Financial Analysis & Management for middle managers	Finance	- To build Analytical skills as a Finance manager	- Enhancement of analytical skills & management skills.
3	Oct	Personal Effectiveness Tool	Ops-	- To improve positive behavior, time management & people Management	Change in mind sets & positive approach necessary to conduct meet job requirements
4	Nov	Staff management for middle managers	Ops	- To enhance Managerial skills & team management	- staff conducted customized version of training to BMs under training relay initiative of L&D team

## GENDER EMPOWERMENT & SOCIAL ADVOCACY

In this Quarter, GESA undertook an empowerment study that was designed to explore Kashf Foundation's clients' and their husband's vision of women empowerment. It includes analysis and evaluation of women status at home, in their respective communities and in the society at large. Efforts have been made in this study to gauge the extent of empowerment in order to identify factors that make women's empowerment and potential limited. The study identifies indicators that should be used to measure women empowerment identified by the women themselves.

The department also maintained its focus on providing a host of financial and non-financial services to the staff and clients of Kashf Foundation. Details of various initiatives undertaken by GESA in the October-December quarter (FY 2007) are given below:

Activity	Outcomes
<b>Knowledge Management</b>	<ul style="list-style-type: none"> <li>➤ Weekly review meetings and monthly plan</li> <li>➤ Monthly review and report to CEO, Head of HR strategies and Training</li> </ul>
<b>Theater</b>	<ul style="list-style-type: none"> <li>➤ <b>134 performances</b> in areas <b>2, 3, 4,5,7,9,14</b></li> <li>➤ Outreach: <b>36446 clients</b></li> <li>➤ Monitoring theatre: 40 performances</li> <li>➤ Held theatre programs in <b>Multan, Rawalpindi, Sahiwal and Khanewal areas</b></li> </ul>
<b>Leadership Training</b>	<ul style="list-style-type: none"> <li>➤ Leadership training Package Formation and preparation</li> <li>➤ Pilot Test of Leadership at Begum Kot and Green town 2</li> </ul>
<b>Empowerment Study</b>	<ul style="list-style-type: none"> <li>➤ Planned and Conducted Empowerment Study</li> <li>➤ Execution of the plan in field with criteria for groups selection</li> <li>➤ 9 focus group were conducted on empowerment study in Jallo, Okara, Sunder , Walton and Dharampura , and reported the findings.</li> </ul>
<b>5 Promises for center Managers</b>	<ul style="list-style-type: none"> <li>➤ Finalization of Credit Committee Promises, Clients promises, gender Oath</li> <li>➤ Orientation sessions with the branches</li> <li>➤ Pilot test in Kot Abdul Malik , Siraj Pura</li> </ul>
<b>ID card project</b>	<ul style="list-style-type: none"> <li>➤ Coordinate with NADRA to continue ID project in Chungi , Jallo 1,2, Branch</li> <li>➤ Implementation of project and daily basis coordination with NADRA mobile team, UC Nazim and Chungi 1,2 branches</li> <li>➤ Outreach: <b>875 client +spouse covered</b></li> </ul>

## ANNEXURE

	Indicators	Target for the year 2007 ended Dec 31,	Actual for the year ended Dec 07	Actual for previous quarter 07
	<b>Institutional characteristic:</b>			
1	Number of employees	2,333	1,393	1335
	<b>Outreach indicators:</b>			
3	Number of branches	157	154	115
4	Number of active clients	315,000	295,275	208,375
5	Number of active clients per branch	2,055	1,917	1,816
6	Number of loan officers	883	821	606
	<b>Portfolio and credit quality</b>			
7	Total loan outstanding (gross) (in Millions)	3,095	3,046	2,046
8	Portfolio at risk ratio (PAR)	1%	0.77%	0.10%
9	Overdue loans (In million)	0	6.04	1.22
	<b>Sustainability/Profitability ratios:</b>			
10	Return on equity (ROE)	20%	22%	21%
11	Operating self sufficiency (OSS)	139%	148%	145%
12	Financial self sufficiency (FSS)	113%	113%	118%
	<b>Asset / Liability management ratios:</b>			
13	Yield on gross portfolio	36%	32%	37%
14	Financial Cost Ratio	7%	7%	8%
15	Average Cost of debt	11%	10%	12%
	<b>Efficiency and productivity ratios:</b>			
16	active Clients per LO	242	360	345
17	active Clients per total staff	150	204	M
18	Administrative Efficiency	15%	14%	18%
19	Operating expense ratio	27%	23%	M
20	Personnel expense / Loan portfolio	8%	9%	M
21	Exit Rate	6%	3%	3%
22	Portfolio per loan officer (in million)	2	4	3
	<b>Financing structure:</b>			
23	Debt/equity ratio	1.9x	2.1x	1.5x