



Annual Report 2005



Pakistan Poverty Alleviation Fund



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Acronyms

AKIDA	Al-Khalil Institutional Development Associates
BME	Benefit, Monitoring and Evaluation
CED	Credit and Enterprise Development
CO	Community Organization
CPI	Community Physical Infrastructure
CSC	Community Support Concern
CUP	Community Uplift Programme
DAMEN	Development Action for Mobilization and Emancipation
DMPP	Drought Mitigation Preparedness Program
ECPL	Engro Chemicals Private Limited
EDF	Enterprise Development Facility
EFL	Engro Foods Ltd
ERD	Evaluation, Research and Development
HID	Human and Institutional Development
HRDS	Human Resource Development Society
IA	Internal Audit
IAUP	Integrated Area Development Program/Project
IDA	International Development Association
NRSP	National Rural Support Program
OPD	Organization for Participatory Development
PO	Partner Organization
PPAF	Pakistan Poverty Alleviation Fund
RCDS	Rural Community Development Society
SAFWCO	Sindh Agricultural and Forestry Workers Coordinating Organization
SRSP	Sindh Rural Support Program
SSDP	Social Sector Development Program
SVDP	Soon Valley Development Program
SWWS	Swabi Women Welfare Society
TRDP	Thardeep Rural Development program
USAID	United States Agency for International Development
USDA	United States Department for Agriculture

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Board of Directors and General Body Members

Chairman - Board of Directors & General Body:

Hussain Dawood Chairman, The Dawood Group.

Members - Board of Directors:

Mueen Afzal Former Chairman, Union Bank Limited, Pakistan
Nawid Ahsan Secretary, Ministry of Finance, Government of Pakistan.
Maliha H Hussein Independent Consultant.
Ahmed Jawad Additional Secretary, Economic Affairs Division, Government of Pakistan.
Kaiser H Naseem Former President, Small and Medium Enterprise Bank.
Syed Ayub Qutub Executive Director, Pakistan Institute of Environment Development & Research.
Aijaz Ahmed Qureshi General Manager Transition, Sindh Irrigation & Drainage Authority.
Fareeha Zafar Director, Society for the Advancement of Education.
Kamal Hyat Chief Executive, Pakistan Poverty Alleviation Fund.

Members - General Body:

Rafiud Deen Ahmad Senior Partner, Orr, Dignam & Co.
Rashid Bajwa Chief Executive Officer, National Rural Support Programme.
Javed Burki Former Secretary, Government of Pakistan.
Akmal Hussain Managing Director, Sayyed Enginners ltd.
Ashraf Muhammad Hayat Joint Secretary, Ministry of Communication and Railways, Government of Pakistan.
Ainullah Khan Kakarr Former Civil Servant.
Shoab Sultan Khan Chairman, National Rural Support Programme.
Sono Khangharani Executive Director, Thardeep Rural Development Programme
Hamayun Murad Managing Director, Orix Leasing Pakistan ltd.
Aisha Ghaus Pasha Deputy Director, Social Policy and Development Center.
Mutawakkil Qazi Member, Federal Public Service Commission.
Muhammad Ismail Qureshi Secretary, Ministry of Food, Agriculture & Livestock, Government of Pakistan.
Fazlullah Qureshi Member, National Electric Power Regulatory Authority.
Sadiqa Salahuddin Executive Director, Indus Resource Center.
Zari Sarfraz Industrialist/Agriculturist/Social Worker.
M Suleman Shaikh Honorary Chief Executive, Sindh Rural Support Organization.
Mohammad Tahseen Executive Director, South Asia Partnership.
Jahangir Tareen Federal Minister for Industries & Productions & New Initiatives, Government of Pakistan.

All Members of Board of Directors except Kamal Hyat are also Members of General Body

Company Secretary: Iltifat Rasul Khan
Auditors: Ford Rhodes Sidat Hyder & Co. Chartered Accountants
Legal Advisors: Azam Chaudhry Law Associates
Registered Office: House No. 1, Street 20
Sector F-7/2, Islamabad, Pakistan



Chairman's Message

Last year my message ended on a note of caution. I was referring to the extraordinary expansion of PPAF interventions as compared to former years. I am pleased to say that the growth has been well handled. Due diligence, professionalism, and a focus on impact continue to be the hallmarks of the programme.

In my view the mission is as much about increasing incomes as it is about changing mindsets. This entails a renewed effort of building appropriate capacities within the partner organizations and their communities. Once this is done, challenges of the future can be successfully negotiated.

The continued relationship with partner organizations on a transparent and equitable basis is the key to a long term sustainable relationship. I am pleased to see the progress that has been made in this regard, and would like to see a further strengthening of these bonds in the coming years.

A significant achievement of the institution has been the success in building the capacities of smaller partner organizations. As these organizations expand their operations, there will be a viable network of civil society organizations serving vulnerable people and communities in the remotest parts of the country. As a result of the excellent track record of PPAF, there is now substantial support for PPAF from all stakeholders. This is a good indicator of the credibility that the institution has been able to achieve within a relatively short span of time. It is now important for PPAF to share its

experiences and successes with a wider audience at national and international levels.

The management team needs to be congratulated for their professional approach and dedication in meeting targets set for the year ending June 2005. I would like to thank the Board of Directors, and members of the General Body for their valuable inputs and time. The support received by the Government of Pakistan and World Bank has been exemplary, and I take this opportunity to thank them for their facilitation.

We are now well poised to take the PPAF programme well beyond the confines of traditional community driven projects. We hope to achieve this by broadening and deepening the scope of interventions. For this to happen we need to look at the bigger picture and provide necessary linkages between micro, mezzo, and macro economies.

That is the way ahead, and although the challenge is formidable I believe that through teamwork, it is substantially achievable.

A handwritten signature in black ink, appearing to read 'Hussain Dawood'. The signature is stylized and fluid, with a large initial 'H' and 'D'.

Hussain Dawood



Chief Executive's Statement

This year's annual report is testimony to the evolution of the PPAF as an apex institution of considerable note. The promising start of the early years has been fully realized, and the progress made in the current year has been most gratifying and remarkable.

The steadfast belief in the inherent strength and potential of rural communities to act as agents of change remains the central philosophical underpinning of the program. Once this is understood it is no longer possible to restrict the activities and domain of vulnerable people within the narrow confines of traditional "micro" technologies. It becomes necessary for them to be linked with mainstream "mezzo" and "macro" development initiatives.

It is in this spirit that a few major initiatives, such as the integrated village development projects, drought mitigation and preparedness plans, enterprise development facility for the "missing middle", and linkage of communities with a corporate sector entity for milk production and marketing facility were developed. The details of these innovative interventions are found in this report.

A key factor in continuing success of the PPAF has been the exemplary facilitative role played by all the stakeholders. The Government of Pakistan needs special mention in this respect. The World Bank has been extraordinarily supportive. Mr. Hussain Dawood, Chairman of the PPAF, has provided an expansive vision, which is very ably backed and fine tuned by members of the board.

PPAF's image is a true reflection of the work carried out by partner organizations. We are indebted to them for sharing their experiences in the field, and carrying our joint message of empowerment and hope to the remotest parts of the country. By all standards their contribution has been outstanding.

The PPAF management team has been a pleasure to work with, and their contribution to the development of PPAF as a sustainable and credible institution cannot be understated. Their resolve, professional competency, and dedication have been a major factor in placing the PPAF as a lead institution for poverty alleviation in the country.

I would also like to thank the many eminent people who have visited PPAF during the year. By listening to them we have gained much and this has provided us added information and wisdom to do things better. We continue to look forward to engaging with them and others in the future.

It is clear that as long as we continue to listen to the voices of the people we will continue to grow.

We will listen, and therefore we shall grow.

A handwritten signature in black ink, appearing to read "Kamal Hyat", written over a diagonal line.

Kamal Hyat

PPAF Overview

The Pakistan Poverty Alleviation Fund (PPAF) draws its rationale from the growing success and viability of the participatory development paradigm, which seeks to counter poverty by mobilizing communities at grassroots level. As an apex institution, PPAF works through partner organizations with the aim of strengthening their institutional capacities and expanding their outreach. In this way, it plays a pivotal intermediary role between donors and communities that ensures transparency, efficiency and sustainability.

In the five years of its operational life, PPAF has disbursed Rupees 10.12 billion to communities spread over 96 districts of Pakistan. The exponential increase in the volume of funds disbursed through its partner organizations reflects both organizational efficiency and donor confidence. At the same time, it calls for rigorous self-evaluation and maintenance of systems for regular monitoring of PPAF's growing activities.

While poverty alleviation strategies based on microcredit delivery at grassroots level remains the largest operating window of PPAF, its collaborative efforts in realizing community infrastructure projects and human resource development schemes have also gained momentum over time.

In FY 2004-5, PPAF's Credit and Enterprise Development unit recorded the largest growth in terms of funds disbursed. The unit's annual disbursement figure of Rupees 3106.36 million represented a rise of approximately 47 percent over the last financial year. Similarly, Human and Institutional Development unit recorded a 54 percent increase over the same period. On the other hand, Community and Physical Infrastructure unit experienced a downturn in its yearly spending over the last year due to unusually bad weather conditions, particularly in the Northern Areas, which hampered a large number of infrastructure schemes.

PPAF operations reflect an increasingly equitable gender balance as manifest in the growing number of female beneficiaries: women accounted for 36 percent of loan disbursements under CED and 40 percent of trainings held under HID in FY 2004-5. Additionally, women comprised an estimated 47 percent of all direct and indirect beneficiaries of PPAF's CPI interventions. By the end of the financial year, 10 out of PPAF's 56 partner organizations were catering, predominantly, to females.

The growth in PPAF's outreach and resources has increased its sense of responsibility. Not only is PPAF mindful

of the burgeoning expectations of partner organizations and participating communities, it is also conscious of the growing trust reposed in it by donors. PPAF is continually refining its capacities and structures to regularly monitor and evaluate its own performance, in addition to that of its POs. Lessons learnt in this context continue to feed the institutions' learning curve and reform its operational practices. The Benefit Monitoring and Evaluation system complements the tools and systems being put in place by the Evaluation, Research and Development Unit. Whereas these tools provide a feedback mechanism critical to evaluation and monitoring of PPAF interventions, they simultaneously contribute to the development of in-house research capabilities. Together, such processes will consolidate the successes achieved in previous years, while laying the foundations of a better future. An aggressive plan was put in place during the year under review to ensure that this happens.

Simultaneously, plans for up-scaling PPAF's capacity have been operationalized for better service delivery in the social sector. The initiation of PPAF's Social Sector Development unit, which will address problems of Health and Education, is commensurate with institution's growing awareness of the need to adopt a holistic approach to poverty alleviation.

Poverty alleviation and eradication in Pakistan is a monumental task. Independent studies have concluded that PPAF is making a difference. By end of June 2005, PPAF funded micro-credit schemes had reached around 616000 borrowers in approximately 18500 villages of the country. In the process, over 49000 new community organizations have been organized as a direct result of PPAF funds and support. Also, around 5700 physical infrastructure schemes have been completed with PPAF finances until June 30, 2005.

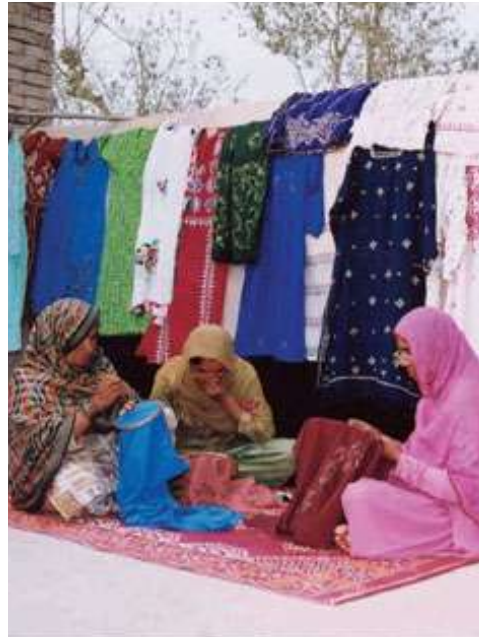
The benefits of PPAF interventions have touched around 8 million people, and it is evident from a study of the report that the forward momentum generated in FY 2003-4 has contributed in many ways to the afore-mentioned successes.

Credit and Enterprise Development

The Credit and Enterprise Development unit has functional responsibility for managing the microcredit component of PPAF. The unit has focused on identification of credible and capable POs through a transparent and rigorous process. The objective is to select institutions which can, with support and assistance of PPAF, become efficient intermediaries for cost effective and, in the long run, sustainable delivery of financial services to the poor.

As an apex national institution, PPAF has consistently maintained a diversified and healthy portfolio with special consideration to gender and equitable distribution of funds across the country. Under this mandate, the CED unit provides funding to legally established entities in non-governmental as well as private sector. The quantum of financing to each organization is determined by rationale of the proposal submitted, strength of its track record, as well as absorption and debt service capacity. By far the most significant aspect of financing has been development of appropriate credit synergies and risk management frameworks.

By end FY 2005, credit has been disbursed in urban and rural areas of 78 districts covering all provinces, regions and areas of Pakistan through 37 partner organizations.

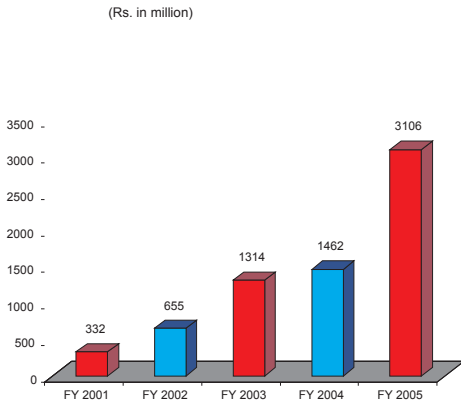


The emphasis on performance based lending played an important role in assuring quality of programs and outcomes. As a result of these efforts, the credit program has expanded from rupees 1,462 million in FY 2004 to rupees 3,106 million in FY 2005, indicating an increase of 112 percent (figure 2.1).

Corresponding with this expansion of credit, the number of borrowers (during the year) has risen from 148,735 in FY 2004 to 244,342 by the end of FY 2005 indicating an increase of 64 percent. The average loan size has also increased to rupees 13,000 from 9,307 rupees during the financial year.

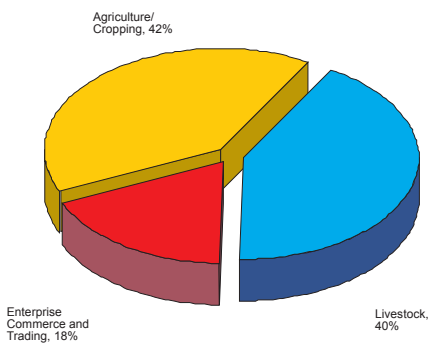
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(Fig. 2.1)
CED Financing Disbursed,
 FY 2001, 2002, 2003, 2004 and 2005



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(Fig. 2.2)
Sectoral Distribution of CED Resources
 FY 2001, 2002, 2003, 2004 and 2005



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A diversified portfolio of micro-credit and Enterprise Development Facility (EDF) lending was maintained in terms of sectoral

distribution. Based on borrowers financed during FY 2005, income-generating activities in agriculture accounted for approximately 42 percent of financing to partner organizations, followed by livestock and commerce and trading with approximately 40 percent and 18 percent share respectively. (Figure 2.2).

The unit continues to deliver on bringing enhanced professionalism and transparency to POs, streamlining the approval process and formulating;

- Well-defined and coherent business/strategic plans for microcredit activities
- Well-structured implementation plans for systematic expansion in outreach and coverage
- Mutually accepted and approved performance parameters and deliverables

One of PPAF's major contributions has been to broaden the base of microcredit sector by investing in smaller organizations that meet PPAF's eligibility criteria and are willing to expand their outreach to remote parts of the country. On this front, our experience over the year has been very enriching and has enabled PPAF to capture complexities and diversity of the area in which it operates. This necessarily entails higher investment in Institution Building

Forming alliances and partnerships with the corporate sector to reach out to the poor under the broader mandate of PPAF.

and Human Resource Development.

The Enterprise Development Facility in collaboration with USAID has contributed towards a remarkable credit off-take through four major participating partner organizations. The goals of the EDF project, in line with overall objectives of USAID's Economic Growth Strategy, are to:

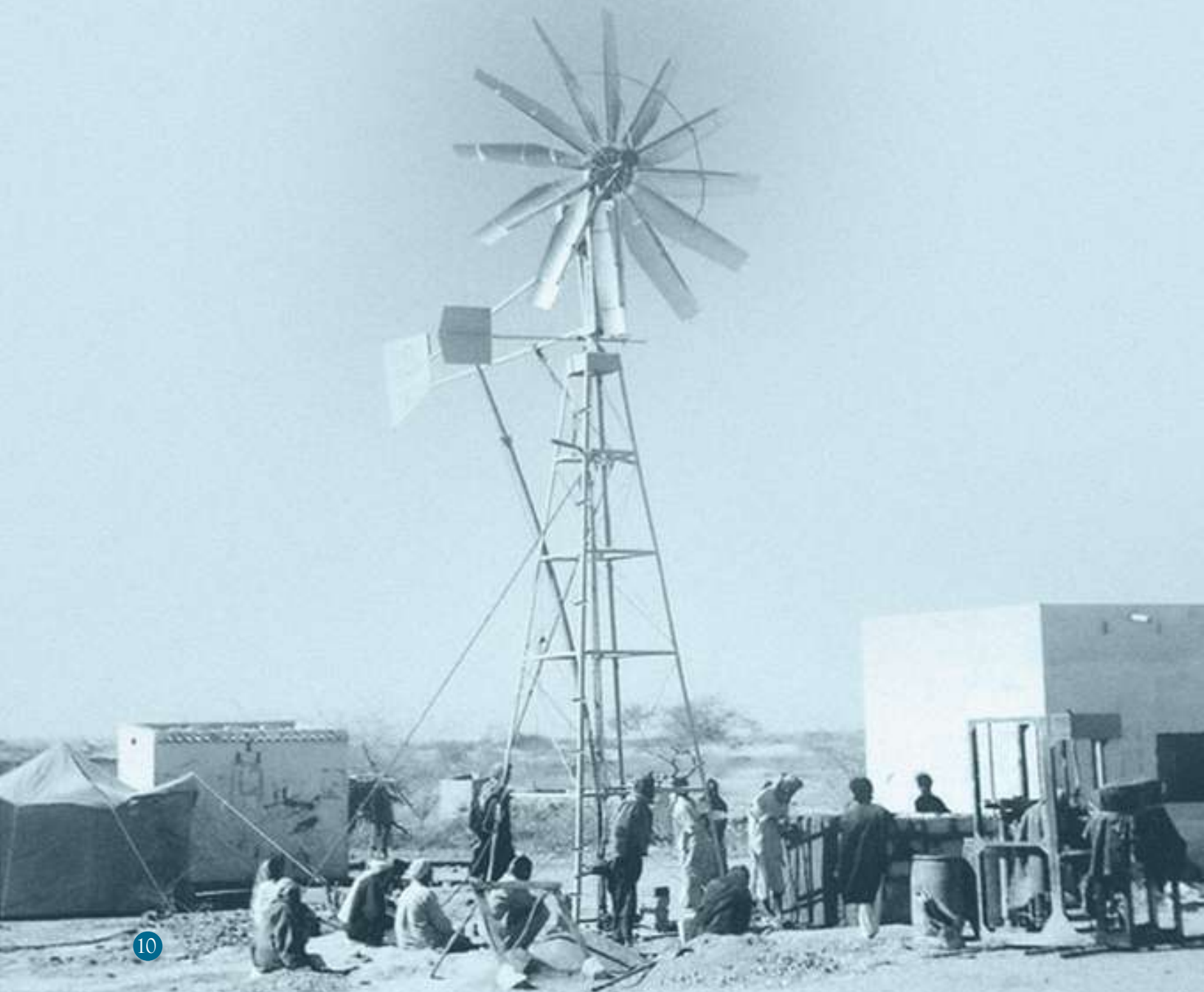


Box 2.1 - Engro - PPAF Milk Project

Livestock development remains one of the most important income generation activities in rural Pakistan. Realizing the need to forge effective public-private partnerships in the sector, PPAF took the crucial initiative of working with Engro Chemical Pakistan Limited (ECPL), the Government of Pakistan, and three partner organizations to increase income of poor through effective interventions in milk production. A Memorandum of Understanding was signed in June 2005 wherein ECPL agreed to establish milk collection centers for its new dairy plant. PPAF, in line with its traditional lines of credit, took on the task of providing credit for livestock acquisition and technical assistance for better livestock management. Three partner organizations – NRSP, SAFWCO, and Taraqee Foundation – agreed to mobilize communities, identify potential beneficiaries and provide support services at the grassroots. The government of Pakistan is extending cooperation for successful implementation of the project.

Engro Food Ltd, ECPL's subsidiary, has established milk collection centers and started collecting milk from villages in southern Punjab and Sindh, including five villages where PPAF POs are actively working. EFL is in the process of setting up a milk powder and milk packaging plant in Sukkur (Sindh). Production is expected to commence in February 2006. The Engro-PPAF project seeks to ensure sustainable livelihoods, through securing continuous demand at a competitive price, for communities dependent on livestock. Further, it will train communities in better livestock management techniques and educate them in introducing quality controls. In the event, the project will contribute to development of the dairy industry in Pakistan and establish better contacts between communities and private sector.

3 Community Physical Infrastructure



The Community Physical Infrastructure unit works through community based organizations to ensure development of physical infrastructure at the grassroots level. The poor, living both in urban and rural communities, qualify for this support. The support is not only restricted to providing funds, but also includes technical supervision of infrastructure projects. The core thrust of activity is to provide potable water to communities, improve local communication networks, provide irrigation facilities, and conserve land for cultivation, while adequately safeguarding the environment.

During the financial year, CPI unit organized a workshop to Launch USDA funded Poverty Alleviation Program held at the auditorium of National Library, Islamabad on March 30, 2005. Dr. Salman Shah, Advisor to Prime Minister for Finance, Revenue and Economic Affairs was the chief guest of the Launch. PPAF has received first tranche of Rupees 400 million out of a total of Rupees 1500 million receivable over the next four years. The program objective is to alleviate poverty, reduce vulnerability and improve food security through sustainable agriculture development within a period of 10 years through;

- Integrated water efficient irrigation systems and agricultural enhancement

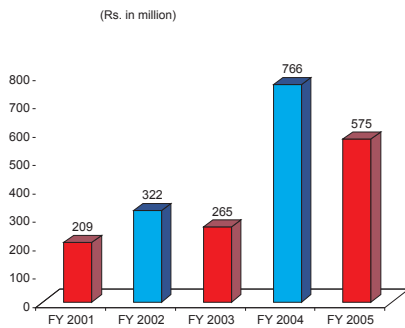


- mechanisms
- Effective management of successive drought cycles
- Natural resource conservation and efficient food processing through hydro-power generation

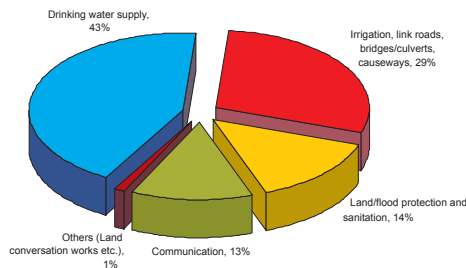
Under this program, CPI unit has signed agreements with 10 selected partner organizations during this reporting year and planned to implement 7 Drought Mitigation and Preparedness Projects, 52 projects under Technological Innovations Program, and 125 Integrated Water Efficient Irrigation Projects over a period of two years. These projects are envisioned to benefit around 380,000 individuals in approximately 560 villages of Pakistan.

The community physical infrastructure unit has disbursed Rupees 575.38 million out of Rupees 850 million of targets

(Fig. 3.1)
CPI Financing Disbursed,
 FY 2001, 2002, 2003, 2004 and 2005



(Fig. 3.2)
Sectoral Distribution of CPI Projects
 FY 2001 - FY 2005



approved by the Board of Directors. The total number of projects initiated during 2004-2005 was 2,162. Broadly, the projects were classified into Drinking Water Supply, Link Roads, Bridges, Culverts, Irrigation, Sanitation and others (flood protection dams, causeways and retaining walls). Distribution of projects by type, showed that 43 percent projects were of drinking water supply, 29 percent was to improve local irrigation facilities, 14 percent projects were to provide sanitation facilities, 13 percent projects to improve local level communication network and 1 percent fell in other categories, including those related to the generation of hydroelectric power and its distribution. (Figure 3.2)

The disbursements rose sharply in FY 2004 as PPAF-I was closing and POs were advised to complete disbursement targets as per their implementation plans. The disbursements naturally dropped in FY 2005 as a number of new projects were initiated as part of PPAF-II. Also the performance of CPI unit was hampered during this financial year due to limited availability of finances resulting from late operationalisation of PPAF phase II, as well as from unusually bad weather conditions, especially in the Northern Areas, preventing the timely completion of a number of CPI schemes. (fig. 3.3).

Although not meeting its disbursement targets for reasons explained above, the CPI unit surpassed most of its yearly outreach targets. It comfortably met the target of initiating programmes in nine new districts. Additionally, the unit overshot its community group formation targets and beneficiary households' annual targets by 21 percent and 23 percent respectively. However, project completion targets were under achieved by 32 percent.



In order to address the issue of poverty, PPAF successfully completed as a pilot project, an Integrated Area Development Project (IAUP) in Dhoke Tabarak Shaheed, located about 25 Km from Islamabad. The Project has generated a significant demonstration effect with an ever-increasing demand of its replication from communities. To address this demand, over 120 integrated projects have been approved by PPAF Board of Directors. The approved projects are envisioned to be implemented during the next three years.

A one day consultative/strategy formulation workshop was organized with 12 major POs from all over Pakistan to share the objectives, scope and size of IAUP. The workshop concluded with a comprehensive strategy paper covering all aspects ranging from distribution of projects among POs to their regional / provincial distribution.

During the financial year, four IAUPs were initiated with two partner organizations - CUP and HRDS - with a package including community physical infrastructure, drinking water supply, household latrines, environmentally safe wastewater disposal and street surfacing. These pave the way for interventions in microcredit, health and education. IAUP projects have been initiated in four different villages i.e. Seri and Sereeh located near Islamabad Capital Territory and two projects in Dera Ghazi Khan. More than 70 percent of the work has been completed. (Box 3.1).

The 1997-2002 drought swept through Pakistan, severely affecting almost 50 percent of its districts. To address this calamity, PPAF has launched a nationwide program of drought mitigation and preparedness, focusing on the less endowed and poverty stricken regions of the country.

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Two DMPPs were initiated in the last financial year, one in Dadu district in Sindh and the other in Khushab district in Punjab. Twenty-four sub-projects of DMPP, Katcho-Pilot Project Dadu and 20 sub-projects pertaining to DMPP-Soon Valley, Khushab, have been completed during this financial year.



Box 3.1 - PPAF's Integrated Area Upgrading Program

The IAUP strategy paper envisions achieving ‘accelerated poverty reduction and sustainable development through community participation involving concentrated investment at growth centers in lagging areas.’ In pursuit of this goal, the paper outlines five fundamental objectives of IAUP:

- To achieve synergies of investment
- To decelerate migration from urban to rural areas
- To increase access to opportunities for rural poor
- To lift economy of the rural periphery
- To improve quality of life of low income communities

The Integrated Area Upgrading Program (IAUP) is a multi-intervention strategy catering to a variety of basic needs of communities that have little or no access to health and education facilities, microcredit, and basic infrastructure. A typical IAUP incorporates safe drinking water supply, low cost sanitation, wastewater treatment and safe disposal, street surfacing and lighting, health care and educational facilities, solid waste management, and microfinance. Usually, PPAF finances most of these interventions with partner organizations and communities generating funds for those not covered by the former.

Following the success of Dhok Tabarak Shaheed Pilot project, over 120 similar integrated projects have been approved under PPAF-11. These constitute 25 percent of CPI's portfolio and approximately 69 percent of the size of its new initiatives program. A total of 12 POs selected on the basis of their experience, outreach, capability, and demonstrated interest in integrated area upgrading, will guide the IAUP in the initial stage, while another 6 will be inducted over a two year period.

4 Health and Education



The Social Sector Development Program (SSDP) has been initiated as a separate unit to ensure quality service delivery in the important spheres of Education and Health. The main task of the unit will be to build the capacities of partner organizations, enabling them to provide quality health and educational services at community level. The social sector interventions will complement the ongoing work of PPAF with its partner organizations and add a crucial dimension in the fight against poverty.

Years of action research in Europe, Latin-America and South-East-Asia has proved that unless and until communities are empowered through equitable access to quality education and health and involved democratically in their well-being, true change at the community level will not happen. At the same time, health and education interventions need to be supplemented by other development interventions, like microcredit and community infrastructure, for geometric gains. The importance and inversely proportional relationship of health and education to poverty cannot be over-emphasized and much has been documented on this particular area of work.

In PPAF, Health and Education is a relatively new unit. This intervention was



not initially included in the program design. However, during the first phase of PPAF, social sector development was identified and recognized as a prime need of the community for effective poverty alleviation. This intervention was designed after an intensive consultative process with all stakeholders.

In 2003, a consultative workshop was held with partner organizations to review the current status of development activities and identify gaps in service provision. In light of recommendations of the consultative workshop, ERD unit developed a concept note on establishing a health and education unit for addressing poverty in a holistic manner. After that, one consultant each for Health and Education, under supervision of the ERD unit, was hired to review the state of health

and education intervention by selected PPAF partner organizations. This was followed by detailed information collection and scope of interventions in health and education from 47 POs who had experience in these areas. Based on this data, a total of 12 (5 for education and 7 for health) POs were short-listed for consideration to launch the pilot SSDP. A separate Health and Education unit for overseeing SSDP was established in early 2005 for managing SSDP interventions with a focus on quality primary health care and formal primary education.

Now an independent Health and Education unit is fully operational with the strength of one General Manager and two Management Executives. The unit has recently signed agreements with 7 POs for interventions in the field of health and education. (Box 4.1).

The unit plans to work towards developing a clearly stated, realistic and doable health and education program by first quarter of the next calendar year i.e. 2006. To respond to increasing work at the community level and human resources required at POs and PPAF, the unit also envisages adequate responsive staffing and capacity building.



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Box 4.1 - Community Health Centers

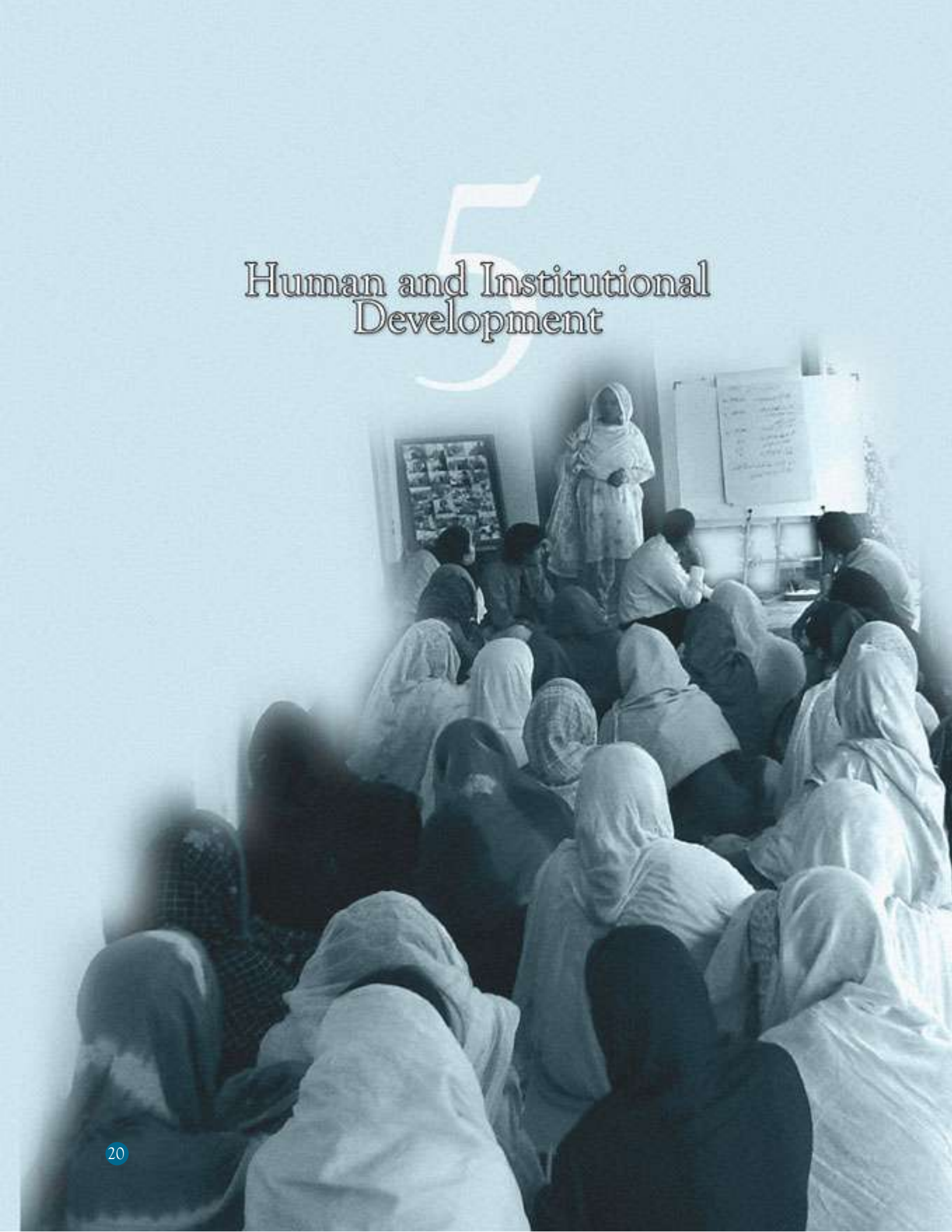
Through SAWFCO, PPAF has facilitated the establishment of two Community Health Centres (CHC) in district Sanghar for providing basic curative services to communities.

Both CHC's have been equipped with modern facilities, e.g. generators, oxygen cylinders, refrigerators, nebulizers, auto-claves, glucometers, centrifuge machines and laboratories for basic tests. In terms of professional manpower, each CHC comprises of a MBBS doctor, LHV for maternity cases, a qualified pharmacist and other staff.

In addition to providing quality health services to 25000 residents of Mao Chora, CHC situated in the village caters to the needs of another 15000 people in 41 adjoining villages. Similarly, the CHC in Village Sher Khan Leghari is also providing services to 25 additional villages within a 4 kilometre radius. The communities have benefited in terms of better, timely and more accessible health services, where none existed before. Also, Village volunteers are involved in awareness campaigns on issues like HIV/AIDS etc., where such issues had long been considered taboo and neglected to the detriment of overall good of the community.

Overtime the CHC's would become self sufficient through generating their own funds by introducing a nominal fee structure. This would also facilitate them in expanding their services. As a pioneer, PPAF takes strength from the fact that more and more NGO's have started thinking in terms of introducing similar facilities in Pakistan's backward districts.

5 Human and Institutional Development



The Human and Institutional Development (HID) unit is responsible for building capacities of PPAF partner organizations to manage their microcredit and community physical infrastructure projects effectively. Recognizing the catalytic role of individuals and institutions, the focus of the unit is on professional development of human resources and institutional strengthening.

In support of credit and/ or infrastructure, financial and non-financial services are provided to support incremental expansion in outreach, with a view to attaining long-term sustainability in the provision and management of poverty related services.

During this financial year, the HID unit attained certification and became the first outfit in non-profit sector to be certified under ISO 9001:2000 in December 2004. This achievement will help the unit to bring in standardization and improve documentation as well as focus client satisfaction services to International Standards, and assurance of provision about their quality, safety and reliability.

In comparison to the previous year, disbursements of the unit increased from Rupees 207 million to rupees 382.36 million by the end of FY 2005. The unit, in support to micro credit and community physical infrastructure, increased its financial assistance to 230 field offices of

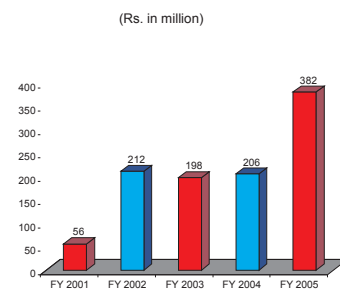


POs as compared to 209 offices at the end of FY 2004. Similarly, the number of training beneficiaries increased from 31,509 to 33,881 (community training) and 1,245 to 1,542 (staff training) in the reporting year with 40 percent female participation.

For streamlining effective implementation of plans, the unit has been conducting strategic planning exercises with POs since FY 2002. Results and outcomes made the process of strategic planning exercises mandatory for appraisal as well as renewal of partnerships with POs. Strategic planning exercises of 35 POs were conducted during FY 2005.

With the objective of enhancing capacity of PPAF and PO staff, HID unit undertook different training programmes in partnership with renowned institutions like Management Development Foundation (MDF) - South Asia, Consultative Group of Alleviation of

(Fig. 5.1)
HID Financing Disbursed,
FY 2001, 2002, 2003, 2004 and 2005



Poverty-Washington, USA and Schuitema-South Africa to Pakistan. In collaboration with these institutions, the HID unit organized 4 training events in fields of Leadership Care and Growth, Institutional Development/ Organizational Strengthening, Planning and Management and Product Development. (Box 5.1).

Apart from organizing trainings for PPAF partner organizations' staff and communities, HID also organized an internship program for fresh graduates, providing them with an invaluable learning and training opportunity by way of attachment with different POs. During this financial year, the HID unit concluded the third and fourth batch of internships with participation of 14 fresh graduates, while the fifth one is in process.

However, the trained interns were not satisfying extended need of expanding POs as turn over was high and trained professional staff was not readily available. To address this problem a "Junior Professional Program" was launched. Under this program, local fresh university graduates were trained for POs. So far, personality tests and interviews have been conducted for RCDS, DAMEN, CSC and SAFWCO. Training will be carried out in July 2005.

Besides these activities, the HID unit played a key role in organizing an International Conference on Microfinance "Innovating



and Mainstreaming"- held on December 13-14, 2004 at the Convention Center, Islamabad. The conference was organized in connection with celebrating 2005 as UN International Year of Micro Credit. The conference was attended by representatives from Bangladesh, India, Kenya, Bolivia, Sri Lanka, Nepal, Switzerland, Canada, Indonesia, Philippine, United States of America, United Arab Emirates and United Kingdom. Renowned international and national microfinance practitioners such as Prof. Muhammad Yunus (Managing Director, Grameen Bank, Bangladesh), Dr. Salehuddin (Managing Director, PKSf), W.A. Wijewardena (Deputy Governor, Bank of Sri Lanka), Dr. D.S.K. Rao (Regional Consultant for Asia Pacific, Micro Credit Summit Campaign), Jayshree Vyas (Managing Director, SEWA Bank), and Jim Roth (Chief Technical Advisor, ILO-GTZ Micro) were the speakers.

The HID unit played a key role in organizing and international conference on Microfinance "Innovating and Mainstreaming."

Box 5.1 - International Training Events (2004-2005)

The HID unit of PPAF organizes several training programs for development professionals in the country. In this regard linkages have been established with leading training institutions of the world to bring home international knowledge and best practices.

Trainings are designed for PPAF and partner organizations' staff in various fields related to microfinance, institutional development and risk mitigation. These trainings have made strong contribution in enhancing skills of participants and to make them familiar with international perspectives.

Consultative Group to Assist the Poor (CGAP):

An institute of the World Bank, CGAP provides training and assistance to professionals related to the field of microfinance. During FY 2004-2005, four training courses were arranged in collaboration with CGAP.

- A five day workshop on Operation Risk Management
- Training on Product Development
- A four day workshop on Operational Risk Management
- Five day workshop on Product Development or Operation Risk management

Management for Development Foundation (MDF)

This is a renowned international institute which contributes effectively in project management skills for the development sector. In the year 2004-2005, PPAF invited trainers from MDF to impart three trainings:

- An eleven day training on Project Planning and Management
- Workshop on Project Planning and Management
- Workshop in Institutional Development/Organizational Strengthening

Leadership Training

An institution's success depends heavily on the performance of its professional, their performance levels can be enhanced by providing the right kind of guidance and mentoring support. This was discussed in details, in two training workshops, "Leadership-Care and Growth Model", facilitated by internationally renowned trainer Mr. Etsko Schuitema.

Evaluation, Research and Development



During the year, Monitoring, Evaluation and Research unit was restructured into Evaluation, Research and Development unit. This initiative is a reflection of PPAF's commitment to establish a meaningful, research-based operation for providing real time accountability for program and policy direction. A senior economist is hired as advisor to the unit.

The main strategic objectives were chalked out in following terms;

- Establish poverty focused, results based, evaluative mechanisms, tools and standards
- Develop in-house research and outreach competencies including outsourcing to credible national and international institutions

During FY 2004-2005, the ERD unit prepared and circulated Quarterly Progress Reports to donors such as the World Bank and USAID. The quarterly progress reports were also circulated to the Board of Directors, and were regularly discussed at board meetings for assessing the progress being made for achieving the yearly targets set by the Board of Directors.

During the period under review, ERD team members participated in 14 strategic planning and review exercises organized by PPAF HID unit. During these visits, monitoring and evaluation systems of the organizations were thoroughly reviewed



and in light of these findings, the ERD unit recommended to establish independent Monitoring and Evaluation setups in two partner organizations i.e. SAFWCO and SWWS.

The ERD unit also organized a series of regional trainings for all partner organization to strengthen their Monitoring and Evaluation systems. An outside consultant, well versed in monitoring and evaluation methodologies, was hired to conduct three regional trainings on techniques and tools of baseline survey, through qualitative and quantitative approaches. Fifty-five Monitoring and Evaluation focal persons, from PPAF partner organizations, participated in these trainings held at Karachi, Peshawar and Lahore.

ERD unit handled all the correspondence regarding "Expression of Interests" received from civil society organizations from various parts of the country. During the year applications of 184 organizations were

ERD Unit is a reflection of PPAF's commitment to establish a meaningful research base operation for providing real time accountability for program and policy direction.

received for partnership consideration. Impact assessment and evaluation of ongoing PPAF interventions remains a vital component of ERD activities. Such studies are usually outsourced for seeking independent opinion. Two major studies involving microcredit and physical infrastructure projects of the two largest rural support programs are in progress

under World Bank supervision. In addition, community trainings carried out by POs through PPAF support in fields of management, enterprise development and vocational skills were also evaluated. Similarly, the Strategic Planning Process, conducted by PPAF team with its partners, also underwent evaluation. Both studies were completed in FY 2005. The evaluation of training programs sought to assess

Community trainings carried out by POs through PPAF support in fields of management enterprise development and vocational skills were evaluated.

Box 6.1 - Assessment of Outcomes/Impact of Community Training

SEMIOTICS, an independent consulting firm, carried out the assessment of community trainings imparted by POs to target communities. Three sets of questionnaires were used to gather responses on three broad training categories i.e. management, enterprise development and vocational skills. Altogether 925 respondents across Pakistan were surveyed. Besides, 76 case studies and case-lets were incorporated into the study. Another 74 counterfactuals were also included as an additional level against which to assess change in the lives of target communities as a result of PPAF supported trainings in the given period.

In terms of gender, sample for the study comprised of 400 male and 525 female respondents. Of the 525 female respondents, 126 were female-headed households. In terms of training, Enterprise/ Skills/Vocational training had a much larger proportion of female respondents (285 females, 50 males). In case of Natural Resource Management, male respondents far exceeded female respondents (51 females, 99 males). In case of Management, male respondents exceeded female respondents by a small margin (189 females, 211 males).

According to broad findings of the study, training could play an important role in enhancing the earning capacity of the trainee. The three main recommendations of the study are as follows:

- Trainings need to keep pace with fast changing demands of the market and should be periodically reviewed.
- There is a need to develop strong linkage between skills and marketing in order to maximize outcome.
- There should be standardized modules and manuals for each category of community training.

The findings will be shared with partners for guidance and lesson learning.

Similarly, an evaluation of strategic planning exercises conducted by HID during the first PPAF project was outsourced. The objective of this study was to have independent access to the views of POs about usefulness of the process. (Box

6.2). Additionally baseline studies for PPAF microcredit and enterprise development facilities which had been outsourced to Gallup in August 2004 were completed in October 2005 and February 2006 respectively. (Box 6.3).

Box 6.2 - Evaluation of Strategic Planning Process

AKIDA, an independent consultant firm, carried out an evaluation of the Strategic Planning Process conducted by HID during 2001-2002 with the following selected POs:

- Thardeep Rural Development Program (TRDP), Tharparkar
- Organization for Participatory Development (OPD), Gujranwala
- Development Action for Mobilization and Emancipation (DAMEN), Lahore
- Taraquee Foundation, Quetta
- Sarhad Rural Support Program (SRSP), Peshawar

The objective of this study was to have independent access to the views of POs about usefulness of SPP. The study revealed that such exercises benefited POs by enabling them to carry out a thorough organizational analysis on a periodic basis. The major recommendation of the study is to prepare an SPP facilitation manual to bring uniformity at the POs level.

Box 6.3 - Baseline Studies Initiated During FY 2005

Consultancies	Purpose
Baseline Study of PPAF microcredit Financing (Follow on for Assessment of outcomes) Start Date: August 2004 Completion Date: October 2005	The purpose of the study was to conduct a short term assessment of outcomes of PPAF microcredit financing at individual/household level. The objectives of the assessment were to ascertain the causality between PPAF microcredit loans and increased economic welfare of the recipients.
Baseline study for PPAF's Enterprise Development Facility Start Date: August 2004 Completion Date: February 2006	The purpose is to collect baseline data for assessing the short term/medium term impact of PPAF enterprise development facility at individual/household level.

7 Media and Communication



Social change is by no means an easy task to achieve. Successful social change requires dexterity, raising consciousness and mobilizing public opinion. Keeping in mind these very issues, PPAF has endeavored to integrate this aspect of its work with its other interventions. In recognition of the need for mainstreaming these activities, a dedicated Media and Communication unit was established during FY 2001. Reporting to the CEO, the unit focuses on effective utilization of print and electronic media for dissemination of information on nature and role of PPAF and poverty related issues.

During the financial year 2004-2005, the unit underwent some restructuring and a General Manager was brought on board to oversee its functions. The range and scope of PPAF interventions has increased manifold over the past four years and emphasis is now being placed on building public image of PPAF. Regular coverage and exposure of PPAF in electronic and print media has been ensured.

With a view to showcase the achievements of PPAF beneficiaries as well as their constraints, some interesting case studies were published this year. These studies are conducted with the purpose of raising level of consciousness, and making stakeholders aware about development



activities in Pakistan and as to how these are empowering vulnerable communities and helping them to improve their lives. (Box 7.1).

Another regular activity of the media unit is printing of quarterly newsletter 'Povertyline', which is intended to serve as a vehicle for exchange of ideas. As an apex institution working with civil society partners for alleviation of poverty, PPAF disseminates regular updates on its operational activities and invites feedback. "Povertyline" is visualized as a forum for the conduct of informed debate and discussion to qualitatively raise the level of our understanding of issues and possible solutions.

A series of Interactive Theater performances were organized at rural and urban locations in all the provinces, with collaboration of

Successful social change requires dexterity, raising consciousness and mobilizing public opinion, which is not as simple as it may seem.

PPAF's partner organizations. Drawing upon amateur talent from within the communities, these performances explore intra-household and intra-community relationships and situations. Gender related themes such as mobility, education, economic opportunity, violence and social status were being addressed, with active participation of women. The interactive theater activity has gained momentum within partner organizations over the year, and many of them are conducting the theatre activity without PPAF assistance. The partner organizations are using theater activity, not only as a tool for social mobilization but also to create awareness on various issues like sanitation, health and education.

PPAF worked with a specialist private production house to document outcomes and capture diversity and depth of PPAF interventions and operations in an effective manner. The documentary film thus produced –“A Dream Realized”- highlights the many facets of PPAF's development initiatives. It has attempted to visually capture images of individuals who have made a difference to their lives with assistance from PPAF and its partner organizations. The film has been shot on location in all provinces and regions of Pakistan. It also vividly catalogues geographical and ecological diversity of the



country. After intensive post production, this film is ready for distribution. (Box 7.1).

Media and Communication has also played a key role in organizing two major events:

- An international conference on microfinance titled “Innovating and Mainstreaming” and
- The Launching Ceremony of a nationwide drought mitigation and preparedness program financed by USDA.

The challenging task of the unit in the coming years will be to proactively engage with all other units of PPAF and ensuring that important developments and events are disseminated on national and international fora.

The documentary film “A Dream Realized” highlights the many facets of PPAF’s development initiatives.

Box 7.1 - “A Dream Realized”

PPAF media team worked closely with a specialist private production company and helped to conceptualized a film with main focus on capturing the lives of communities at grassroot level, and make their voices be heard on various issues and situations. The main highlight of the documentary is that it lends a voice to the beneficiaries.

The documentary was filmed on locations in all four provinces of Pakistan so that diversity of the cultural landscape could also be recorded along with the impact that various PPAF interventions like microcredit, physical infrastructure and capacity building, have made on lives of individuals and communities at large.



8 Human Resource, Administration and Procurement



The Human Resource and Administration unit is primarily responsible for taking care of PPAF's human capital and developing their potential to the highest levels. In order to achieve the above, the HR unit is implementing effective recruitments so that HR base of PPAF can carry out its objectives.

The unit is also responsible for arranging trainings to enhance the capabilities and capacities of PPAF management team according to requirements. During the year sixteen executives of PPAF working at different levels attended training courses in related areas of their functions such as Management, Monitoring and Evaluation, Finance and Accounts, Training of Trainers, Development communication etc. at national training institutions like Pakistan Institute of Management, British Council, Lahore University of Management Sciences, NGO Resource Centre, Pakistan Institute of Development Economics, etc.

In order to increase efficiency and transparency in procurement of goods and services, the unit strictly follows PPAF's requirement and donor guidelines as per established procurement procedures. Hiring of outsource services is an important function of the unit. This is done on need basis for time-bound activities with the purpose of getting indepth views regarding specific activities like baseline or impact



assessments. During the year, 28 consultancy contracts and 61 cases of goods' procurements were processed by the unit. The nature of these consultancies included outcome/impact assessments, baseline studies and Knowledge, Attitude and Practices (KAP) etc. Apart from this, the unit is also responsible to ensure smooth functioning of procurements at POs level by providing guidance, training and monitoring of their procurement procedures. Approximately 40 POs were provided with guidance by the HR Unit in areas of national competitive bidding, national shopping and other general procurement issues.

In addition to the above, the unit also looks after day-to-day administrative work of the institution, including house keeping, intra-city transport, boarding / lodging arrangements for field visits, logistic arrangements for internal and external meetings etc.

9 Finance and Accounts



As a custodian of public funds, PPAF is conscious of the need for prudence and appropriate control in the management of finances. In pursuance of this objective, the Finance and Accounts (F&A) unit has been assigned responsibility for executing and recording all financial transactions in a systematic and transparent manner. The unit ensures compliance with regulations of Securities and Exchange Commission of Pakistan and the covenants stipulated in the Agreements with the Government of Pakistan (GoP) and donors.

The F&A unit works closely with other operational and support units of PPAF in order to ensure adherence to due process and facilitate funding. The activities of the unit are carried out in an automated computerized environment through customized software dedicated to PPAF requirements. A comprehensive manual for financial management has been developed which governs work processes of the unit. Books of accounts are being kept in accordance with the statutory requirements and agreements with GoP and donors. The records are subject to both internal and external audit as well as review of World Bank Mission.

The unit generates internal and external reports for management, donors and stakeholders. The relevant internal reports

are submitted to Chief Executive on a monthly basis to facilitate timely decisions on the important aspects of PPAF operations. External reports to World Bank and stakeholders include quarterly, half yearly and nine monthly un-audited accounts, annual audited accounts on statutory and World Bank formats, quarterly Financial Monitoring Reports (FMRs) and Ratio Analysis Statement.

During the FY 2005, operations of PPAF were audited by external auditors Messer's Ford Rhodes Sidat Hyder and Co., Chartered Accountants. The external auditors furnished unqualified opinions that financial affairs of the company were being conducted in accordance with approved accounting standards and requirements of Companies Ordinance 1984. Maintenance of books and recording of entries was found to be in order. These opinions were based on the inspection and review of records of the company and the funds released to partner organizations. Field visits form an integral part of the audit exercise.

Similarly, withdrawal applications submitted to the World Bank were found to be eligible for reimbursement or replenishment. Information and data submitted were also in compliance with disclosure requirements and formats as

well as International Accounting Standards. Disbursements to PPAF under the second project were made on the basis of FMRs.

In February 2005, the World Bank conducted Supervision Mission of PPAF and noted that financial management arrangements for the project continue to be satisfactory; effective controls were in place; the project was being disbursed on the basis of FMRs; and the audited financial statements and quarterly FMRs were submitted to the World Bank in time.

The unit looks after the corporate affairs of PPAF. The Head of the unit also acts as Company Secretary and ensures full compliance with the mandatory secretarial responsibilities obligations as envisaged by the Companies Ordinance, 1984. Adequate records evidencing statutory meetings and other formal requirements are being maintained while reports to the Securities and Exchange Commission of Pakistan are submitted well in time.

The F&A unit also assists operational units in financial evaluation of POs. Further, it plays an active part in monitoring the financial flows to POs and ensures that they are observing the legal covenants.

Reporting directly to the Chief Executive, the internal audit function provides an

independent channel for monitoring of activities. They are guided in their work by an approved “Internal Audit Manual” which provides guidelines for their range of activity.

10

Directors'
Report



The Board of Directors of Pakistan Poverty Alleviation Fund is pleased to present the fifth Annual Report along with the audited financial statements of the Company for the year ended June 30, 2005.

The first US\$ 90 million International Development Association/World Bank (IDA/WB) project concluded on December 31, 2004. PPAF achieved and surpassed all the major targets and forecasts set at appraisal. The World Bank Mission that visited PPAF in January 2005 observed the following with respect to the first project:

“The successful completion of the first project was a major milestone in Government/PPAF/World Bank efforts to reach out to the poor. The success reflected strong borrower ownership, high quality and professionally well managed delivery institution, good monitoring and continuous feedback from beneficiaries.”

The “Operations Evaluation Department” of World Bank, Washington D.C. reviewed the Implementation Completion Report of the first project and rated PPAF performance as ‘Highly Satisfactory’. This is the highest rating of WB and awarded to very few institutions.

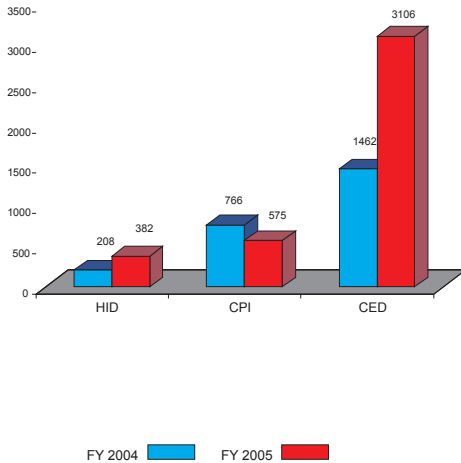
Owing to the exponential growth and

unprecedented success achieved under the first project, the Government of Pakistan (GoP) and WB approved the second follow on project, on a fast track, well before the scheduled time. Under the second project (2004-2008), US\$ 238 million has been allocated to PPAF. The GoP committed Rupees 500 million as its equity contribution. Fifty six percent of the IDA/WB funds were dedicated for micro credit and enterprise development while the balance forty four percent for community based small scale infrastructure, social sector development projects, and capacity building / institutional assistance to the Partner Organizations (POs) and the PPAF.

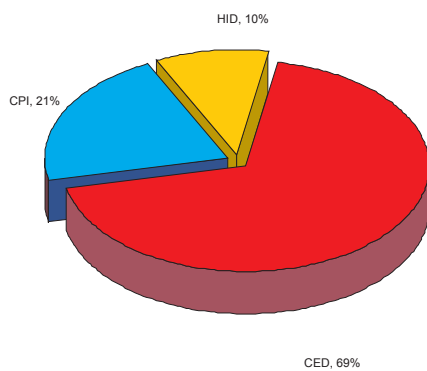
The second project became effective on April 15, 2004, however, the inordinate delay in opening of bank account (nearly eight months) prevented any disbursements from WB taking place. In spite of this delay, PPAF continued its operations - appraising new proposals, monitoring existing agreements, and even disbursed funds from its own resources. There was no major interruption in PPAF's operations and a smooth and seamless transition was achieved.

During the financial year under review (2004-05), PPAF continued to meet its development objectives of reducing

(Fig. 10.1)
Financing Disbursed
 Rs. in million



(Fig. 10.2)
Share of Funds Disbursed



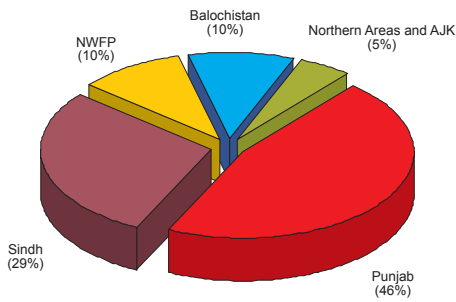
incidence of poverty in the country through provision of resources and services to the poor, particularly women. An integrated approach focusing on provision of micro credit, community infrastructure and skill development addressed the many facets of poverty and was effective in reducing vulnerability of disadvantaged communities. Assistance of PPAF enabled POs to achieve exponential growth and expand outreach.

The World Bank first supervision of the second project to assess PPAF in terms of meeting its development objectives and utilization of IDA funds, concluded that the PPAF’s progress was satisfactory and the project was in line with GoP initiatives to alleviate poverty in Pakistan.

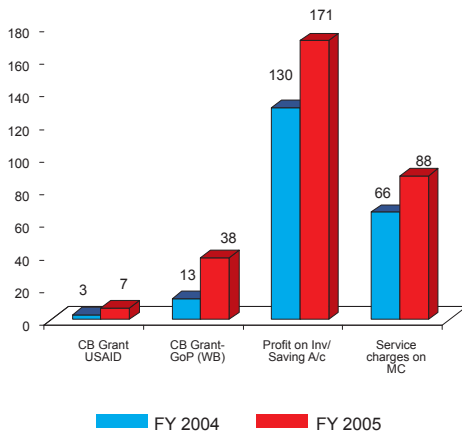
By the end of June 2005, PPAF funding had been equitably disbursed in urban and rural areas of 96 districts of the country through 56 POs of which 10 were catering predominantly to women. At the same time, number of individuals who availed credit rose to 616,424 of which 271,121 (44 percent) were women borrowers. 8,954 infrastructure projects were initiated and 10,500 community organizations formed, benefiting 619,176 households. In addition 114,835 POs staff and community members were trained, including 40 percent women.

PPAF financial and non-financial services

(Fig. 10.3)
Provincial Distribution of PPAF Resources



(Fig. 10.4)
Total Income
 Rs. in million



have been estimated to be benefiting over 8.5 million individuals, directly or indirectly, across the country.

Operational and Financial Results: The overall operational and financial results of the company during the year under review remained satisfactory.

Total disbursements increased from Rupees 2,436 million in FY 2004 to Rupees 4,063 million in FY 2005, indicating an increase of 67 percent. Disbursements of credit rose from Rupees 1,462 million in the preceding year to Rupees 3,106 million in the current year. However there was a small pause in the infrastructure work due to which its disbursements, which were Rupees 766 million in FY 2004, had settled to Rupees 575 million in FY 2005. On the other hand capacity building support to POs showed an upward trend, increasing from Rupees 208 million in FY 2004 to Rupees 382 million in FY 2005 [fig. 10.1]. By the conclusion of FY 2005, cumulative disbursements crossed Rupees 10 billion mark and were Rupees 10.121 billion. Credit and enterprise development, the largest component of the PPAF, accounted for 68 percent of total disbursements followed by community physical infrastructure (21 percent). The capacity building assistance provided in support of credit and infrastructure financing had a share of 11 percent [fig. 10.2].

Provincial distribution of funds remained more or less consistent with previous allocations. 46 percent going to Punjab, 29 percent to Sindh, 10 percent each to NWFP and Balochistan and 5 percent to the Northern Areas and AJK [fig. 10.3].

Total equity crossed one billion mark and was Rupees 1.137 billion on June 30, 2005 as against Rupees 791 million on June 30, 2004 - an increase of 44 percent.

The total amount of endowment fund increased by Rupees 150 million due to receipt of first installment of GoP contribution out of the total commitment of Rupees 500 million for the second project.

During the year, PPAF received grant fund of Rupees 400 million in respect of US Department of Agriculture (USDA) project from GoP, out of total funding of Rupees 1,521 million. The workshop to launch this project was held on March 30, 2005 at Islamabad. Dr. Salman Shah, Advisor to the Prime Minister on Finance, Economics Affairs, Revenue and Statistics, inaugurated the workshop.

As a result of the vigorous efforts of the management team and detailed scrutinization by the Central Board of Revenue, PPAF was granted the status of

welfare institution under clause 58(3) of part I of Second Schedule to the Income Tax Ordinance, 2001 vide SRO 443(I)/2005 dated May 19, 2005. As a consequence of this, the potential income tax exposure for the years ended June 30, 2003 and June 30, 2004 has been reduced. This has resulted in a substantial saving (Rupees 59.7 million), whereas, for the current year, there was no tax liability.

Total Company's net assets (total assets less current liabilities) on June 30, 2005 stood at Rupees 8,689 million against Rupees 3,496 million as at June 30, 2004 - an increase of 148 percent. Similarly loans receivable from partner organizations were Rupees 2,679 million as against Rupees 1,118 million as at June 30, 2004. During the FY 2005, PPAF continued to maintain 100 percent recovery rate in respect of its lending operations.

Total income generated during the year was Rupees 305 million compared to Rupees 222 million last year - an increase of 37 percent [fig. 10.4]. Income on loan to partner organizations increased by 33 percent due to high credit disbursements. Profit on investments and term deposit/saving accounts increased by 32 percent due to increase in the level of investments and improved profit rates. During the year, capacity building grant from GoP increased by 192 percent due to

the availability of financing for operational expenses of PPAF under the second project. Similarly, United States Agency for International Development (USAID) grant for operational support marked an increase of 133 percent as PPAF undertook increased level of enterprise development interventions during the year.

The general and administrative expenses for the period increased by 28 percent due to rapid expansion in nature and scale of existing activities as well as new interventions under USDA and second World Bank projects.

Future Prospects:

The Government of Pakistan and international development agencies continued to repose their confidence in the Company to enhance the quantum and quality of PPAF programmes.

The International Fund for Agricultural Development has approached PPAF for undertaking an innovation and outreach programme. The programme would focus on PPAF's micro finance operations and enable the Company to extend its outreach to rural areas of the country in terms of credit and enterprise through development of new products and services.

The USAID is considering to enhance the existing Enterprise Development Facility.

The proposed project while retaining focus on micro credit/enterprise, will allow interventions in health, education and infrastructure to augment provision of financial services.

The European Union has expressed interest in partnering with PPAF to develop and capacitate small/emerging organizations to become potential partner organizations of PPAF.

A Memorandum of Understanding (MoU) has been signed between PPAF, Engro Chemical Pakistan Limited and PPAF POs to launch a pilot project in livestock and dairy development. The project envisages provision of credit and non-credit financing to poor communities to invest in quality breeds of milch animals, scientific management of livestock, provision of veterinary services together with guaranteed off-take of milk at competitive prices.

The PPAF and United Nations Development Programme have signed a three year MoU to form an alliance at national scale in order to complement each other's activities and address the poverty-environment nexus.

Today PPAF is well poised to achieve a high level of market penetration, assist partner organizations to build their

capacities, and actively develop linkages with the corporate sector through new and innovative models of enterprise development. This would enable the poor to access, and benefit from, the wider private sector markets and opportunities of value addition.

With the large expansion in its scope of operations, PPAF would continue to be prudent while managing the high expectations being placed on it. PPAF intends to proactively pursue an agenda that allows it to meet the challenges that lie ahead. This will include reaching out to increasing number of poor, going beyond targets and statistics and emphasizing outcomes achieved in terms of real economic and social empowerment. This reflects a corporate philosophy that accords priority to development and retention of a vibrant customer base for effective delivery of financial and non-financial services.

Auditors:

The external auditors of the Company, Messer's Ford Rhodes Sidat Hyder and Company, Chartered Accountants, have completed their assignment for the financial year ended June 30, 2005 and shall retire at the conclusion of 9th Annual General Meeting. Being eligible for re-appointment, they have offered their services as Auditors

of the Company for the financial year 2006.

Conclusion:

The role and responsibilities of the Board of Directors are becoming ever more demanding. I am pleased to thank the directors for their commitment and invaluable contribution in providing effective oversight to PPAF.

The Board acknowledges support and guidance extended by the General Body over the years. We are deeply grateful to our partner organizations and their communities which toiled hard to transform plans into reality.

The Board places on record its profound gratitude to the Government of Pakistan and World Bank for their generous and continuous facilitation and assistance, especially in amicably resolving the procedural impediments related to funds flow for the second project.

The Board would also like to extend its appreciation to all the employees who exhibited a high degree of professionalism and dedication in pursuit of the objectives of the Company.

With the active support and commitment of all key stakeholders, PPAF has successfully completed project one and smoothly initiated the follow-on project. All indicators now point to the

establishment of a sustainable and well functioning system of delivery of services to the poor. By virtue of its performance, PPAF has gained a high level of trust and confidence with government, donor agencies and civil society. Through these partnerships, PPAF will continue to develop and strengthen a range of specific as well as broad based initiatives focused on underprivileged individuals and communities.



Hussain Dawood
Chairman

Islamabad
August 18, 2005

Six Years' Financial Summary

	(Rupees in millions)					
	2005	2004	2003	2002	2001	2000
Operational Results						
Total Disbursements	4,064	2,436	1,777	1,189	598	59
Total Income (including other income)	305	222	230	145	73	28
Surplus before provisions for taxation and loan loss	152	133	149	94	47	3
Surplus after provisions for taxation and loan loss	196	81	92	59	44	3
Balance Sheet						
Total assets (less current liabilities)	8,689	3,496	2,703	1,656	931	472
Micro credit loans receivables	2,598	1,081	1,201	695	285	36
Total investments	4,401	2,287	1,465	833	588	211
Equity and reserves	1,137	791	710	618	559	216
Long term and deferred liability	7,552	2,705	1,993	1,038	372	256
Financial Ratios						
Surplus before tax and loan loss ratio	50%	60%	65%	65%	64%	11%
Return on assets	3%	3%	4%	4%	6%	1%
Return on equity	20%	11%	14%	10%	11%	2%
Repayment rate (micro credit)	100%	100%	100%	100%	100%	100%
General and admin. expenses/average total assets	1%	2%	3%	3%	3%	5%
Income on loans/General and admin. expenses	101%	97%	89%	68%	46%	2%
Debt/equity	85:15	77:23	73:27	63:37	41:59	38:62
Current ratio	125:1	23:1	32:1	18:1	80:1	35:1

PAKISTAN POVERTY ALLEVIATION FUND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

 **FORD RHODES SIDAT HYDER & Co.**
Chartered Accountants

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Blue Area
P.O. Box 2388
Islamabad 44000
Pakistan

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A Member of Ernst & Young International

AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have audited the annexed balance sheet of **Pakistan Poverty Alleviation Fund** (the Company) as at **June 30, 2005** and the related income and expenditure account and cash flow statement and statement of changes in fund and reserves together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management as well as evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
 - i) the balance sheet and income and expenditure account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, income and expenditure account and cash flow statement and statement of changes in fund and reserves together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at **June 30, 2005** and of the surplus and its cash flows for the year then ended; and
- d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

ISLAMABAD: 18 AUG 2005

Ford Rhodes Sidat Hyder & Co.
CHARTERED ACCOUNTANTS

F.R.S.H. Co.

PAKISTAN POVERTY ALLEVIATION FUND
BALANCE SHEET
AS AT JUNE 30, 2005

	NOTE	2005	2004
FIXED ASSETS - tangible, at book value	3	11,091,989	10,446,279
INVESTMENTS - long term	4	900,000,000	700,000,000
LOANS TO PARTNER ORGANISATIONS - secured, considered good	5	455,908,963	54,877,752
DEFERRED TAX ASSET		28,119,000	-
CURRENT ASSETS			
Current maturity of loans to Partner Organisations	5	2,142,365,585	1,026,482,220
Investments - short term	6	3,500,944,209	1,586,845,616
Advances, deposits, prepayments and other receivables	7	11,542,813	1,165,870
Profit/service charge receivable	8	111,934,902	65,348,042
Cash and bank balances	9	1,586,339,219	172,643,089
		<u>7,353,126,728</u>	<u>2,852,484,837</u>
CURRENT LIABILITIES			
Accrued and other liabilities	10	(1,451,174)	(3,102,202)
Service and commitment charges payable	11	(48,774,231)	(38,648,101)
Taxation		(9,222,675)	(79,711,627)
		<u>(59,448,080)</u>	<u>(121,461,930)</u>
Net current assets		7,293,678,648	2,731,022,907
	Rupees	<u>8,688,798,600</u>	<u>3,496,346,938</u>
REPRESENTED BY:			
ENDOWMENT FUND	12	650,000,000	500,000,000
Accumulated surplus		<u>486,947,665</u>	<u>290,736,854</u>
		1,136,947,665	790,736,854
LONG TERM AND DEFERRED LIABILITIES			
Micro-credit Loan fund	13	6,482,473,335	2,734,647,781
Community Physical Infrastructure Grant fund	14	286,734,889	(23,401,551)
Social Sector Development Grant fund	15	10,454,508	-
Capacity Building Grant fund	16	203,723,155	(14,344,097)
USAID Grant fund	17	179,918,686	5,387,422
USDA Grant fund	18	384,073,641	-
Gratuity payable	19	4,472,721	3,320,529
		<u>7,551,850,935</u>	<u>2,705,610,084</u>
COMMITMENTS	24		
	Rupees	<u>8,688,798,600</u>	<u>3,496,346,938</u>

AUDITORS' REPORT ANNEXED

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

F.A.S.H.R. Co.


CHAIRMAN

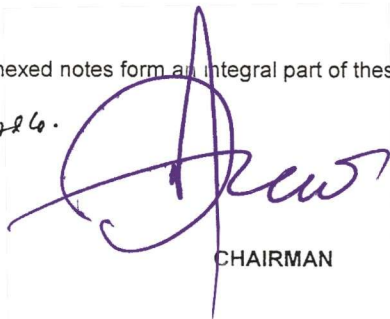

CHIEF EXECUTIVE

PAKISTAN POVERTY ALLEVIATION FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2005

	NOTE	2005	2004
Service charges on loans to Partner Organisations		88,070,848	66,287,993
Capacity building grant			
Government of Pakistan	16.1	37,567,507	12,571,563
US Agency for International Development	17.1	6,828,328	2,651,252
		44,395,835	15,222,815
Profit on investments		65,979,579	70,529,200
Profit on term deposits/ saving accounts		104,998,729	59,727,620
		303,444,991	211,767,628
General and administration expenses	20	(87,065,405)	(68,460,029)
Contribution for USAID financing programme		(616,000)	(306,000)
Loan loss provision		(43,205,099)	-
Surplus of income over expenditure		172,558,487	143,001,599
Financial charges	21	(65,643,804)	(20,288,151)
		106,914,683	122,713,448
Other income	22	1,477,128	10,092,728
Surplus before taxation		108,391,811	132,806,176
Taxation			
Current year		-	(40,000,000)
Deferred		28,119,000	-
Prior years	25	59,700,000	(12,000,000)
		87,819,000	(52,000,000)
Surplus for the year after taxation		196,210,811	80,806,176
Surplus at the beginning of the year		290,736,854	209,930,678
Accumulated surplus carried forward	Rupees	486,947,665	290,736,854

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

FRS 17-2 Co.


CHAIRMAN



CHIEF EXECUTIVE

PAKISTAN POVERTY ALLEVIATION FUND
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2005

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus for the year before taxation	108,391,811	132,806,176
Items not involving movement of cash:		
Depreciation	5,051,851	3,294,865
Provision for gratuity	1,152,192	1,668,877
Loan loss provision	43,205,099	-
Gain on sale of fixed asset	(57,062)	(761,318)
Financial charges	<u>65,643,804</u>	<u>12,051,450</u>
Operating surplus before working capital changes	223,387,695	149,060,050
Working capital changes:		
Increase in advances, deposits, prepayments and other receivables	(56,963,803)	(7,760,959)
Increase in accrued and other liabilities	(1,651,028)	(463,569)
Loan disbursements to Partner Organisations	(3,106,369,710)	(1,461,506,619)
Loan recoveries from Partner Organisations	<u>1,546,250,035</u>	<u>1,580,809,753</u>
Cash generated from/(used) in operations	(1,395,346,811)	260,138,656
Financial charges paid	(55,517,674)	(578,797)
Withholding tax deducted at source	<u>(10,788,952)</u>	<u>(9,527,267)</u>
Net cash generated from/(used) in operations	(1,461,653,437)	250,032,592
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments	(2,114,098,593)	(822,146,616)
Purchase of fixed assets	(6,083,262)	(5,877,324)
Proceeds from sale of fixed assets	442,763	1,892,537
Net cash used in investing activities	(2,119,739,092)	(826,131,403)
CASH FLOWS FROM FINANCING ACTIVITIES		
Endowment fund	150,000,000	-
Micro-credit Loan fund	3,747,825,554	778,421,358
Community Physical Infrastructure Grant fund	310,136,440	(92,065,384)
Social Sector Development Grant fund	10,454,508	-
Capacity Building Grant fund	218,067,252	18,718,467
USAID Grant fund	174,531,264	5,387,422
USDA Grant fund	384,073,641	-
Net cash generated from financing activities	<u>4,995,088,659</u>	<u>710,461,863</u>
Net increase in cash and bank balances	1,413,696,130	134,363,052
Cash and bank balances at beginning of the year	172,643,089	38,280,037
Cash and bank balances at end of the year	Rupees <u>1,586,339,219</u>	<u>172,643,089</u>

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

Er. S. H. Co.


CHAIRMAN


CHIEF EXECUTIVE

**PAKISTAN POVERTY ALLEVIATION FUND
STATEMENT OF CHANGES IN FUND AND RESERVES
FOR THE YEAR ENDED JUNE 30, 2005**

	ENDOWMENT FUND	ACCUMULATED SURPLUS	TOTAL
Balances as on June 30, 2003	500,000,000	209,930,678	709,930,678
Surplus after taxation for the year	-	80,806,176	80,806,176
Balances as on June 30, 2004	<u>500,000,000</u>	<u>290,736,854</u>	<u>790,736,854</u>
Receipts during the year	150,000,000	-	150,000,000
Surplus after taxation for the year	-	196,210,811	196,210,811
Balances as on June 30, 2005	<u>650,000,000</u>	<u>486,947,665</u>	<u>1,136,947,665</u>

Rupees

FRS+R Co.

CHAIRMAN


CHIEF EXECUTIVE

PAKISTAN POVERTY ALLEVIATION FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

1. STATUS, BACKGROUND AND NATURE OF OPERATIONS

- 1.1** PAKISTAN POVERTY ALLEVIATION FUND (the Company/PPAF) was registered in Pakistan on February 6, 1997 as a public company with liability limited by guarantee, licensed under section 42 of the Companies Ordinance, 1984.
- 1.2** The primary object of the Company is to help the poor, the landless and the asset-less in order to enable them to gain access to the resources for their productive self employment and to encourage them to undertake activities of income generation, poverty alleviation and for enhancing their quality of life. In order to achieve its objectives, the Company is mandated to work through Partner Organizations (POs), i.e., Non Government Organizations (NGOs), Community Based Organizations (CBOs), Rural Support Programmes (RSPs) and other private sector organizations. The project components consist of micro-credit, community physical infrastructure, social sector development and capacity building, which are financed through relevant Financing Agreements between the Company and POs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of presentation

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Accounting convention

These financial statements have been prepared on the basis of historical cost convention.

2.3 Revenue Recognition

- 2.3.1** Income is recognized on accrual basis except grants and donations that are recorded on receipt basis.
- 2.3.2** Grants related to income are recognized over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis.

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2.4 Fixed assets

- 2.4.1 Fixed assets are stated at cost less accumulated depreciation.
- 2.4.2 Depreciation is charged to income applying straight line method whereby the cost of an asset is written off over its estimated useful life. Full year's depreciation is charged on additions during the year while no depreciation is charged on deletions.
- 2.4.3 Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and any assets replaced are retired.
- 2.4.4 Gain or loss on sale or retirement of fixed assets is included in current year's income and expenditure account.

2.5 Borrowing costs

All borrowing costs are recognized as expense in the year in which they are incurred.

2.6 Development Credit Receipts - micro-credit loans and grants

Receipts from Government of Pakistan (GOP) on account of authorised allocation for micro-credit loans and grants, as defined and specified in Development Credit Agreement (DCA), are pro-rated to Micro-credit Loan fund, Community Physical Infrastructure Grant fund, Social Sector Development Grant fund and Capacity Building Grant fund on the basis of budgetary allocations specified in Schedule 1 of DCA.

2.7 Taxation

Provision for current taxation is based on taxable income on current rates of taxation after taking into account exemptions, tax rebates and tax credits available, if any.

Deferred tax is accounted for using the balance sheet liability method in respect of all significant temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the corresponding tax bases of such assets and liabilities. Deferred tax assets are recognized only to the extent if it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted.

2.8 Provisions

- 2.8.1 Provisions are recognized when the Company has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of obligation.
- 2.8.2 Loan loss provision at the rate of three percent (3%) of the gross outstanding balances of loans to POs is made at the year end, provided that provision once made will not be reduced with the reduction of outstanding balances of loan in subsequent years.

FRS 37

2.9 Employee benefits

The Company operates an unfunded gratuity scheme covering all eligible employees, completing the minimum qualifying period of service as specified by the scheme. Provision is made annually to cover obligation under the scheme in accordance with actuarial valuation recommendations. Projected Unit Credit Method has been used for actuarial valuation carried out for the first time on June 30, 2005. The results of current valuation are summarized in note 19.

The amount recognized in the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognized actuarial gains and losses.

In order to comply with International Accounting Standards (IAS) 19 – Employee Benefits, the Company has changed its accounting policy to account for the above defined benefit plan on actuarial recommendations. Had there been no change in the accounting policy, the surplus after taxation for the year would have been lower by Rs.314,113.

2.10 Foreign currency transactions

Transactions in foreign currencies are translated in Pak Rupees at the average rate of exchange. Monetary assets and liabilities expressed in foreign currencies are translated into Pak Rupees at the official rate prevailing on the balance sheet date. Gains and losses on foreign currency transactions are included in income currently, except exchange differences related to disbursements against SDRs for Micro Credit loan, Community Physical Infrastructure grant and Capacity Building grant are included in their respective balances.

2.11 Financial instruments

Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially recognized at cost, which is the fair value of the consideration given and received. These are subsequently measured at fair value, amortized cost or cost, as the case may be.

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3. FIXED ASSETS - tangible, at book value

The following is a statement of operating assets:

	Cost			Depreciation			Book value At June 30 2005	Annual depreciation rate	
	At July 01, 2004	Additions/ (Deletions)	At June 30, 2005	At July 01, 2004	Charge for the year	At June 30, 2005			
Furniture and fixtures	1,807,731	1,877,292	3,685,023	1,167,700	625,067	1,792,767	1,892,256	20%	
Vehicles	10,967,870	-	10,967,870	5,854,243	1,923,038	7,777,281	3,190,589	20%	
Office equipment	4,662,114	1,965,905 (312,661)	6,315,358	2,409,041	1,194,396 (306,623)	3,296,814	3,018,544	20%	
Computer equipment	7,468,833	2,240,065 (73,040)	9,635,858	5,029,285	1,689,013 (73,040)	6,645,258	2,990,600	25%	
2005	Rupees	24,906,548	6,083,262 (385,701)	30,604,109	14,460,269	5,431,514 (379,663)	19,512,120	11,091,989	
2004	Rupees	20,160,443	5,877,324 (1,131,219)	24,906,548	11,165,404	4,416,102 (1,121,237)	14,460,269	10,446,279	

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	NOTE	2005	2004
4. INVESTMENTS - long term			
Pakistan Investment Bonds (PIBs)	4.1	650,000,000	400,000,000
Term Deposit Receipts	4.2	250,000,000	250,000,000
Investment Certificates		-	50,000,000
	Rupees	<u>900,000,000</u>	<u>700,000,000</u>
4.1 Represent investments in PIBs as follows:			
Principal amount (Rupees)	Maturity on	Profit rate	Payment terms
200 million	31-12-2010	14% p. a.	Semi annually
200 million	21-08-2011	13% p. a.	Semi annually
100 million	28-04-2014	8% p. a.	Semi annually
150 million	28-04-2014	8% p. a.	Semi annually
4.2 Represent investments in term deposit receipts of various commercial banks for a period of three years with annual profit rate ranging from three point two percent (3.20%) to three point six seven percent (3.67%), maturing between December 2006 to March 2007.			
	NOTE	2005	2004
5. LOANS TO PARTNER ORGANIZATIONS - secured, considered good			
Micro-credit Loans - IDA financing			
National Rural Support Programme		1,003,905,751	402,611,061
Punjab Rural Support Programme		137,713,245	74,311,944
Kashf Foundation		231,326,185	227,226,173
Sarhad Rural Support Programme		21,386,268	-
Thardeep Rural Development Programme		331,474,650	63,685,200
Development Action for Mobilization and Emancipation		80,113,823	34,911,896
Taraqee Foundation		292,635,993	130,182,415
Sindh Agricultural & Forestry Workers Coordinating Organization		38,803,750	15,444,875
Balochistan Rural Support Programme		9,829,000	7,083,734
Sindh Rural Support Programme		8,570,000	1,903,333
Jinnah Welfare Society		19,820,000	9,966,666
Centre for Women Cooperative Development		19,362,937	1,933,100
Rural Community Development Society		14,275,003	13,233,059
Khwendo Kor Women and Children Development Programme		861,459	455,207
Young Pioneers Society		3,637,400	906,100
Women Social Organisation		3,016,166	732,316
Anjuman-e- Falah-o-Behbood		2,560,887	766,293
Community Support Concern		15,557,975	1,186,501
Poverty Eradication Network		3,655,000	1,895,000
Baanhn Beli		2,170,000	1,426,000
Bunyad Literacy Community Council		7,183,102	1,885,001
Human Development Foundation		369,956	9,275,964
Indus Resource Centre		2,651,166	846,610
Network Leasing Corporation Limited		231,020,533	94,969,009
Organization for Participatory Development		12,059,300	4,921,850
Swabi Women Welfare Society		4,765,554	1,340,275
Women Welfare Organization Poonch		3,286,260	374,000
Orangi Charitable Trust		25,942,375	9,710,300
Community Development Concerns		1,550,000	-
Karwan Community Development Organization		2,356,200	-
Kiran Welfare Organization		1,295,000	-
Narowal Rural Development Programme		4,500,000	-
		<u>2,537,654,938</u>	<u>1,113,183,882</u>
Enterprise Development Facility - USAID/Pakistan financing			
Centre for Women Cooperative Development		5,422,500	2,810,000
Rural Community Development Society		3,600,001	1,200,000
Punjab Rural Support Programme		7,523,868	1,300,000
Network Leasing Corporation Limited		124,412,250	-
		<u>140,958,619</u>	<u>5,310,000</u>
		2,678,613,557	1,118,493,882
Less: Loan loss provision	2.8	(80,339,009)	(37,133,910)
	5.1	2,598,274,548	1,081,359,972
Less: Current maturity		2,142,365,585	1,026,482,220
	Rupees	<u>455,908,963</u>	<u>54,877,752</u>

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5.1 The Company disbursed Micro-credit loans and Enterprise Development Facility (EDF) to POs under respective Financing Agreements on a profit rate of six percent per annum (6% p.a.) (2004: 6% to 10 % p.a.). These loans are secured through letter of hypothecation on receivables of POs created out of financing obtained from the Company. Further, the Company maintains a first charge on all assets / capital items created out of financing provided for capacity building and under the exclusive lien of the Company until full repayment of the principal, service charges and other outstanding amounts payable to the Company. These loans are repayable on quarterly basis within two years under the respective financing agreements signed between the Company and the POs.

	NOTE	2005	2004
5.2 Movement of loans to Partner Organizations			
Opening balance		1,118,493,882	1,237,797,016
Disbursements during the year		3,106,369,710	1,461,506,619
		<u>4,224,863,592</u>	<u>2,699,303,635</u>
Recoveries during the year		(1,546,250,035)	(1,580,809,753)
		<u>2,678,613,557</u>	<u>1,118,493,882</u>
Less: Loan loss provision		(80,339,009)	(37,133,910)
	Rupees	<u>2,598,274,548</u>	<u>1,081,359,972</u>

6. INVESTMENTS - short term

Term Deposit Receipts	6.1	3,450,944,209	1,581,845,616
Investment Certificates	6.2	50,000,000	-
Regular Income Certificates	6.3	-	5,000,000
	Rupees	<u>3,500,944,209</u>	<u>1,586,845,616</u>

6.1 Represent investments in term deposit receipts of various commercial banks maturing within the period of one year i.e. from July 01, 2005 to June 30, 2006 and earning average profit rate of six point zero eight percent (6.08 %).

6.2 Represent investments in certificates of a leasing company for a period of two years with annual profit rate of four point five percent (4.5%), maturing in February 2006.

		2005	2004
7. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Advances - considered good			
Employees		413,341	515,744
Suppliers		4,054,600	-
Expenses		-	17,900
		<u>4,467,941</u>	<u>533,644</u>
Deposits		582,900	123,900
Prepayments		6,385,504	390,909
Other receivables - considered good		106,468	117,417
	Rupees	<u>11,542,813</u>	<u>1,165,870</u>

8. PROFIT/SERVICE CHARGE RECEIVABLE

	NOTE	2005	2004
Profit receivable on			
Pakistan Investment Bonds (PIBs)	8.1	26,526,027	23,260,274
Term Deposit Receipts / Investment Certificates	8.2	56,705,915	29,850,292
Regular Income Certificates		-	51,098
		<u>83,231,942</u>	<u>53,161,664</u>
Service charge receivable on loans to POs	8.3	28,702,960	12,186,378
	Rupees	<u>111,934,902</u>	<u>65,348,042</u>

8.1 Effective profit rates on the PIBs are disclosed in note 4.1.

8.2 Effective profit rates on term deposit receipts / investment certificates are disclosed in notes 4.2, 6.1 and 6.2.

8.3 Effective service charge rate on loans to POs is disclosed in note 5.1.

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9. CASH AND BANK BALANCES

Cash in hand	9,902	14,149
Cash with banks		
in current accounts		
local currency	242,006	103,242,281
local currency - specific to USAID grant	2,292,950	143,498
foreign currency - US\$ 19,991,655 (2004: US\$ 842,814)	1,193,101,979	49,009,634
	<u>1,195,636,935</u>	<u>152,395,413</u>
in deposit accounts		
local currency	6,557,454	20,233,527
local currency - specific to USDA grant	384,134,929	-
9.1	<u>390,692,383</u>	<u>20,233,527</u>
Rupees	<u>1,586,339,219</u>	<u>172,643,089</u>

9.1 The average annual profit rate on deposit accounts was three point two five percent (3.25%) (2004: 2.75%).

10. ACCRUED AND OTHER LIABILITIES

	NOTE	2005	2004
Accrued expenses		1,451,174	1,624,609
Other liabilities		-	1,477,593
Rupees		<u>1,451,174</u>	<u>3,102,202</u>

11. SERVICE CHARGES/COMMITMENT CHARGES PAYABLE

Service charges payable	11.1	11,382,248	36,208,759
Commitment charges payable	11.2	37,391,983	2,439,342
Rupees		<u>48,774,231</u>	<u>38,648,101</u>

11.1 Represent service charges payable to GOP at the rate of three-fourths of one percent per annum (0.75% p.a.) on the principal amount of credit withdrawn and outstanding from time to time.

11.2 Represent commitment charges payable to GOP at the rate of zero point three five percent per annum (0.35% p.a.) (2004: 0.5% p.a.) on the principal amount of the credit not withdrawn from time to time.

12. ENDOWMENT FUND

	NOTE	2005	2004
PPAF - I		500,000,000	500,000,000
PPAF - II		150,000,000	-
12.1		<u>650,000,000</u>	<u>500,000,000</u>

12.1 Further to the signing of DCAs as detailed in note 13.1 and 13.2, GOP paid Rs. 500 million to PPAF as its contribution for PPAF-I and Rs. 150 million (out of the committed Rs. 500 million) for PPAF-II for establishing the Endowment Fund, under two separate Subsidiary Financing Agreement (SFA) signed with PPAF on August 18, 1999 and March 24, 2004. The balance amount for PPAF II will be received in two installments of Rs. 150 million and Rs. 200 million in the beginning of financial year 2006 and 2007 respectively.

Under the above SFAs, the Endowment Fund amount is required only to be invested in the Government schemes and Government bonds and the profits so earned are to be utilized for meeting the running expenditure of the Company.

13. MICRO-CREDIT LOAN FUND

	NOTE	2005	2004
PPAF - I	13.1	2,672,636,101	2,734,647,781
PPAF - II	13.2	3,809,837,234	-
		<u>6,482,473,335</u>	<u>2,734,647,781</u>

13.1 A Development Credit Agreement (DCA) was signed between International Development Association (IDA) and the Government of Pakistan (GOP) on July 7, 1999. IDA made available to GOP a sum of Special Drawing Rights (SDR) of 66.5 million over a period of five years which were utilized by GOP through the Company. Half of this amount was disbursed as loan to the Company and the other half as grant. The principal loan amount of PPAF-I project is repayable in Pak Rupees to GOP over a period of twenty three years including a grace period of eight years in thirty semi-annual installments payable on each May 15 and November 15 commencing from November 15, 2007 and ending on May 15, 2022. Each installment upto and including the installment payable on May 15, 2013 shall be equal to two point zero eight three percent (2.083%) of such principal amounts and each installment thereafter shall be equal to four point one six seven percent (4.167%) of such principal amount.

13.2 Another DCA was signed between IDA and GOP on January 20, 2004, in respect of PPAF-II. IDA would make available to GOP a sum of SDR of 168.1 million over a period of four years to be utilized by GOP through the Company. Fifty six percent (56%) of this amount is to be disbursed as loan to the Company and the balance as grant. The principal loan amount of PPAF-II project is also repayable in Pak Rupees to GOP over a period of twenty three years including a grace period of eight years in thirty semi-annual installments payable on each February 1 and August 1 commencing from February 1, 2012 and ending on August 1, 2026. Each installment upto and including the installment payable on August 1, 2017 shall be equal to two point zero eight three percent (2.083%) of such principal amount and each installment thereafter shall be equal to four point one six seven percent (4.167%) of such principal amount.

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	NOTE	FOR THE YEAR	CUMULATIVE TO DATE
14. COMMUNITY PHYSICAL INFRASTRUCTURE GRANT FUND			
Opening balance		(23,401,551)	-
Amount received from GOP		886,335,848	2,429,530,688
Foreign exchange translation differences		(16,735,485)	(9,833,430)
		<u>846,198,812</u>	<u>2,419,697,258</u>
Less: Disbursements			
Sarhad Rural Support Programme		24,400,556	361,865,332
National Rural Support Programme		163,625,000	643,469,850
Punjab Rural Support Programme		90,061,280	347,271,546
Aga Khan Rural Support Programme		30,970,171	140,845,903
Thardeep Rural Development Programme		25,937,276	79,788,172
Taraqee Foundation		21,949,734	141,412,557
Balochistan Rural Support Programme		48,454,542	77,142,954
Jinnah Welfare Society		3,309,000	10,650,820
Rural Community Development Society		10,215,593	30,543,388
Women Welfare Organization Poonch		4,147,600	25,121,012
Sindh Agricultural & Forestry Workers Coordinating Organization		19,737,600	28,391,473
Himalayan Wildlife Foundation		-	3,070,205
Baanhn Beli		4,399,633	9,119,633
Community Mobilisation and Development Organization		1,127,150	6,756,650
Ghazi Brotha Taraqiatee Idara		10,154,709	44,969,634
Human Development Foundation		8,351,750	21,808,614
Islamic Relief		4,614,800	7,129,747
Participatory Integrated Development Society		8,073,261	17,731,935
Salik Development Foundation		10,245,555	17,982,555
Soon Valley Development Programme		13,719,400	23,450,163
Sungi Development Foundation		8,476,753	27,390,211
Women Social Organisation		-	2,165,000
Youth Commission for Human Rights		2,141,500	5,638,101
AKPBS-Water and Sanitation Extension Programme		16,430,398	26,030,398
Community Uplift Programme		10,460,200	13,000,054
Human Resource Development Society		5,347,800	7,103,800
Balochistan Environmental and Educational Journey		863,875	863,875
Omar Asghar Khan Development Foundation		1,114,350	1,114,350
Balochistan Rural Development & Research Society		264,900	264,900
SOS Children's Village		544,500	544,500
Indus Earth Trust		3,520,187	3,520,187
Green Circle Organization		1,709,950	1,709,950
Village Friends Organization		1,402,500	1,402,500
Kiran Welfare Organization		253,900	253,900
Social Action Bureau for Assistance in Welfare and Organisation Network		360,000	360,000
South Asia Partnership Pakistan		2,259,500	2,259,500
Society for Conservation and Protection of Environment		819,000	819,000
		<u>559,463,923</u>	<u>2,132,962,369</u>
Closing balance	Rupees	<u>286,734,889</u>	<u>286,734,889</u>
14.1 Represents amounts payable to POs on non-reimbursable basis under respective Financing Agreements.			
	NOTE	FOR THE YEAR	CUMULATIVE TO DATE
15. SOCIAL SECTOR DEVELOPMENT GRANT FUND			
Amount received from GOP		10,438,387	10,438,387
Foreign exchange translation difference		16,121	16,121
	Rupees	<u>10,454,508</u>	<u>10,454,508</u>
15.1 Represents amounts payable to POs on non-reimbursable basis under respective Financing Agreements.			
	NOTE	2005	2004
16. CAPACITY BUILDING GRANT FUND			
Capacity Building Grant fund - PPAF	16.1	28,102,333	30,162,150
Capacity Building Grant fund - POs	16.2	175,620,822	(44,506,247)
	Rupees	<u>203,723,155</u>	<u>(14,344,097)</u>

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	NOTE	FOR THE YEAR	CUMULATIVE TO DATE
16.1	Opening balance	30,162,150	-
	Amount received from GOP	34,785,958	171,978,124
	Foreign exchange translation differences	721,732	1,548,223
		65,669,840	173,526,347
	Less: Utilization against expenditure recognised as income	37,567,507	145,424,014
	Rupees	28,102,333	28,102,333
		FOR THE YEAR	CUMULATIVE TO DATE
16.2	Opening balance	(44,506,247)	-
	Amount received from GOP	623,486,966	1,260,967,619
	Foreign exchange translation differences	(23,797,909)	(21,244,619)
		555,182,810	1,239,723,000
	Less: Disbursements		
	National Rural Support Programme	138,530,464	401,212,049
	Punjab Rural Support Programme	49,592,895	141,404,464
	Sarhad Rural Support Programme	9,022,695	109,814,295
	Thardeep Rural Development Programme	81,700,781	123,754,269
	Development Action for Mobilization and Emancipation	11,149,912	30,288,050
	Taraqee Foundation	22,224,474	71,982,629
	Balochistan Rural Support Programme	4,620,676	16,849,528
	Sindh Agricultural & Forestry Workers Coordinating Organization	12,336,449	22,374,101
	Sindh Rural Support Programme	2,649,833	6,726,928
	Jinnah Welfare Society	7,236,661	16,398,677
	Rural Community Development Society	7,000,372	11,571,697
	Centre for Women Cooperative Development	421,463	2,916,031
	Poverty Eradication Network	1,227,311	3,403,118
	Khwendo Kor Women & Children Development Programme	445,045	2,545,327
	Community Support Concern	2,318,684	6,669,867
	Women Social Organisation	665,856	1,782,521
	Young Pioneers Society	1,146,303	1,954,877
	Anjuman-e- Falah-o-Behbood	831,262	1,908,675
	Aga Khan Rural Support Programme	-	121,069
	Women Welfare Organization Poonch	1,659,484	2,718,361
	Kashf Foundation	5,759,251	38,194,030
	Family Planning Association of Pakistan	-	5,171,862
	Baanhn Beli	625,817	4,347,076
	Bunad Literacy Community Council	2,044,025	4,482,253
	Ghazi Brotha Taraqiatee Idara	-	136,844
	Human Development Foundation	814,032	6,968,401
	Indus Resource Centre	1,095,530	3,388,122
	Organization for Participatory Development	2,796,595	5,311,763
	Soon Valley Development Programme	-	147,500
	Sungi Development Foundation	-	293,689
	Swabi Women Welfare society	1,223,686	2,084,343
	Youth Commission For Human Rights	-	60,200
	Indus Earth	-	51,796
	Network Leasing Corporation Limited	-	4,814
	Orangi Charitable Trust	3,317,011	6,777,187
	Participatory Integrated Development Society	360,000	401,366
	Community Development Concerns	1,118,240	1,118,240
	Community Mobilisation and Development Organization	239,693	239,693
	Green Circle Organization	272,000	272,000
	Islamic Relief	190,000	190,000
	Karwan Community Development Organization	419,874	419,874
	Kiran Welfare Organization	609,050	609,050
	Narowal Rural Development Programme	1,492,311	1,492,311
	South Asia Partnership Pakistan	498,000	498,000
	Salik Development Foundation	120,000	120,000
	Society for Conservation and Protection of Environment	240,000	240,000
	AKPBS-Water and Sanitation Extension Programme	108,000	108,000
	Village Friends Organization	457,000	457,000
	Direct payments by PPAF for seminars and workshops for POs	849,949	2,210,240
	Trainers' salary	131,304	1,909,991
		379,561,988	1,064,102,178
	Closing balance	Rupees	175,620,822
			175,620,822

16.2.1 Represents amounts payable to POs on non-reimbursable basis under respective Financing Agreements.

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	NOTE	2005	2004
17. USAID GRANT FUND			
Capacity Building Grant fund - PPAF	17.1	(6,150,538)	(289,178)
Capacity Building Grant fund - POs	17.2	3,333,907	153,874
Enterprise Development Facility	17.3	182,735,317	5,522,726
	Rupees	<u>179,918,686</u>	<u>5,387,422</u>
		FOR THE YEAR	CUMULATIVE TO DATE
17.1	Opening balance	(289,178)	-
	Amount received from USAID	966,968	3,329,042
	Less: Utilization against expenditure recognised as income	6,828,328	9,479,580
	Rupees	<u>(6,150,538)</u>	<u>(6,150,538)</u>
17.1.1 Represents receivable from USAID against capacity building of PPAF on non-reimbursable basis.			
17.2	Opening balance	153,874	-
	Amount received from USAID	4,745,193	6,561,067
	Amount contributed by PPAF	616,000	922,000
		<u>5,515,067</u>	<u>7,483,067</u>
	Less: Disbursements		
	Centre for Women Cooperative Development	1,676,287	2,071,287
	Rural Community Development Society	227,488	700,488
	Punjab Rural Support Programme	277,385	1,377,385
		<u>2,181,160</u>	<u>4,149,160</u>
	Closing balance	<u>3,333,907</u>	<u>3,333,907</u>
	Rupees		
17.2.1 Represents amounts payable to POs on non-reimbursable basis under respective Financing Agreements.			
		FOR THE YEAR	CUMULATIVE TO DATE
17.3	Opening balance	5,522,726	-
	Amount received from USAID	172,746,779	178,246,779
	Service charges earned	4,465,812	4,488,538
	Closing balance	<u>182,735,317</u>	<u>182,735,317</u>
	Rupees		
17.4	PPAF signed a cooperative agreement with the U.S. Agency for International Development Mission to Pakistan (USAID/Pakistan). The period of this agreement is of three years, starting from the date of award i.e. September 30, 2003 through September 30, 2006. The total programme size is US\$ 7,098,621 of which USAID/Pakistan will contribute US\$ 6,320,000 and PPAF share will be US\$ 778,621. The funds committed under this agreement will be disbursed as loans to POs under EDF and as capacity building grant for PPAF and for POs. EDF will be given to the POs in order to enable them to give loans of larger amounts (from Rs. 30,000 to Rs. 100,000) to their borrowers who have successfully completed two loan cycles. According to the agreement, PPAF will create a revolving fund from the repayments and service charges earned on EDF.		
17.5	The closing balance of the USAID grant represents amounts for disbursement to POs for EDF and service charges earned on outstanding loan. These funds cannot be used by PPAF for its operational and capital expenses till the expiry of the term of the agreement. During the year, Rs. 167.92 million have been disbursed to POs. Total disbursements for EDF under USAID aggregates to Rs. 173.42 million.		

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18. USDA GRANT FUND	FOR THE YEAR	CUMULATIVE TO DATE
Amount received from GOP	400,000,000	400,000,000
Less: Disbursements		
Green Circle Organization	489,000	489,000
Soon Valley Development Programme	1,492,000	1,492,000
Sarhad Rural Support Programme	5,309,000	5,309,000
Taraqee Foundation	4,806,201	4,806,201
Rural Community Development Society Seminars and Workshops	2,388,432	2,388,432
	1,441,726	1,441,726
	15,926,359	15,926,359
Closing balance	Rupees 384,073,641	384,073,641

18.1 On August 30, 2002, the Government of United States of America and GOP signed an agreement under which U.S. Department of Agriculture (USDA) through its Commodity Credit Corporation has agreed to provide 37,800 metric tons of soybean oil to GOP. The GOP has authorized Trading Corporation of Pakistan to receive and monetize the commodity. The plan of operation of this Agreement is to use the sale proceeds to finance PPAF. The total programme size is approximately Rs.1,518 million, out of which Rs. 400 million have been received during the current year, while the remaining amount will be released in two installments of Rs. 600 and Rs. 517.76 million each in financial year 2005 - 2006 and 2006 - 2007, respectively. PPAF will use these funds to implement long-term poverty reduction programmes, including: small-scale infrastructure programmes; sustainable agriculture development programmes; and establishment of a National Drought Mitigation Center (NDMC) in cooperation with the NDMC at Nebraska USA, as part of the long-term plan to mitigate the drought.

18.2 The closing balance represents amounts payable to POs on non-reimbursable basis under respective Financing Agreements.

	2005	2004
19. GRATUITY PAYABLE		
19.1 The amounts recognised in the balance sheet are determined as follows:		
Present value/amount of unfunded obligation	5,854,621	3,320,529
Unrecognised actuarial gains	(382,953)	-
Unrecognised transitional liability	(998,947)	-
Liability in the balance sheet	<u>4,472,721</u>	<u>3,320,529</u>
19.2 The amounts recognised in the income and expenditure account are as follows:		
Current service cost/provision for the year	993,493	1,747,411
Interest cost	411,229	-
Recognised transitional liability	249,737	-
Total amount included in salaries and benefits	<u>1,654,459</u>	<u>1,747,411</u>
19.3 Movement in the liability recognised in the balance sheet:		
At beginning of the year	3,320,529	1,651,652
Amount recognised during the year - as shown above	1,654,459	1,747,411
Benefit payments	(502,267)	(78,534)
At end of the year	<u>4,472,721</u>	<u>3,320,529</u>
19.4 The principal actuarial assumption used are as follows:		
Discount rate	9% per annum	
Expected rate of increase in salary	9% per annum	
Mortality rate	EFU 1961-66 Mortality table	
Average expected remaining working life time of employees	12 years	

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	NOTE	2005	2004
20. GENERAL AND ADMINISTRATION EXPENSES			
Salaries, wages and benefits	20.1	38,562,597	33,639,377
Rent		5,061,078	2,333,544
Repairs and maintenance		1,413,928	638,662
Traveling, lodging and conveyance		6,113,460	6,309,091
Communication		1,530,127	1,402,300
Printing and stationery		1,753,588	1,323,930
Insurance		544,776	412,870
Vehicles running and maintenance		1,757,185	1,184,208
Utilities		565,627	446,014
Training		1,865,408	2,608,036
Consultancy charges		15,867,698	9,655,262
Legal and professional charges		727,900	503,800
Auditors' remuneration	20.2	1,275,000	940,000
Advertisement		1,793,884	180,160
Media projection		365,237	169,435
Newspapers, books and periodicals		68,213	63,423
Depreciation	3	5,431,514	4,416,102
Seminar and workshops		1,512,446	621,464
PPAF-II project launch		-	950,554
Security services		245,933	204,000
Others		609,806	457,797
	Rupees	<u>87,065,405</u>	<u>68,460,029</u>
20.1	The above include Rs. 1,654,459 (2004: Rs. 1,668,877) in respect of gratuity expense and Rs. 3,982,888 (2004: Rs. 3,498,098) in respect of remuneration of the Chief Executive.		
20.2	Auditors' remuneration		
	Statutory audit	275,000	240,000
	Audit of POs	1,000,000	700,000
	Rupees	<u>1,275,000</u>	<u>940,000</u>
21. FINANCIAL CHARGES			
On Micro-credit Loans		64,407,558	19,709,354
Bank charges		453,196	578,797
Premium paid for the purchase of Pakistan Investment Bonds		783,050	-
	Rupees	<u>65,643,804</u>	<u>20,288,151</u>
22. OTHER INCOME			
Gain on sale of assets		57,062	761,318
Income from training		1,353,050	1,066,392
Others	22.1	67,016	8,265,018
	Rupees	<u>1,477,128</u>	<u>10,092,728</u>
22.1	Others included in 2004, reversal of commitment charges to GOP amounting to Rs. 8,236,701 which were no longer payable due to revision of rate from zero point two five percent (0.25%) to zero percent per annum.		

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23 FINANCIAL INSTRUMENTS

23.1 Profit rate risk

The Company's exposure to profit rate risk and the effective rates on its financial assets and liabilities as of June 30, 2005 are summarized below:

	PROFIT BEARING				NON PROFIT BEARING	Total
	Upto one year	One to five years	Over five years	Total	Total	
Financial assets:						
Investments - long term	-	-	650,000,000	650,000,000	-	650,000,000
Investments - short term	3,500,944,209	-	-	3,500,944,209	-	3,500,944,209
Loans to Partner Organisations	2,142,365,585	455,908,963	-	2,598,274,548	-	2,598,274,548
Advances, deposits and other receivables	-	-	-	-	106,468	106,468
Profit and service charge receivable	-	-	-	-	111,934,902	111,934,902
Cash and bank balances	390,692,383	-	-	390,692,383	1,193,343,985	1,584,036,367
2005 Rupees	6,034,002,176	455,908,963	650,000,000	7,139,911,139	1,305,385,354	8,445,296,493
2004 Rupees	2,633,561,363	354,877,752	400,000,000	3,388,439,115	217,998,922	3,606,438,037
Financial liabilities:						
Recognised:						
Endowment Fund	-	-	-	-	650,000,000	650,000,000
Micro-credit Loan	-	444,202,728	6,038,270,607	6,482,473,335	-	6,482,473,335
Community Physical Infrastructure Grant	-	-	-	-	286,734,889	286,734,889
Social Sector Development Grant	-	-	-	-	10,454,508	10,454,508
Capacity Building Grant	-	-	-	-	203,723,155	203,723,155
USAID Grant fund Community Physical Infrastructure Grant - USDA	-	-	-	-	179,918,686	179,918,686
Provision for gratuity	-	-	-	-	384,073,641	384,073,641
Creditors and other liabilities	-	-	-	-	4,472,721	4,472,721
Charges on unsecured loan	-	-	-	-	62,107	62,107
	-	444,202,728	6,038,270,607	6,482,473,335	48,774,231	48,774,231
	-	444,202,728	6,038,270,607	6,482,473,335	1,768,213,937	8,250,687,273
Unrecognised:						
Commitments	-	-	-	-	9,705,017,954	9,705,017,954
2005 Rupees	-	444,202,728	6,038,270,607	6,482,473,335	11,473,231,891	17,955,705,227
2004 Rupees	-	227,850,853	2,506,796,928	2,734,647,781	511,125,207	3,245,772,988

Effective profit rates for the monetary financial assets and liabilities are mentioned in the respective notes to the financial statements.

23.2 Concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit-related losses in the event of non-performance by POs of micro-credit loans to the extent of Rs. 2.6 billion out of a total of Rs. 8.4 billion of financial assets.

The Company seeks to manage the credit risk by attempting to diversify the lending activities to avoid undue concentration of risks with POs in specific locations or activities. The Company controls this risk through credit appraisals, assessing the credit-worthiness of POs, requiring compulsory savings from borrowers and creating lien on the assets of POs.

23.3 Fair value of financial instruments

The carrying value of all financial assets and liabilities reflected in the financial statements approximates their fair values.

23.4 Service charge rate risk

All borrowings of the Company are on fixed service charge rate, hence the service charge rate risk is considered to be minimal.

23.5 Foreign exchange risk

All borrowings of the company are repayable in Pak Rupees hence foreign exchange risk is considered to be nil.

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24. COMMITMENTS	NOTE	2005	2004
Aggregate commitments under Financing Agreements for			
Loans		7,627,610,211	3,557,580,000
Community Physical Infrastructure		1,384,112,727	75,104,226
Capacity Building		693,295,016	266,187,023
	Rupees	<u>9,705,017,954</u>	<u>3,898,871,249</u>

24.1 Represent undisbursed amounts under respective Financing Agreements with POs executed upto June 30, 2005.

25. TAXATION

On May 19, 2005, the CBR issued a notification (S.R.O. 443 (I)/2005) granting approval to PPAF as a welfare institution for the tax years 2003, 2004 and 2005.

Tax liability for the current year and for the financial years ended June 30, 2004 and June 30, 2005 have been worked out on the basis of the above SRO. For the current year, there was no tax liability due to a net tax loss.

The tax provision for the financial years ended June 30, 2003 and June 30, 2004 respectively, has been recalculated based on the exemption available to PPAF through the said SRO and the excess provision has been reversed accordingly.

The deferred taxation is in respect of the temporary difference due to the loan loss provisioning.

26. NUMBER OF EMPLOYEES

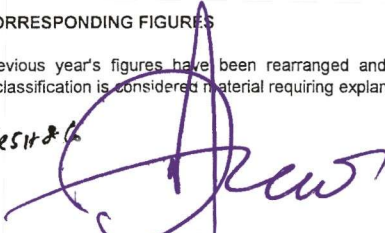
The Company had 64 (2004: 56) employees as at June 30, 2005.

27. DATE OF AUTHORIZATION

These financial statements were authorized for issue in the Board of Directors meeting held on 18 AUG 2005.

28. CORRESPONDING FIGURES

Previous year's figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. No reclassification is considered material requiring explanation to be given.

FRS/18/05

 CHAIRMAN


 CHIEF EXECUTIVE



PAKISTAN POVERTY ALLEVIATION FUND

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