



Annual Report



Pakistan Poverty Alleviation Fund



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Acronyms

AERC	Applied Economics Research Center
AJK	Azad Jammu and Kashmir
BME	Benefit Monitoring and Evaluation
CAP	Community Action Plan
CECP	Committee to Encourage Corporate Philanthropy
CED	Credit and Enterprise Development
CPI	Community Physical Infrastructure
DMPP	Drought Mitigation and Preparedness Program
DWSS	Drinking Water Supply Scheme
EDF	Enterprise Development Facility
ERD	Evaluation, Research and Development
ERRA	Earthquake Reconstruction and Rehabilitation Authority
F&A	Finance and Accounts
GPS	Global Positioning System
H&E	Health and Education
HID	Human and Institutional Development
HRC	Housing Reconstruction Centers
IAD	Internal Audit Department
IAUP	Integrated Area Upgradation Program
IFAD	International Fund for Agricultural Development
IR	Islamic Relief
KfW	Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute)
M&C	Media and Communication
NRSP	National Rural Support Programme
NSET	National Society for Earthquake Technology
OAKDF	Omar Asghar Khan Development Foundation
PO	Partner Organization
R&R	Reconstruction and Rehabilitation
SMT	Social Mobilization Team
SRSP	Sarhad Rural Support Programme
SSDP	Social Sector Development Programme
TIP	Technological Innovation Program
TOT	Training of Trainers
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
WWOP	Women Welfare Organization Poonch

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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

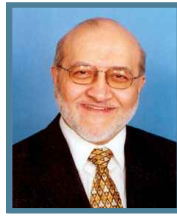
Mueen Afzal	Former Secretary General, Ministry of Finance, Government of Pakistan
Rafiud Deen Ahmad	Senior Partner, Orr, Dignam & Co.
Rana Assad Amin	Joint Secretary, Ministry of Finance, Government of Pakistan
Junaid Iqbal Ch.	Additional Secretary, Economic Affairs Division, Government of Pakistan
Arif Hasan	President, Aurat Foundation
Abdul Razzaq Kemal	Former Director, Pakistan Institute of Development Economics
Aijaz Ahmed Qureshi	General Manager, Sindh Irrigation & Drainage Authority
Syed Ayub Qutub	Executive Director, Pakistan Institute of Environment Development & Research
Fareeha Zafar	Director, Society for the Advancement of Education
Kamal Hyat	Chief Executive/Managing Director, Pakistan Poverty Alleviation Fund

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Javed Burki	Former Civil Servant
Ashraf Muhammad Hayat	Former Civil Servant
Akmal Hussain	Managing Director, Sayyed Engineers Ltd.
Maliha H Hussein	Independent Consultant
Ainullah Khan Kakarr	Former Civil Servant
Mutawakkil Kazi	Member, Federal Public Service Commission
Shoaib Sultan Khan	Chairman, National Rural Support Programme
Sono Khangharani	Executive Director, Thardeep Rural Development Programme
Rajab Ali Memon	Educationist
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Kaiser H Naseem	Manager, Pakistan Corporate Governance Project, International Finance Corporation
Aisha Ghaus Pasha	Former Deputy Director, Social Policy and Development Center
Muhammad Ismail Qureshi	Secretary, Ministry of Food, Agriculture & Livestock, Government of Pakistan
Fazlullah Qureshi	Former 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
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:	Ilfat Rasul Khan
Auditors:	Ford Rhodes Sidat Hyder & Co. Chartered Accountants
Legal Advisors:	Azam Chaudhry Law Associates
Registered Office:	House No. 1, Street No. 20, Sector F-7/2, Islamabad, Pakistan.



Chairman's Message

It gives me great pleasure to say that the year ending June 2006 has seen the PPAF continue to grow as an outstanding institution. This is because of the professional corporate culture which has evolved and which has been the hallmark of PPAF operations.

Disbursements reached an inspiring Rs.16 billion of which microcredit was the largest component. Starting from a modest base of six Partners in the year 2000, when the overall number of borrowers in the sector was only 50,000, the PPAF has developed an infrastructure of 38 partners in microcredit with 943,370 borrowers. Repayment from the Partner Organizations remain 100 percent.

Similarly, there has been an exponential growth in the number of community physical infrastructure schemes. Disbursements have increased by 54 percent when compared to last year, and the number of projects undertaken now exceeds 11,350. Most of the projects have been executed in the poorest and remotest areas of the country.

Human Resource Development is one of the most important activities of the PPAF.

Investment is continuously made in developing the human resource base of the PPAF, the partner organizations and their communities. There is a strong realization that without adequate competencies particularly at the management level, the long term growth and expansion of the program would be significantly compromised.

The institutionalization of the decision-making process, implementation of good corporate governance practices, and transparency have been ensured by the independent Board of Directors. It is my privilege to appreciate the outstanding contributions made by the Directors, and also the unstinting support of General Body, in the realization of these fundamental elements of the organization.


The competency and motivation of the management team of the PPAF to translate policy into action and to creatively develop acceptable solutions to difficult problems deserves recognition and commendation.

With the increase in the activities of the PPAF, the management team possesses the necessary skills and capabilities to succeed in these new challenges.

The encouragement and financial assistance that has been provided by the international, bilateral and private sector donors in this phase of the institution's growth has been critical. They have facilitated the creation of the foundation for sustainable operations.

Success brings with it opportunities and challenges. The harnessing of these in a holistic and timely manner is critical to the continuity and sustainability of the support vital to the alleviation of poverty. It is important to constantly remind ourselves that the focus of our endeavors is to provide opportunities and support for the less privileged to lift themselves out of poverty while reinforcing their dignity and self respect.

The Government of Pakistan's outstanding support, assistance and ownership of the PPAF is gratefully acknowledged. Without the Government's recognition that the PPAF is the private sector executing arm of its Poverty Alleviation Strategy, the PPAF would not be able to make a significant contribution to reduction in poverty. The Government's continued facilitation is paramount to the success of the efforts of the PPAF in fulfilling its responsibilities to the vulnerable people and communities of the country.



Hussain Dawood



Chief Executive's Statement

This is the sixth year of PPAF operations, and it is gratifying to see that many of the dreams and expectations have been in large measure realized, and strong foundations have been laid to meet the challenges of the future.

One of the most significant contributions in my view has been the accomplishment of raising the standards of civil society organizations to new levels of social responsibility and economic discipline. Both of these are essential ingredients for sustainable development.

The relevantly small outreach of civil society organizations has now been extended to 108 districts of the country. In terms of physical space they are now present in 23,000 villages of Pakistan. In terms of numbers there are now over 60,000 community organizations working jointly with them in the war against poverty.

If ever proof was required of the strength and value of community driven projects, the Pakistan Poverty Alleviation Fund and its partner organizations are a living testimony of the success of this socio-

economic model. A model that places people in the center of development rather than development in the center of people.

The Government of Pakistan continues to be the strongest supporter of the fund, and this is only natural since as sponsor of the institution it has played a major role in facilitating the progress and success of the PPAF. I take this opportunity to thank the honorable prime minister and his team personally for their kind assistance and valuable guidance.

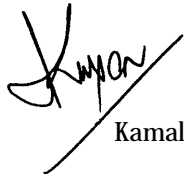
Similarly, I am grateful for the confidence that multi-lateral, bilateral, and more recently private sector development partners have shown in our ability to deliver effectively and transparently at grassroots levels. Their continued unwavering support has been crucial in establishing the PPAF as a world class institution.

Our close relationship with our partner organizations and the open nature of equal discourse has been extremely useful in creating a climate of learning and mutual trust. We hope to continue this openness and two-way communication in the years ahead.

We are fortunate to have a General Body that is well-versed in the concept and attributes of social mobilization and whose inputs have added great value to our efforts. The personal interest of the Chairperson and the Board of Directors has been a major factor in introducing best corporate practices in the institution, and in creating a climate of shared responsibilities and ownership.

The strongest impetus to work however comes from the fact that every step we take could literally be a matter of life and death for vulnerable people struggling in a hostile environment for survival.

We care, and will continue to do so.



Kamal Hyat

Overview

The Pakistan Poverty Alleviation Fund (PPAF) envisions community empowerment through poverty focused development initiatives and interventions at the grass roots level. As an apex institution, PPAF operates through Partner Organizations (POs) 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 six years of its operations, PPAF has disbursed over Rs. 16 billion to communities spread across 108 districts of Pakistan. During this period, PPAF has been successful in maintaining organizational transparency through rigorous internal and external mechanisms. This has been complemented by prudent management and quality maintenance of an expanding portfolio.

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

During FY 2005-6, PPAF took over the additional responsibility of assisting in the country's rehabilitation and reconstruction effort following the devastation wrought

by the October 8 earthquake. In close coordination with the Earthquake Reconstruction and Rehabilitation Authority (ERRA), PPAF initiated a multi-pronged strategy for the restoration of lives and livelihoods, which initially involved reconstructing 34,000 (now 122,000) housing units, rehabilitating 1,000 infrastructure schemes and training over 70,000 individuals in the affected areas.

By entrusting PPAF and its partner organizations with leading the reconstruction effort in 34 union councils, ERRA has contributed to fostering greater confidence between the private and public sectors. The role of PPAF's Reconstruction and Rehabilitation (RnR) Unit will undoubtedly be critical to this evolving relationship.

PPAF's Credit and Enterprise Development (CED) Unit recorded a growth of 19 percent in terms of funds disbursed, whereas the Human and Institutional Development (HID) Unit remained almost at par with the disbursement figure in the previous year. The Community Physical Infrastructure (CPI) Unit recorded a much higher increase of 54 percent, compensating for the downturn in the previous year.

PPAF operations continue to reflect an equitable gender balance manifest in the growing number of female beneficiaries:

women accounted for approximately 39 percent of microcredit loans disbursed and 38 percent of the trainings conducted during FY 2005-6. Additionally, women comprised an estimated 50 percent of all direct and indirect beneficiaries of PPAF's infrastructure interventions. By the end of the financial year, 10 out of PPAF's 68 partner organizations were catering exclusively or predominantly to women.

As an institution that values research, PPAF is continually refining its capacities and structures to regularly monitor and evaluate its own performance, in addition to that of its partners. Within this context, the Evaluation Research and Development (ERD) Unit has initiated the Benefit Monitoring and Evaluation System as an integrated tool for measuring impact, relevance, effectiveness, efficiency and sustainability of PPAF supported poverty alleviation interventions.

PPAF's Health and Education Unit has also had a promising start. The establishment of 28 new schools and 11 new community health centers in the very first year of its operational life augurs well for the future of the unit. By focusing on quality health and education facilities, the unit hopes to create an enabling environment for facilitating upward social mobility and assisting meaningful social change in the long run.

The early signs of a meaningful long-term change at the grassroots level have already been empirically validated in independent assessments of PPAF interventions. The

Gallup study showed that PPAF's microcredit beneficiaries, among other things, have experienced a) increase in personal and household incomes, b) increase in consumption of key high protein food items, c) usage of better household facilities, and d) enhancement in social status of both men and women beneficiaries.

By end of June 2006, PPAF funded microcredit loans had reached around 943,370 borrowers in approximately 21,741 villages of the country. In the process, over 60,334 community organizations have been organized as a direct result of PPAF support. In addition, approximately 8,357 physical infrastructure schemes have been completed, while over 39,000 community members were trained by June 30, 2006.

The benefits of PPAF interventions have been equitably distributed across all regions of the country. In the event, they have helped in raising awareness, creating social capital and engineered the basis for a long-term development process with the active participation of the disadvantaged people of Pakistan.

The foundations have been laid. PPAF today stands at the threshold of bringing about a wholesale transformation in the attitudes of poor people across the length and breadth of the country. Wherever PPAF sponsored infrastructure schemes, credit facilities and training programmes are operative, the poor have started reaping the benefits of self-help strategies, generating income and reducing their dependence on external support.

Credit and Enterprise Development



Entrusted with the responsibility of managing PPAF's credit portfolio, the Credit and Enterprise Development (CED) Unit focuses on forging effective partnerships with organizations working directly with communities at the grassroots level. In doing so, it aims to strengthen partner organizations (POs) and communities alike, the former through building a sustainable, transparent and efficient institutional framework for the delivery of financial services to the poor, and the latter through asset creation and improved livelihoods.

As a national apex institution, PPAF has since inception maintained a diversified and healthy portfolio, with special consideration for gender and an equitable distribution of funds across the country. Under this mandate, the CED Unit provides funding to legally established entities in the private sector. The extent of funding to a PO is determined by the rationale of the proposal submitted, the strength of the POs past track record and absorption and debt service capacity of the

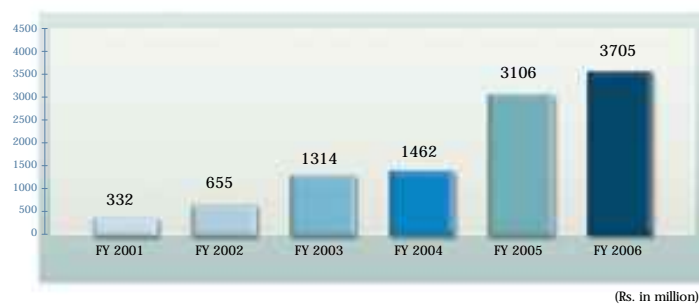
organization. The emphasis on performance based lending continues to play an important role in assuring the quality of the program.

The CED Unit has sustained its portfolio growth and during the period under review it has disbursed Rs. 3,705 million against Rs. 3,106 million in the preceding year (Figure 2.1). Correspondingly, the number of PPAF microcredit borrowers rose from 244,342 in FY 2004-5 to 332,030 in FY 2005-6.

In line with organizational objectives, funding for microcredit has been equitably disbursed in urban and rural areas of 78 districts of Pakistan through 38 POs, of which 10 are exclusively or predominantly catering to women. Repayments to PPAF from POs continue to be at 100 percent. In contrast to previous years, sectoral distribution of credit showed significant increase in income generating activities in commerce and trading, which accounted for nearly 40 percent of the total portfolio

The CED Unit provides funding to legally established entities in the private sector

FIG - 2.1 CED financing disbursed during FYs 2001 — 2006



while agriculture and livestock accounted for 35 percent and 18 percent share of funds disbursed respectively (Figure 2.2). This was principally on account of fast growth of partner organizations working in a peri-urban environment.



the view that their opinion now mattered in deciding issues regarding the purchase and sale of property. As an organization with the aim of empowering women, PPAF takes great strength from these findings.

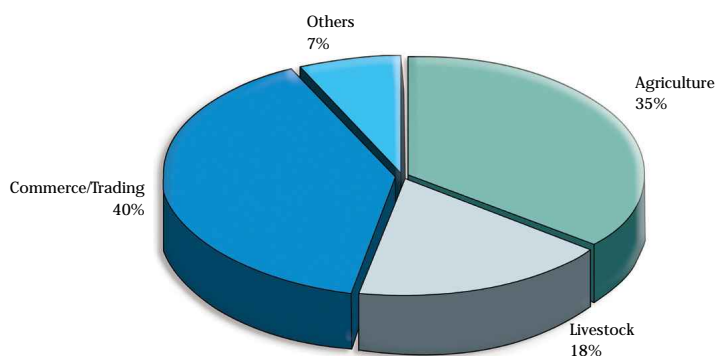
At the same time, PPAF has carefully noted the observation of the Gallup study with respect to the limited scale of change as far as the more empirically verifiable indicators are concerned. This is not surprising keeping in mind the short period of time between the financing of the loan facility and the Gallup study. An additional factor suggested by the study is the relatively small amount of the loan size.

Studies show PPAF loans have brought a positive change in incomes, assets, lifestyles and social status of borrowers

Independent and externally commissioned studies have concluded that PPAF loans have brought a positive change in the incomes, assets, lifestyles and, above all, the social status of borrowers. Particularly refreshing is the evidence suggesting a much improved social status of female borrowers.

The Gallup study, for instance, has shown that 64 percent of PPAF female microcredit beneficiaries interviewed in the sample perceive their social status to have increased. Similarly, 60 percent of the women interviewed stated that they had a greater say in business decisions than before, 55 percent were of the view that they had an increased role in the purchase and sale of household items, while 50 percent were of

FIG - 2.2 Sectoral distribution of CED resources during FYs 2001 — 2006



The Gallup study is very encouraging in noting a positive direction of change, as well as in its findings regarding the better standing of beneficiaries to non beneficiaries in a number of areas including increased personal and household incomes, increased expenditure on house repair, as well as increased household consumption and possession of consumer durables (See Box 2.1).

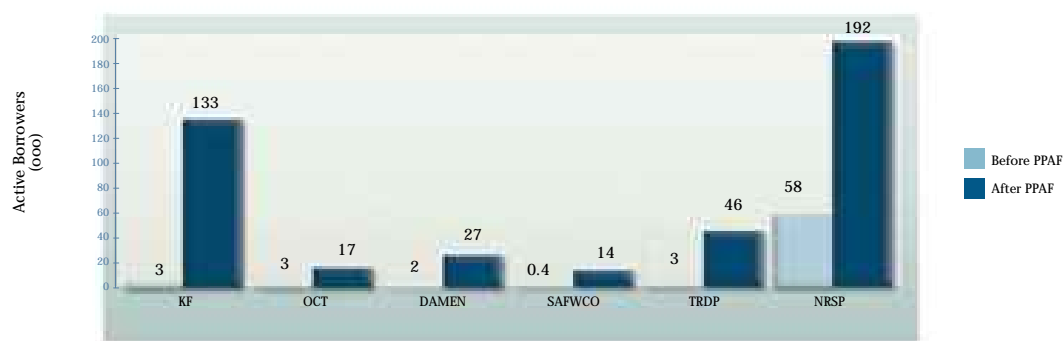
PPAF is also cognizant of the fact that the durability of such far reaching achievements is intrinsically tied to the institutional strength and sustainability of its partner organizations. The CED Unit thus continues to work relentlessly with its partners in formulating coherent and viable business plans with mutually agreed performance parameters.

One of CED's major contributions has been to broaden the base of the microcredit sector by building capacities of both the bigger and smaller indigenous organizations for enhanced outreach especially in the



remote areas of the country. PPAF's experience on this front over the years has been very enriching and has enabled it to exponentially increase the outreach of its partner organizations (Figure 2.3).

FIG - 2.3 CED financing outreach



The CED Unit has also managed to form innovative alliances and partnerships with the corporate sector to reach out to the poor under the broader mandate of PPAF

Although microcredit continues to account for a major percentage of PPAF's credit facility, Rs. 235 million have also been distributed under the Enterprise Development Facility (EDF), which caters to the needs of the 'missing middle' of the relatively poor who are neither covered through the conventional poverty programs of civil society organizations nor by formal sector financial institutions. Initiated with the financial support of the United States Agency for International Development (USAID), EDF loans are designed to support entrepreneurship and local micro-businesses and are thus much bigger than the average size of the traditional microcredit loan.

The CED Unit has also managed to form innovative alliances and partnerships with the corporate sector to reach out to the poor under the broader mandate of PPAF. In this regard, PPAF signed a Memorandum of Understanding (MoU) with the Government of Pakistan, Engro Foods Limited (EFL) and three of its POs in 2005. The objective was to jointly evaluate the possibilities under a pilot project whereby PPAF through its POs would encourage members of targeted communities to invest in livestock development for optimizing milk production and subsequent supply of milk at market prices to Engro Foods Ltd. The pilot project has been successfully completed and the agreement for the main project is in the pipeline with addition of more partners to the project.



The Unit is also in the process of developing and implementing a robust risk management framework at PPAF for appropriate and timely identification and mitigation of risks emanating from its activities. This has become necessary due to the exponential increase during the last few years in the loan portfolio of partner organizations.

The value of well targeted microcredit products in poverty alleviation has been well established. PPAF, in its capacity as the largest wholesaler of funds to microcredit institutions in the country, is leading the field in this regard. As such, it has assumed the responsibility of meeting the 'double bottom-line' by making microcredit delivery both a sustainable venture as well as an effective tool for poverty alleviation.

Box 2.1**“PPAF Microcredit Financing: Assessment of Outcomes”**

“According to our research, there is an adequate evidence to suggest that on the average low income households who borrowed from PPAF are better off today than they would have been if they had not borrowed. This observation was initially made for the first group of borrowers surveyed in 2001, and has been found to be equally true for the second, and comparatively larger, pool of borrowers surveyed in 2005.

There is overall improvement in the income as well as personal and business assets of PPAF borrowers. Their lifestyle by way of housing facilities has improved. The social status, particularly of the women borrowers, has undergone a positive change. Admittedly the scale of change is limited, as is the scope and amount of the loan. But the direction of change is, on the whole, positive. Our research shows that the benefits of PPAF loan appear in terms of poverty alleviation and improvement in the basic lifestyle indicators of the borrower. The direct impact on generating employment or the effect on other development indicators is not very significant. However, improvement in the basic lifestyle indicators of microcredit borrowers can possibly have a second order positive effect on development indicators”

Gallup Pakistan,
excerpt (2005)

Community Physical Infrastructure



The Community Physical Infrastructure (CPI) Unit provides technical and financial support to partner organizations for approved physical infrastructure interventions. The process of project identification is demand driven and involves community participation at every stage. Additionally, to foster community ownership for better post-completion project management, the process incorporates the principle of cost sharing wherein the participating communities contribute either in cash or through labor.

The CPI Unit is mandated to implement small scale community infrastructure projects under two broad categories: 'Conventional Projects' and the 'New Initiatives' category. The latter projects focused on Drought Mitigation and Preparedness, Integrated Area Upgrading and Technological Innovations.

As of June 30, 2006, the Unit has initiated 11,700 projects, of which 3,171 have been initiated in the current fiscal year alone.

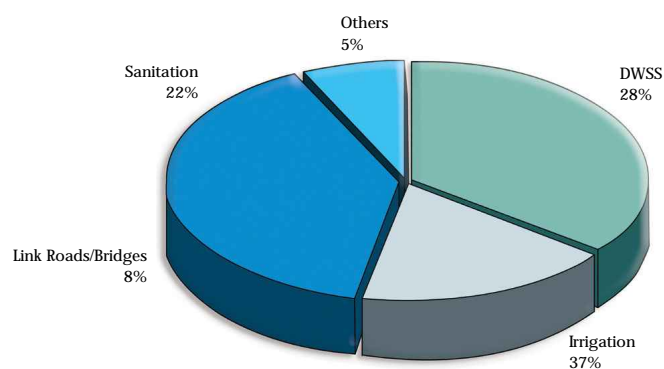
Altogether, the projects initiated so far have been estimated to benefit a population of 6 million inhabiting approximately 8,067 villages of Pakistan. In these villages, as many as 9,440 community organizations have been organized for ensuring sustainability and long term development prospects in project areas.

The sectoral distribution of initiated projects demonstrate PPAF's emphasis on some of the most neglected, yet profoundly crucial, needs of the national population. Irrigation constitutes 37 percent share of the projects, while Drinking Water Supply and Sanitation (DWSS) constitute a share of 28 percent and 22 percent respectively. The remaining 13 percent includes roads and bridges, flood protection works, landscaping, micro-hydel projects etc. (Figure 3.1).

In order to multiply the positive effects of stand-alone infrastructure projects, PPAF has conceptualized a more holistic approach to rural infrastructure development. This has been subsequently operationalized as

The projects initiated so far have been estimated to benefit 6 million people in 8,067 villages of Pakistan

FIG - 3.1 Sectoral distribution of CPI projects FYs 2005 — 2006



PPAF has launched Drought Mitigation and Preparedness Program to mitigate effects of 1997-2002 drought

the Integrated Area Upgrading Program. Following the successful completion of a pilot Integrated Area Upgrading Project (IAUP) in village Dhoke Tabarak Shaheed near Islamabad, PPAF has planned to implement 300 similar projects in the second phase of PPAF. As of June 2006, PPAF Board of Directors has approved around 200 such projects to be implemented in the next two years.

PPAF has also launched a nationwide Drought Mitigation and Preparedness Program (DMPP) to mitigate the effects of the 1997-2002 drought that had laid waste large tracts of the country. Under this program, PPAF has so far initiated 12 DMPP projects. Of these, 4 DMPPs, one in each province, have been funded by the World Bank and another 8 by the US Department of Agriculture. The PPAF Board of Directors has approved over 1450 sub-projects under the program to be implemented in the next one year.

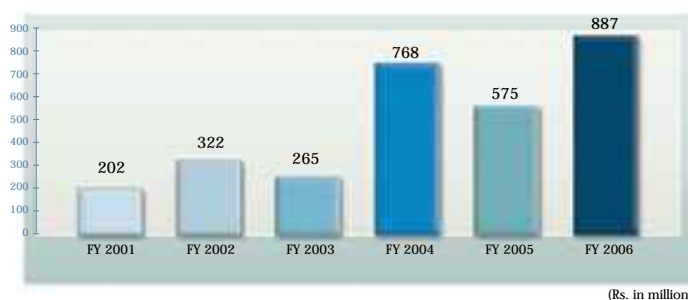
During FY 2005-6, the Unit has disbursed Rs. 887 million (Figure 3.2). Of this amount,



Rs. 801 million have been disbursed to 41 partner organizations for implementing WB funded projects whereas Rs. 86 million have been disbursed to 8 partner organizations for USDA funded CPI projects.

The October 8 earthquake proved to be a major infrastructure disaster. It was realized very early during the rehabilitation process that housing reconstruction has to be complemented with rehabilitation of infrastructure for meaningful revival of affected communities. Consequently, \$20 million out of the \$100 million World Bank Reconstruction and Rehabilitation Project was set aside for the rehabilitation of

FIG - 3.2 CPI financing disbursed during FYs 2001 — 2006



infrastructure schemes in the water supply, sanitation and communication sectors.

In the first phase of the infrastructure rehabilitation process in affected areas, PPAF requested partner organizations to carry out a survey of damaged infrastructure schemes in their respective areas of operation irrespective of their earlier source of funding. PPAF has since appraised six partner organizations for the reconstruction and rehabilitation of 1000 schemes that also include schemes that have not been previously funded by PPAF.

The Sindh Coastal Area Development Program in the coastal areas of Badin and Thatta districts is another major PPAF venture in which the CPI Unit is expected

to play a major role (See Box 3.1). The program is based on the recommendations of a World Bank Socio-Economic Study, which highlights the negative effects of a series of natural disasters that have afflicted the residents for over a decade, forcing a large number of people to migrate from the coastal belt.

The report identifies the most vulnerable segments of the population; explores their coping strategies and recommends a program of assistance based on the following objectives: (i) better access to basic services and facilitating infrastructure; (ii) higher income generation through improved crop, fisheries and livestock production, marketing and microfinance services; and (iii) securing access to, and better management of, the natural resources of the area.

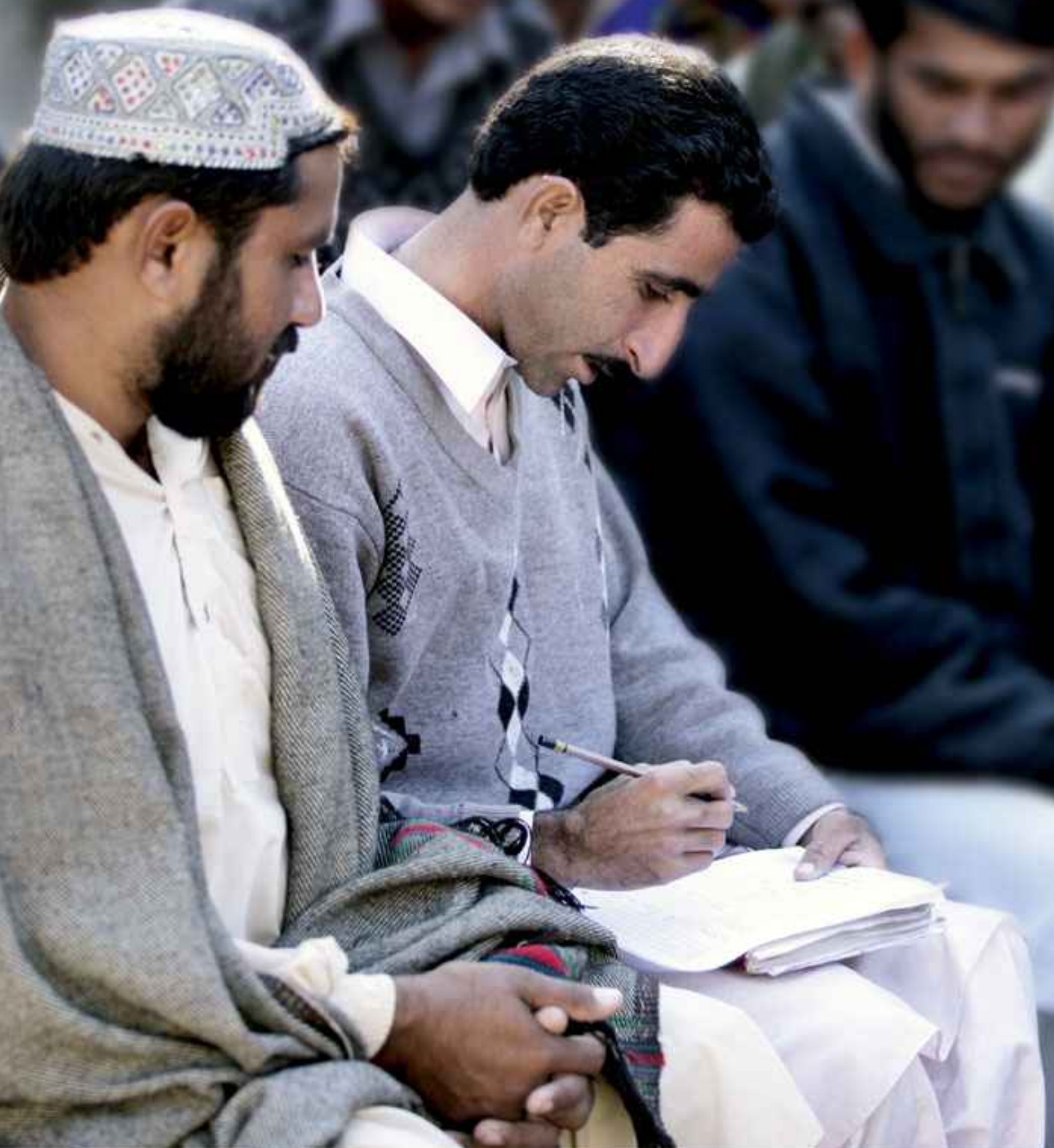
Box 3.1:

Sindh Coastal Area Development Program

The Sindh Coastal Area Development Program has been planned after a rigorous participatory process involving social immersions, exhaustive roundtable discussions with stakeholders and deliberations among the PPAF – World Bank team. The program aims at a phased development strategy involving:

- Development of rural growth centers through integrated development of physical infrastructure, followed by the setting up of health and education facilities and promotion of income generating activities through microcredit
- Reducing physical vulnerability through construction of flood protection and sea water containment structures
- Construction of directly productive infrastructure such as jetties and wharfs
- Developing transport and mobility through construction of inter and intra-village roads and intermediate modes of transport through infrastructure grants and microcredit
- Promoting technological innovations, particularly the use of solar and wind energy for pumping of water and electricity generation

Human and Institutional Development



The Human and Institutional Development Unit administers the capacity building and training component of PPAF. One of the Unit's main objectives is to strengthen the institutional capacity and the human resource base of partner organizations for efficient and cost effective service delivery. Additionally, the Unit provides both financial and non-financial services with the aim of supporting incremental expansion in outreach of partner organizations and the attainment of long term financial and institutional sustainability.

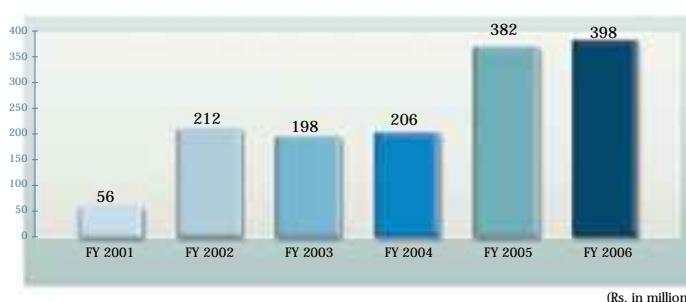
The HID Unit managed disbursement of Rs. 398 million in FY 2005-6, matching the disbursement figure of Rs. 382 million achieved in the last fiscal year (Figure 4.1). However, the number of training beneficiaries increased from 31,339 to 39,064 (community training) and from 1545 to 1655 (staff training) in the reporting year with an approximately 38 percent female participation in both training categories.

In December, 2005, PPAF entrusted the Unit with the task of organizing the second Global Microentrepreneurship Awards in collaboration with UNDP, Citigroup Foundation, Citibank Egypt and UNCDF. A total of 110 case studies were received from different microfinance institutions, which were further short listed by the Harvard School of Business.

The purpose of the event was to recognize efforts of small entrepreneurs and their contributions to economic activity at the grass roots level. Sixteen candidates along with their Credit Officers were interviewed in the final round by an esteemed and diverse panel of judges. The candidates were evaluated and assessed on the basis of their contribution in four areas: (i) impact on poverty reduction and income and employment generation, (ii) improved quality of life (iii) potential for sustainability and profitability, and (iv) innovation and growth potential. It was heartening to see that of the twenty (20) candidates who were given awards, fifteen (15) were attached to partner organizations supported by the PPAF.

It was heartening to see that of the twenty candidates who were given awards, fifteen were attached to partner organizations supported by the PPAF

FIG - 4.1 HID financing disbursed during FYs 2001 — 2006



Since inception of the program the number of interneers that received training now stands at more than a hundred, of which 85 have found employment

In continuation of the Unit's internship program, 28 additional interneers were attached with the fund's partner organizations during the year under review. This particular initiative which had been a great success was primarily taken on account of the realization that there was a significant dearth of trained young people for joining the ranks of the fast growing civil society partner organizations. Since inception of the program the number of interneers that received training now stands at more than 100, of which 85 have found employment.

Additionally, in the year under review, the Unit engaged 4 interneers from the fifth batch to collect data on HID prescribed formats from 2,548 community trainees. The exercise was carried out to identify possible gaps in different training programs such as Community Management Skills Training, Vocational Skills Training and Enterprise Development Training. HID Unit encourages POs to organize regular follow-up of community trainings, either themselves or through independent third parties.

Similarly, the junior professional program was launched with the aim of training fresh university graduates in order to address the problems of high staff turn over and non availability of trained local professionals in the market. Following the success of the initial



intake of Junior Professionals' (JPs) batch of 40, a second batch comprising another 40 JPs was trained during the year under review. More than 95 percent JPs were recruited by the POs of PPAF.

As a part of its policy to interface with international centers of excellence, the Unit facilitated a twelve-day training program for partner organizations on the subject of disaster mitigation. This course was organized in the month of September 2005 in collaboration with the Asian Disaster Preparedness Centre, Thailand. 21 participants from various organizations attended the course which covered multiple dimensions of disaster management including hazard and vulnerability assessment, emergency

response management, staff welfare and security, community-based risk management and public awareness and capacity-building.

The HID Unit continued with the strategic reviews, appraisal and monitoring visits of partner organizations. During the year, strategic reviews of 21 organizations were carried out. Similarly, 14 appraisal and 11 monitoring and follow-up visits were carried out in FY 2005-6.

The role of HID unit is integral to the success of all PPAF interventions and this role will become crucial in the coming years. In an environment where civil society organizations are expanding rapidly, it is imperative that the competency levels of various partner organizations keep abreast with the changing times. For this to happen, the HID unit will have to play a proactive role to cope with new challenges.

The process of participatory development at the grassroots is inextricably linked to the development of a skilled human resource. Better skills need to be attuned with the demands of the market. Cognizant of the fact, the HID Unit focuses on market relevant community trainings. It further encourages partner organizations to develop strategies for improved market linkages for their beneficiaries to maximize output.

Similarly, the HID Unit also caters to institutional needs of the its partners with



the objective of transforming them into viable and sustainable entities. As vehicles of change at the grassroots, the institutional development of PPAF partner organizations is crucial to the whole process.

Health and Education



The Health and Education (H&E) Unit successfully completed its first year as a viable and credible addition to PPAF's poverty alleviation strategy. Nine partner organizations were taken on board to provide quality health and education facilities in selected communities. These partnerships were established on the basis of a clearly defined eligibility criterion with the aim of ensuring maximum outreach to marginalized communities.

The Unit's focus is on quality primary healthcare and formal primary education. Pakistan's education and health indicators continue to present a challenge, especially in the rural areas. Among other factors, lack of access contributes directly to the perpetuation of poverty and disempowerment. By providing quality health care and access to primary education, PPAF supported facilities aim at providing the necessary framework for better and more prosperous livelihoods. Additionally, the PPAF social sector strategy seeks to make this framework sustainable by trying to build ownership through community involvement and support.

The Unit also contributed in PPAF's multi-pronged response to mitigate the affects of the October 8 earthquake. Commensurate with its area of operation, the Education and Health Unit has initiated reconstruction of two high schools (one each for boys and girls) and a health facility in the remote areas of Azad Jammu and Kashmir. Such initiatives will undoubtedly complement

the more comprehensive interventions planned by PPAF's Reconstruction and Rehabilitation (R&R) Unit, laying the seeds of a speedy return to normalcy in the affected areas. In a similar vein, the Unit's contribution in the development of a proposal for the Committee to Encourage Corporate Philanthropy (CECP) for reconstructing health and education facilities in the affected areas was extremely useful.

The Unit has adopted the following strategy with the objective of facilitating change in the social fabric of disempowered communities:

- Establishment of quality health and education facilities through the provision of high standard infrastructure and qualified local staff.
- Active community mobilization through the formation of health and education committees to ensure community participation and ownership for long lasting sustainability of interventions
- Capacity-building and support for partner organizations to deliver and monitor education and health initiatives.
- Targeting long-term community well-being by investing in female education

The above strategy has featured prominently in all the initiatives undertaken by the Unit in FY 2005-2006. Following are some examples:

The Unit's focus is on quality primary health care and formal primary education

A total of 28 schools and 11 health facilities were established in some of the remotest and underprivileged areas of Baluchistan, Sindh, Punjab and Northern Areas

- A total of 28 schools and 11 health facilities were established in some of the remotest and underprivileged areas of Baluchistan, Sindh, Punjab and Northern Areas.
- Trainings were imparted to 119 locally hired education staff and 220 health staff, equipping them with requisite skills for quality service delivery in their respective sectors. Training programs for teachers also capacitated them in the use of interactive teaching methods.
- Particular emphasis on the girlchild, reflected in the 84 percent enrolment of girls in PPAF supported schools. (Figure 5.1).

Approximately 84,000 community members (including children, adult females and adult males) benefited from the health facilities provided by the community health centres and the outreach teams. About 43 percent of the beneficiaries were adult females. (Figure 5.2).



All the above achievements have not been without difficulty. Whereas constant diligence and hard work has enabled PPAF and its partner organizations to meet several challenges in the past, several other remain:

FIG - 5.1 Gender disaggregated data of school enrolment

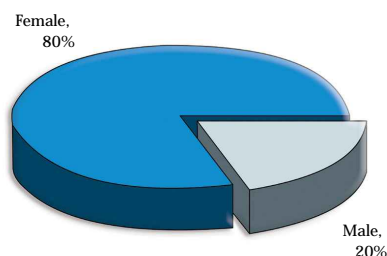
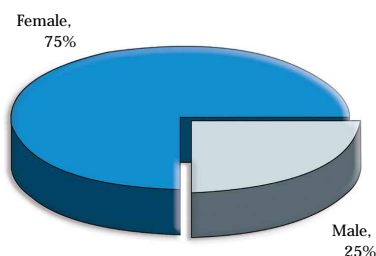


FIG - 5.2 Gender disaggregated data of beneficiaries in the health program



- Although the remoteness of PPAF supported health and education facilities have the advantage of reaching the most isolated and disadvantaged communities, it also raises the difficulty of finding capable local staff. The challenge is one of unfailing commitment in terms of extensive and consistent capacity building efforts to achieve quality outcomes.
- Motivating and mobilizing conservative communities to break away from attitudes formed over a long period is another challenge that has been dealt with reasonably well so far. However, difficulties of such nature will remain in the foreseeable future.
- Active involvement of female community members in the health and education committees is another challenge that has to be addressed in the long run.

In the next year, the Unit plans to focus on maintaining the quality of established facilities and initiating new facilities in selected areas. A major task for the Unit is to refine and strengthen activities for intensive capacity-building of health and education coordinators, health and education staff and community members.

This will not only improve the quality of service delivery but also assist in setting up good health and education systems at the community level that can be sustained by



locally developed expertise. The Unit will continue to monitor all activities and analyze the information for further improvements of the program.

Provision of quality health and education facilities has undoubtedly created the space and framework for a more holistic and effective poverty alleviation strategy.

Reconstruction and Rehabilitation



The October 8th earthquake in AJK and Northern NWFP left 80,000 dead and nearly half a million homeless. Within minutes, infrastructure built over decades was uprooted, while means of livelihood were completely shattered. PPAF responded to the crisis by immediately setting up a Disaster Relief Center to coordinate its relief efforts.

In the early months following the earthquake, PPAF managed to distribute 100,000 CGI sheets and truckloads of other important items through its forward offices set up in the disaster zone. For the purpose, PPAF diverted US\$5 million from its normal operations. PPAF also contributed Rs. 1 million to the “President Relief Fund” from its own resources. The PPAF staff further voluntarily contributed a day’s salary to the relief fund.

A new Reconstruction and Rehabilitation (RnR) Unit was established following the formal initiation of the World Bank funded US\$100 million Reconstruction and Rehabilitation Project in January 2006. PPAF appraised 6 POs for the reconstruction of 34,000 housing units (the number has since increased to 122,000), rehabilitation of 1,200 CPI schemes and training of over 75,000 individuals in 34 union councils of AJK and Northern NWFP. POs were selected on the basis of institutional capacity and pre-earthquake presence in the affected areas.

PPAF’s RnR Unit works in close coordination with the Earthquake Rehabilitation & Reconstruction Authority (ERRA), assigned by the government with the task of

rebuilding the lives and livelihoods of survivors. PPAF has remained consistent with its philosophy of incorporating participatory development and community mobilization as the cornerstones of its overall strategy. Rehabilitation and reconstruction program is guided by two fundamental objectives.

- Assist people in rebuilding their lives by providing safer and better houses and restoring basic infrastructure services through a community driven approach.
- Build capacities of affectees with the purpose of enabling them to take control of their lives on a sustainable basis.

For purpose of planning and dedicated focus, the RnR Unit has been divided into four main components: (i) Social Mobilization, (ii) Damage Assessment, (iii) Re-construction, and (iv) Training.

Social mobilization forms the core of the R&R project. The aim is to transform the disintegrated post-earthquake communities into a well-knitted whole through better organization and participation at the grass roots level. The process of social mobilization demands skill development at both POs and community level. PPAF has focused on both areas:

- Training POs staff in disaster management skills for effective operationalization of rehabilitation and reconstruction efforts.
- Imparting vocational skills to affected communities for long term survival and sustainable livelihoods.

A new Reconstruction and Rehabilitation (RnR) Unit was established following the formal initiation of the World Bank funded US \$100 million Reconstruction and Rehabilitation project in January 2006

The need to complete the damage assessment forms in keeping with ERRA policy guidelines was an extremely challenging aspect of the reconstruction efforts

The social mobilization staff of the RnR project carried out a comprehensive exercise to:

- Identify vulnerable segments.
- Develop a Community Action Plan (CAP) jointly with the community members in order to obtain their consent to assist the vulnerable in constructing their homes and revitalizing their lives.
- Develop a collective village level development plan for community members, covering all aspects of the rehabilitation and reconstruction effort.

The need to complete the damage assessment forms in keeping with ERRA policy guidelines was a challenging aspect of the reconstruction effort. Initially, 12 damage assessment training workshops were conducted for existing and newly recruited staff of POs (Table 1). These were coordinated by PPAF, PO staff and Emergency Architects (A French NGO engaged by UN HABITAT for the purpose). The workshops had following objectives:

- To familiarize participants with different housing construction models and structures such as wooden, RCC frames, stone masonry, brick masonry, plumb

concrete and katcha houses.

- To develop skills related to identification of the extent of damage.
- To familiarize and develop expertise in data collection for damage assessment and on-field usage of GPS (Global Positioning System).
- To familiarize participants with the data entry process and the data base.

Damage Assessment was carried out on forms provided by ERRA. The exercise was carried out by 110 Social Mobilization Teams (SMTs) of six POs in the 34 Union Councils allocated to PPAF.

Skill development through staff and community trainings was an important part of the re-construction phase. UN HABITAT engaged a team from National Society for Earthquake Technology (NSET) to impart trainings in construction related skills. Accordingly, five training events were organized for engineers and social organizers from all participating POs (Table 2).

NSET in collaboration with PPAF, conducted five Training of Trainers (TOT) workshops for craftsmen for developing a pool of master trainers who will train community members at village level (Table 3).

Table I: PO staff trained for Damage Assessment

Region	Engineers		Social Mobilizers		Total
	Male	Female	Male	Female	
AJK	65	0	75	26	166
NWFP	66	0	157	27	250
G. Total	131	0	232	53	416



PPAF's housing subsidy follows the ERRA principles for construction and disbursement. Rs 150,000 will be available in three tranches to each eligible beneficiary. The first tranche of Rs. 75,000 was disbursed in April 2006 to 50 affectees at a ceremony held at village Ghani Abad of union council Thub in District Bagh. Technical assistance for seismically safe houses would be provided at Housing

Reconstruction Centers (HRC) and by mobile training teams of PPAF.

The initial PPAF successes in developing a well balanced restoration program in the affected areas has stimulated additional funding from reputable donor organizations. KfW, a German government-owned development bank, has committed €14 million for housing and is considering provision of another €2.6 million for training, whereas IFAD has appraised PPAF for US \$ 26 million.

PPAF's RnR project aims at an effective, well focused and well coordinated rehabilitation and reconstruction program synchronized with the broader national effort. It reconfirms the strength of community driven projects and close coordination among all stakeholders.

Table 2: Engineers & Social Organizers trained

	PO	Engineers	Social Organizers
AJK	NRSP	59	11
	IR	23	-
	WWOP	6	2
Sub total		88	13
NWFP	SUNGI	5	-
	OAKDF	6	-
	SRSP	16	7
Sub total		27	7
G. Total		115	20

Table 3: Craftsmen trained by NSET

Region	Masons	Carpenters	Steel Fixers	Total
AJK	105	75	14	194
NWFP	27	15	3	45
Total	132	90	17	239

Evaluation, Research and Development



The Evaluation, Research and Development (ERD) Unit at PPAF has initiated a set of promising activities and processes that are expected to grow into a sustainable and standardized performance monitoring and evaluation system.

The Unit was initially restructured with a view to formulating an integrated Standardized Monitoring and Performance Monitoring System focused on gauging program outcomes and impacts, as well as on plugging gaps and shortcomings in data collection and assessment methodologies at the grassroots level.

Considering PPAF-supported poverty alleviation interventions spanning 96 districts of the country, operationalization of the system is perceived to greatly assist in poverty mapping and, consequently, better poverty targeting at the national level.

As part of the restructuring process, the Benefit Monitoring and Evaluation (BME) system was shifted to the ERD Unit. The move was aimed at integrating the monitoring and evaluation of PPAF's credit, health, education, training and infrastructure components. In parallel, a number of young professionals with clearly defined roles and responsibilities under the supervision of a senior economist were inducted to streamline the new monitoring and evaluation system with PPAF's vision of real time monitoring and evaluation.

A standardized minimum number of performance M&E indicators were

developed as the first step in the shift towards results-based M&E. A pool of master trainers from the PPAF, partner organizations and from national and international universities and organizations was formed to train M&E representatives from POs on the Standardized Performance Monitoring and Evaluation System.

The system, apart from incorporating baseline/benchmark data, will also provide for the collection of data on evaluation relating to program relevance, effectiveness, efficiency, impact and sustainability of PPAF sponsored poverty alleviation interventions.

During the year, three ToT Workshops on Standardized Performance Monitoring and Evaluation System were held across the country. Nominated PO M&E personnel were trained on the new evaluation system in workshops held at Karachi, Lahore and Bhurban. This was followed by a series of formal meetings with the chief executives of the POs.

Simultaneously, the Unit initiated a systematic follow-up plan aimed at the institutionalization of the system within partner organizations. The follow-up plan involves facilitating POs through hands-on training sessions, on-field testing of survey instruments, capacity-building of social organizers and other PO staff, and the installation/troubleshooting of the software especially prepared for the Standardized Performance Monitoring and Evaluation System.

The first phase of the exercise was carried out in Baluchistan where five organizations were initially selected for the purpose. Similar exercises covering all partner organizations are planned to be completed within FY 2006. When fully operational, the system will generate the data required to measure impact of PPAF supported interventions on a regular basis.



The ERD Unit recorded a surge of 100 new “Expression of Interest” documents received from non-governmental development organizations in the year 2006

During the year, the ERD Unit prepared separate quarterly progress reports for the World Bank, PPAF Board of Directors and the United States Agency for International Development (USAID). Regular quarterly reports were also submitted to the concerned secretariats and departments of the Government.

In 2006, the ERD Unit has started a new line of annual thematic reports on current issues and discourses in the development field. This year’s thematic report on gender was outsourced to an independent consultant working closely with the ERD team. The report is expected to contribute positively to the economic, political and social discourses on the subject. Additionally, the report has been designed to analyze the situation of gender in the country. The gender sensitivity of PPAF interventions will also receive thorough scrutiny. Ending with a set of key recommendations for the PPAF. This report is likely to be of critical use not only to the PPAF but also to other organizations.



“Expression of Interest” documents received from non-governmental development organizations in the year 2006. These have been stored in a database that now cumulatively consists of an impressive 417 such documents. Owing to PPAF’s strict eligibility criteria, overall policy and funds position, only a few select cases are presently under consideration.

The ERD Unit recorded a surge of 100 new

Box 7.1

Baseline Survey of the Engro Milk Project

The Engro project, a joint venture between PPAF, Engro Foods Ltd., and the Government of Pakistan, is designed to encourage investment in the livestock sector, increase farmer incomes and decrease the burden of poverty in the target areas. The pilot program was launched in five localities of the Punjab and Sindh provinces with the help of 3 partner organizations. On its part, PPAF agreed to provide financial/technical assistance for capacity-building of poor communities, improvement of milk supplies and linkage to a corporate sector entity for marketing and long term sustainability. The PPAF also decided to under take a survey in the target villages for collecting baseline data to assess the long term potential of the project as well as potential for replication in other areas. The baseline survey was conducted under the supervision of an individual consultant from the Applied Economic Research Center (AERC). Ten villages in three districts were selected to represent both with-project and without-project samples. In these villages household level data was collected on a large number of indicators including household composition, occupation, education, availability of services, income, expenditures, assets and borrowings. Similarly, village level data on population, number of households, access to services, average number of animals and loans disbursed was also collected.

District	Project Area HHs	Non – Project Area HHs
Rahimyar Khan	85	35
Shikarpur	70	35
Nawab Shah	35	35

Media and Communication

8



The Media and Communication (M&C) Unit facilitates the corporate image building of PPAF at grassroots, national and international levels. It focuses on effective utilization of various media tools and activities for information dissemination. The Unit formulates necessary strategies to engage media support and attention of stakeholders, policy makers and opinion leaders.

In FY 2005-2006, the Unit also focused on relief and rehabilitation activities in the aftermath of the October 8 earthquake. It facilitated in the launch of the relief and rehabilitation program, prepared a variety of information materials for various audiences and disseminated a number of operational guidelines and reconstruction manuals to the affected communities. Special flyers and leaflets were printed underlining different aspects of PPAF relief and reconstruction activities. The Unit also prepared a 10 minute documentary, "The First Step", on the distribution of temporary shelters to affected communities.

In response to the government's plea to provide victims with information access, PPAF started a regular radio program on relief, rehabilitation and reconstruction. Information dissemination, however, was not the sole objective: Raising awareness and getting direct community feedback for better management of the relief and reconstruction effort was also of primary value. The program, *Azm-e-Nau*, was formally initiated on 20th February, 2006

and has been airing regularly in Muzaffarabad, Abbottabad, Islamabad and Bagh. The radio program has facilitated a greater understanding of the problems confronting communities at the grassroots level.

With the range and scope of PPAF interventions increasing manifold over the years, greater emphasis is being placed on building PPAF's public image. Regular coverage and exposure of PPAF in electronic and print media has accordingly become a part of the overall strategy.

Printing and dissemination of case studies reflecting the achievements of PPAF beneficiaries, as well as the lessons learnt in the process, is a regular activity of the Unit. These are conducted in close coordination with the Evaluation, Research and Development Unit for greater empirical validity and research value.

The Unit organized a series of Interactive Theater performances across the country in collaboration with PPAF partner organizations. These performances explore intra-household and intra-community relationships and situations.

The challenging task of the Unit in the coming years will be to proactively engage with all other units of PPAF, keeping abreast of the important developments and disseminating information at national and international forums.

The radio program has facilitated a greater understanding of the problems confronting communities at grassroots level

Human Resource, Administration & Procurement



Human Resource, Procurement & Administration Unit is facilitating the faster growth of the organization by managing the human resource and general administration of PPAF as well as providing logistics support and procurement assistance. The Unit further assists in recruitment, training, disciplinary issues and grievance handling. It has played an important role in providing an enabling work environment to PPAF team members.

During the financial year, two new office premises were acquired for the newly formed Rehabilitation & Reconstruction Unit and the Water Management Centre. During the hectic schedule following the October 8 earthquake, the task of administration and procurement proved to be more challenging than ever. This is reflected in the substantially increased procurements and travel arrangements for field visits and various other logistic arrangements for internal and external meetings made during the year.

Additionally, 33 consultancy contracts and 144 cases for goods procurement were processed by the Unit. These include procurement of relief goods including CGI sheets, bedding sets, tents, blankets, basic tools and food supplies for the earthquake affected areas. The Procurement Unit also remained active in providing continuous guidance, capacity-building and monitoring of procurement functions at the PO level. In all such activities, steps were taken to ensure transparency, efficiency and regular compliance with procurement procedures of donors.

One of the Unit's primary responsibilities is to fulfil the staffing needs of the organization through an expeditious, fair and transparent process of hiring new employees. During the year, 50 new staff members were recruited, including 20 staff members for the head office, 7 for the Water Management Center and 23 for the Rehabilitation and Reconstruction Unit.

In order to further develop the competency and skill of the existing PPAF executives, six (6) PPAF employees were sent abroad to attend international training courses in areas relevant to their functions. Another 27 team members attended different trainings courses at various reputable national training institutions.

Job satisfaction is an essential prerequisite for effective utilization of human resources available to any organization. The Unit strives to achieve the same by ensuring an enabling work environment for better professional output and greater efficiency. The Unit also has the important task of conducting orientation sessions for new employees in order to increase their comfort level and facilitate them in settling in as quickly and easily as possible.

The Unit also plays a proactive role in ensuring compliance with organizational policies and regulations. It regularly assesses PPAF employees and ensures that they are aware of the rules and regulations.

As the outreach and interventions of PPAF expand, the Unit will have a critical role in ensuring that the competence levels within the organization are keeping pace with the growing demand for higher efficiency and professionalism.

The Unit strives to ensure an enabling work environment for better professional output and greater efficiency

10 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 the regulations of Securities and Exchange Commission of Pakistan and covenants collectively stipulated in the agreements with Government of Pakistan (GoP) and with donors such as the World Bank (WB), US Agency for International Development (USAID) and US Department of Agriculture (USDA).

F&A Unit works closely with other operational and support units of PPAF in order to ensure adherence to the due process and facilitates their funding requirements. 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 the 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 the review of supervision missions.

The Unit places high priority on transparency, fair presentation and timely

issuing of its periodic financial statements for information of management, donors and stakeholders. The relevant internal reports are submitted to management on monthly basis to facilitate timely decisions on the important aspects of PPAF operations. External reports to stakeholders include quarterly, half yearly and nine monthly un-audited financial statements and annual audited financial statements. In addition, donor specific periodic reports and audited financial statements are also compiled on a regular basis.

Operations of PPAF for the year ending June 30, 2006 were audited by its external auditors Messers Ford Rhodes Sidat Hyder & Co., Chartered Accountants. The external auditors furnished unqualified opinions concluding that the financial affairs of the company were being conducted in accordance with approved accounting standards and requirements of Companies Ordinance 1984 and the financial statements prepared by the management present a true and fair view of the Company's state of affairs. These opinions were based on the inspection and review of records of the Company and the funds released to partner organizations. The audited financial statements along with Auditors' and Directors' Reports for the year 2006 were finalized and approved by the Board of Directors within two and a half months of the close of the financial year. Disbursements to PPAF under the World Bank Project were on the basis of Financial Monitoring Reports. Withdrawal applications

The Unit places high priority on transparency, fair presentation and timely issuing of its periodic financial statements

The F&A looks after the corporate affairs of PPAF and is committed to high standards of corporate governance

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.

The World Bank Mission of May 2006 concluded that the financial management arrangements including financial controls for the project continue to be “highly satisfactory”; effective controls were in place; and that the audited financial statements and quarterly FMRs were submitted to WB on time.

Donors approved/committed financial resources worth US\$ 155 million as grant during the financial year 2005-06 for the rehabilitation and reconstruction programme. This includes funding of US\$ 100 million by World Bank; US\$ 26 million by International Fund for Agricultural Development (IFAD); €14 million (equivalent to US\$ 17 million) by KfW; and US\$ 12 million by Committee to Encourage Corporate Philanthropy (CECP) of USA. The F&A Unit was actively involved in negotiations for these projects and finalizing legal as well as financial modalities.

In addition to the above, IFAD approved funding of US\$ 26 million for Microfinance Innovation and Outreach Programme. The F&A Unit played a major role in finalization and execution of project agreements. As a result of the combined efforts of F&A team and PPAF tax advisors, the Central Board of Revenue renewed PPAF's status

as a “welfare institution” for the next two tax years i.e. upto June 30, 2008. As a consequence of this, there was no tax liability for the year under review.

The Unit looks after the corporate affairs of PPAF and is committed to high standards of corporate governance. The Head of the Unit also acts as Company Secretary and ensures full compliance with the mandatory secretarial responsibilities as envisaged by the Companies Ordinance, 1984. The Unit also complies with the best practices set out in the code of corporate governance. Adequate records of 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 assist the operational units in financial evaluation of Partner Organizations, as well as taking active part in monitoring the financial flows to the partner organizations. It also ensures that POs observe all legal covenants.

Internal Audit Department

Reporting directly to the Chief Executive, the Internal Audit Department (IAD) provides an independent channel for monitoring of activities. The department is guided in its work by the approved “Internal Audit Manual”.

IAD works for qualitative improvement in the maintenance and disclosure of financial and operational information as well as

internal control systems of the PPAF and its partner organizations. It seeks to ensure reliability and integrity of financial information, in addition to compliance with legal regulations, PPAF policies and World Bank requirements.

The responsibilities of the Unit include audit of yearly outflows and inflows of funds, review of bank reconciliation statements, audit of all PPAF procurements and physical verification of PPAF assets. Additionally, the Unit also strives to ensure quality accounting and internal control systems at the PO level. In order to achieve the latter, regular visits are paid to POs with the dual objective of ensuring transparency and capacity-building. During the year under review, Internal Audit Unit has paid audit visits to 20 POs. The particular focus of the audit visits was concentrated on the small and medium level organizations so that they may strengthen their internal control mechanisms.

Directors' Report



The Board of Directors of Pakistan Poverty Alleviation Fund (PPAF) is pleased to present the sixth Annual Report along with the audited financial statements of the Company for the year ended June 30, 2006.

The positive trend in the Company's performance established over the past several years has been sustained in the financial year ended June 30, 2006 with results adding further strength to the financial position and interventions making a difference in the lives of vulnerable people across Pakistan. PPAF has been successful in addressing needs of the poor by following a poverty alleviation strategy which engages diverse instruments for effective delivery and impact. While poverty alleviation strategies based on credit delivery at grass roots level remains the largest operating window of PPAF, its collaborative efforts in community infrastructure projects as well as human resource development activities have gained strong momentum over time. Plans for up-scaling PPAF's capacity have been operationalized for better service delivery in the social sectors (health and education).

One of the major achievements of the year under review was real time and effective relief operations being carried out in earthquake affected areas. PPAF was quick to respond to this tragedy. A Disaster Relief Center was setup at Islamabad, which started functioning by the second day of the crisis. Initially, PPAF focused on immediate relief through provision of

shelter, food, medicines and related items for the affectees and leveraged aviation capabilities of Pakistan and U.S. armed forces and United Nations agencies/organizations for airborne on-site delivery of more than 100,000 CGI sheets at the altitude above the snowline. The relief operations were carried out through PPAF existing partner organizations and the relevant government, non-governmental/civil society agencies. In order to ensure effective and targeted interventions, field coordination units were also set up in the earthquake affected areas of North West Frontier Province (NWFP) and Azad Jammu and Kashmir (AJK) for swift delivery in a coordinated manner. PPAF was successful in addressing immediate needs of affected communities as seven of its partner organizations were already working at these locations with well established communities.

Extensive grassroots presence in the earthquake affected areas, execution of massive and well organized relief operations and presentation of a coherent and viable rehabilitation and reconstruction plan made PPAF an obvious choice for Earthquake Reconstruction and Rehabilitation Authority to assign dedicated responsibility for undertaking rehabilitation and reconstruction in 34 Union Councils (18 in NWFP and 16 in AJK). PPAF is now following up relief efforts with the rehabilitation and reconstruction activities to allow people in affected areas to rebuild their lives and homes.

During the year, PPAF also achieved impressive progress in implementing its mainstream programs in credit & enterprise development, community physical infrastructure, education, health and capacity building. PPAF performance and achievements were acknowledged by the World Bank (WB) regular Supervision Missions.

Additionally, the WB President, Mr. Paul Wolfowitz, during his visit to Pakistan (August 13-15, 2005) dedicated a special session to PPAF, its partner organizations and community members of Dhok Tabarak Shaheed village where PPAF supported Integrated Area Upgrading Program has been initiated. He remarked "It is wonderful to see how people have come together to transform their lives. This is a model worth emulating."

In his letter of appreciation, Mr. Wolfowitz reiterated that PPAF was an excellent model of public-private partnership which was working towards community empowerment and development. He ensured continued support of World Bank to the PPAF in the coming years for implementing a scaled up poverty alleviation program in Pakistan.

The Supervision Mission of WB that visited PPAF in May 2006 concluded that the Second PPAF Project was on track, partnering with the right kind of institutions to achieve its development objectives and was meeting its targets set at appraisal

for its various components including disbursements.

By the end of June 2006, PPAF funding had been equitably disbursed in urban and rural areas of 108 districts of the country through 68 partner organizations of which 10 were catering exclusively/predominantly to women. PPAF credit interventions had reached 947,000 individuals of which 394,000 (42 percent) were women borrowers. 11,700 infrastructure projects were initiated and 12,300 community organizations formed, benefiting 823,000 households. In addition 155,600 staff and community members were trained, of whom 40 percent were women.

PPAF financial and non-financial services have been estimated to be benefiting over 5.5 million individuals from credit program and over 6 million individuals from infrastructure interventions, directly or indirectly, across the country.

Operational and Financial Results

During the period under review, the Company exhibited impressive growth. The record operational results achieved during the year allowed the Company to maintain strong financial position which is key to its sustainability.

Total disbursements during year were Rs. 6,246 million compared to Rs. 4,063 million in the preceding year, indicating an increase of 54 percent. Credit disbursements were Rs 3,705 million as compared to Rs 3,106 million; infrastructure disbursements were

Rs 887 million as compared to Rs 575 million; and capacity building disbursements were Rs 398 million against Rs 382 million during the preceding year. In addition, Rs 87 million was disbursed for education and health; and Rs 1,169 million for relief, rehabilitation and reconstruction in earthquake affected areas (Figure 11.1).

By the end of June 2006, cumulative disbursements crossed the Rs 16 billion mark and stood at Rs 16,338 million. Credit and enterprise development, the largest component of the PPAF, accounted for 65 percent of total disbursements followed by community physical infrastructure (19 percent); capacity building assistance and health & education had a share of 9 percent and relief rehabilitation and reconstruction activities had a share of 7 percent (Figure 11.2).

Provincial distribution of funds remained more or less consistent with previous allocations - 44 percent going to Punjab, 28 percent to Sindh, 10 percent to NWFP, 9 percent each to Balochistan and Northern Areas/AJK (Figure 11.3).

The total amount of endowment fund increased by Rs 150 million to Rs 800 million due to receipt of second installment of Government of Pakistan (GoP) contribution. Under second project, PPAF has received from GoP endowment of Rs 300 million out of the total committed amount of Rs 500 million.

During the period, PPAF received grant fund of Rs 240 million in respect of US Department of Agriculture (USDA) project

FIG - 11.1 Total disbursements (Rs. in million)

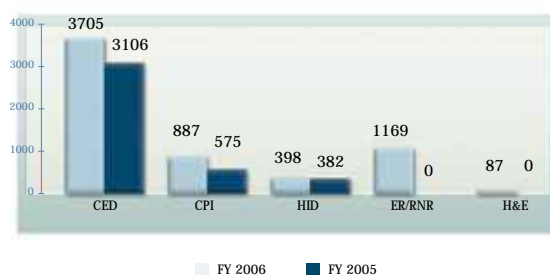


FIG - 11.2 Share of funds disbursed

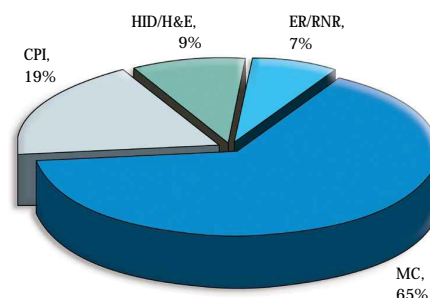
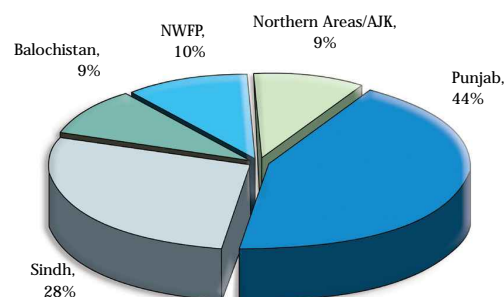


FIG - 11.3 Province wise distribution of funds



from GoP. Cumulative receipts under this project were Rs 640 million out of total funding of Rs 1,521 million.

The Central Board of Revenue vide its notification C.No. 1(8)SS(A/ITR)/05 dated June 30, 2006, renewed approval for PPAF as welfare organization till June 2008. As a consequence of this, there was no tax liability for the year under review.

Total Company's net assets (total assets less current liabilities) on June 30, 2006 crossed Rs 13 billion mark and stood at Rs 13,162 million against Rs 8,689 million as at June 30, 2005 – an increase of 51 percent. Similarly loans receivable from partner organizations were Rs 4,120 million as against Rs 2,679 million as at June 30, 2005. During the FY 2006, PPAF continued to maintain 100 percent recovery rate in respect of its lending operations.

Total income generated during the year was Rs 763 million compared to Rs 305 million last year – an increase of 150 percent. Service charges on loan to partner organizations increased by 124 percent due to high credit disbursements. Profit on short term and long term investments increased by 196 percent due to increase in the level of investments and improved profit rates. During the year, capacity building grant increased by 32 percent due to the availability of financing from Government of Pakistan and donor agencies for PPAF operational support (Figure 11.4).

The general and administrative expenses for the period increased by 38 percent due

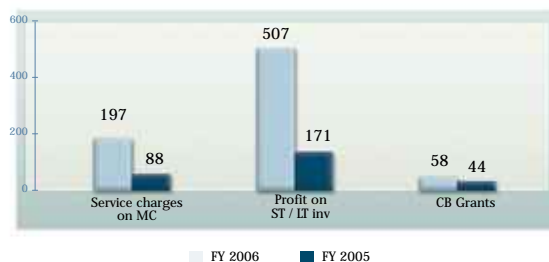
to relief, rehabilitation and reconstruction operations in the earthquake affected areas as well as rapid expansion in nature and scale of existing activities and executing new interventions under different donors' projects.

Future Outlook

As a part of its broader poverty alleviation mandate, PPAF endeavors to comprehensively address the long term needs of reviving social, physical and economic structures in earthquake affected communities through revitalized and intensive social mobilization processes as well as asset building of vulnerable households through small scale infrastructure projects revolving around the provision of water, sanitation and link roads as well as low cost housing.

In order to carry out the necessary rehabilitation and reconstruction programme, PPAF has so far been approved/committed financial resources of US\$ 155 million as grant. This includes funding of US\$ 100 million by World Bank; US\$ 26 million by International Fund for Agricultural Development; Euro 14 million (equivalent to US\$ 17 million) by KfW (Development

FIG - 11.4 Total Income (Rs. in million)



Bank of Germany); and US\$ 12 million by Committee to Encourage Corporate Philanthropy (CECP) of USA.

PPAF is gradually moving beyond conventional programming approach and bringing in second generation innovations that offer inclusive financial and business solutions to the poor. In this spirit new initiatives are being undertaken. These include integrated village development projects, drought mitigation and preparedness plan, enterprise development facility for the missing middle and linkage of communities with a corporate sector entity (Engro Pakistan) for milk production and marketing facility. This would enable poor to access and benefit from the wider private sector markets and opportunities of value addition.

PPAF envisages a holistic, systematic and integrated approach in addressing all water related issues encountered by the poor and marginalized communities of the country. In this regard it will work towards the identification, formulation and implementation of special high impact and integrated programmes and projects related to drought mitigation, integrated water efficient irrigation systems, flood protection, organized drinking water supply and sanitation. For this purpose a Water Management Center has been set up at Islamabad.

The growth in PPAF's outreach and resources has increased its sense of responsibility. PPAF is mindful of the high 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.

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, 2006 and shall retire at the conclusion of 10th Annual General Meeting. Being eligible for re-appointment, they have offered their services as Auditors of the Company for the financial year 2007.

Conclusion

PPAF is well aligned with the Government's Poverty Reduction Strategy Programme and its medium Term Development Framework. PPAF considers itself as the private sector arm of the Government for poverty alleviation. As a demand driven apex organization, it has been quick to respond to crises faced by the country, whether in terms of interventions for drought mitigation or most recently earthquake relief and rehabilitation.

The broadening of its scope of activities to include enterprise development, integrated development, education, health, relief and rehabilitation has, in no manner, distracted PPAF from its mandate of targeting the poor. On the contrary, it has helped many graduate out of poverty, particularly women. This was made possible by building

appropriate capacities within the partner organizations and their communities and enduring relationship with them on transparent and equitable basis.

Acknowledgement

I am extremely thankful for the continued support of the Directors whose policies, vision and consistent efforts contributed significantly towards achieving excellence in all strategic and operational spheres. Their leadership has been the driving force which navigated the Company through another successful year.

The Board is grateful for the trust and faith reposed by the Members of General Body. Their support gives confidence and encouragement in achieving the targets and strategies formulated by the Board. The Board would also like to commend the partner organizations and their communities for their support which contributed to our present success.

The Board takes this opportunity to thank the new donors, international agencies and organizations that are forging partnerships with PPAF. The Board would also like to express its profound gratitude to the Government of Pakistan and The World Bank for their continued assistance and outstanding support extended to the Company in matters relating to its operations.

The Board places on record its appreciation for the management team and all the

employees for taking the Company's performance to new heights. Their loyalty, dedication and professionalism has resulted in achieving significant results during the year.

PPAF has continued successfully to negotiate new challenges and address emerging strategic issues. The institution is well poised to go beyond the limits of traditional community driven projects by broadening and deepening the scope of interventions.



Hussain Dawood
Chairman

Islamabad
September 13, 2006

Seven Years' Financial Summary

	(Rupees in million)						
	2006	2005	2004	2003	2002	2001	2000
Operational Results							
Total Disbursements	6,246	4,064	2,436	1,777	1,189	598	59
Total Income (including other income)	763	305	222	230	145	73	28
Surplus before provisions for taxation and loan loss	572	152	133	149	94	47	3
Surplus after provisions for taxation and loan loss	501	196	81	92	59	44	3
Balance Sheet							
Total assets (less current liabilities)	13,162	8,689	3,496	2,703	1,656	931	472
Micro credit loans receivables	3,996	2,598	1,081	1,201	695	285	36
Total investments	7,096	4,401	2,287	1,465	833	588	211
Equity and reserves	1,788	1,137	791	710	618	559	216
Long term and deferred liability	11,374	7,552	2,705	1,993	1,038	372	256
Disbursements							
Microcredit Loans	3,705	3,106	1,462	1,314	655	332	36
Grants	2,541	958	974	463	534	266	23
Financial Ratios							
Surplus before tax and loan loss ratio	75%	50%	60%	65%	65%	64%	11%
Return on assets	5%	3%	3%	4%	4%	6%	1%
Return on equity	34%	20%	11%	14%	10%	11%	2%
Repayment rate (micro credit)	100%	100%	100%	100%	100%	100%	100%
General and admin. expenses/average total assets	1%	1%	2%	3%	3%	3%	5%
Income on loans/General and admin. expenses	164%	101%	97%	89%	68%	46%	2%
Debt/equity							
Debt/equity	85:15	85:15	77:23	73:27	63:37	41:59	38:62
Current ratio	288:1	125:1	23:1	32:1	18:1	80:1	35:1

Pakistan Poverty Alleviation Fund
Financial Statements
For the year ended June 30,2006



■ **Ford Rhodes Sidat Hyder & Co.**

Chartered Accountants
Eagle Plaza 75-West, Fazlul-Haq Road
Blue Area, P.O. Box 2388
Islamabad 44000, Pakistan

■ Phone: (92-51) 287 0290-92

Fax: (92-51) 287 0293
frsh.isb@pk.ey.com
Principal office at Karachi
www.ey.com/pk

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Pakistan Poverty Alleviation Fund** (the Company) as at **June 30, 2006** and the related income and expenditure account, 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 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, 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, 2006 and of the surplus, its cash flows and changes in fund and reserves for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

ISLAMABAD: 13 SEP 2006


CHARTERED ACCOUNTANTS

FRSH & Co.

PAKISTAN POVERTY ALLEVIATION FUND
BALANCE SHEET
AS AT JUNE 30, 2006

	Note	2006 (Rupees)	2005
FIXED ASSETS - tangible, at book value	5	23,930,329	11,091,989
INVESTMENTS - long term	6	800,000,000	900,000,000
LOANS TO PARTNER ORGANISATIONS - secured, considered good	7	586,433,427	455,908,963
DEFERRED TAX ASSET	24	-	28,119,000
CURRENT ASSETS			
Current maturity of loans to Partner Organisations	7	3,409,632,688	2,142,365,585
Investments - short term	8	6,295,556,547	3,446,944,209
Advances, deposits, prepayments and other receivables	9	11,024,932	11,542,813
Profit/service charges receivable	10	349,367,716	111,934,902
Cash and bank balances	11	1,726,868,720	1,640,339,219
		<u>11,792,450,603</u>	<u>7,353,126,728</u>
CURRENT LIABILITIES			
Service and commitment charges payable	12	(34,268,053)	(48,774,231)
Accrued and other liabilities	13	(4,608,109)	(1,451,174)
Taxation		(2,115,574)	(9,222,675)
		<u>(40,991,736)</u>	<u>(59,448,080)</u>
		<u>11,751,458,867</u>	<u>7,293,678,648</u>
		<u>13,161,822,623</u>	<u>8,688,798,600</u>
REPRESENTED BY:			
ENDOWMENT FUND	14	800,000,000	650,000,000
Accumulated surplus		<u>987,842,638</u>	<u>486,947,665</u>
		<u>1,787,842,638</u>	<u>1,136,947,665</u>
LONG TERM AND DEFERRED LIABILITIES			
Micro-credit loan fund	15	10,513,558,573	6,482,473,335
Deferred liabilities - grant fund	16	780,048,665	1,042,953,084
Deferred income - grant fund	17	74,754,817	21,951,795
Gratuity payable	18	5,617,930	4,472,721
		<u>11,373,979,985</u>	<u>7,551,850,935</u>
COMMITMENTS	19		
		<u>13,161,822,623</u>	<u>8,688,798,600</u>

AUDITORS' REPORT ANNEXED

The annexed notes from 1 to 28 form an integral part of these financial statements.

Fhsit & Co.


CHAIRMAN



CHIEF EXECUTIVE/MANAGING DIRECTOR

PAKISTAN POVERTY ALLEVIATION FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2006

		2006	2005
	Note	(Rupees)	
Service charges on loans to Partner Organizations		197,234,175	88,070,848
Capacity building grants	20	57,673,110	44,395,835
Profit on long term investments		82,778,082	65,979,579
Profit on short term investments and saving accounts		423,823,276	104,998,729
		761,508,643	303,444,991
General and administrative expenses	21	(120,089,068)	(87,065,405)
Contribution for USAID financing programme		(810,000)	(616,000)
Contribution to President's Earthquake Relief Fund		(1,000,000)	-
Loan loss provision		(43,250,665)	(43,205,099)
		(165,149,733)	(130,886,504)
Surplus of income over expenditure		596,358,910	172,558,487
Financial charges	22	(69,140,211)	(65,643,804)
		527,218,699	106,914,683
Other income	23	1,795,274	1,477,128
Surplus before taxation		529,013,973	108,391,811
Taxation			
Deferred		(28,119,000)	28,119,000
Prior years		-	59,700,000
	24	(28,119,000)	87,819,000
Surplus for the year carried to statement of changes in fund and reserves		500,894,973	196,210,811

The annexed notes from 1 to 28 form an integral part of these financial statements.

FRS & Co.


CHAIRMAN


CHIEF EXECUTIVE/MANAGING DIRECTOR

PAKISTAN POVERTY ALLEVIATION FUND
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2006

	2006	2005
Note	(Rupees)	
Cash flows from operating activities		
Surplus before taxation	529,013,973	108,391,811
Adjustment for non cash items:		
Depreciation	9,116,400	5,051,851
Provision for gratuity	1,841,166	1,654,459
Loan loss provision	43,250,665	43,205,099
Gain on sale of fixed assets	(712,669)	(57,062)
Financial charges	69,140,211	65,643,804
	122,635,773	115,498,151
Changes in working capital		
(Increase) / decrease in current assets:		
Advances, deposits, prepayments and other receivables	517,881	(10,376,943)
Profit/service charges receivables	(237,432,814)	(46,586,860)
Increase / (Decrease) in current liabilities:		
Accrued and other liabilities	3,156,935	(1,651,028)
Loan disbursements to Partner Organizations	(3,705,535,872)	(3,106,369,710)
Loan recoveries from Partner Organizations	2,264,493,640	1,546,250,035
	(1,674,800,230)	(1,618,734,506)
Cash used in operations	(1,023,150,484)	(1,394,844,544)
Payments for:		
Financial charges	(83,646,389)	(55,517,674)
Gratuity	(695,957)	(502,267)
Taxation	(7,107,101)	(10,788,952)
	(91,449,447)	(66,808,893)
Net cash used in operations	(1,114,599,931)	(1,461,653,437)
Cash flows from investing activities		
Investments	(2,748,612,338)	(2,060,098,593)
Payments for capital expenditure	(22,417,421)	(6,083,262)
Proceeds from sale of fixed assets	1,175,350	442,763
Net cash used in investing activities	(2,769,854,409)	(2,065,739,092)
Cash flows from financing activities		
Endowment fund	150,000,000	150,000,000
Micro credit loan fund	4,031,085,238	3,747,825,554
Deferred liabilities - grant fund	(262,904,419)	1,074,644,282
Deferred income - grant fund	52,803,022	22,618,823
Net cash generated from financing activities	3,970,983,841	4,995,088,659
Net increase in cash and cash equivalents	86,529,501	1,467,696,130
Cash and cash equivalents at beginning of the year	1,640,339,219	172,643,089
Cash and cash equivalents at end of the year	11 <u>1,726,868,720</u>	<u>1,640,339,219</u>

The annexed notes from 1 to 28 form an integral part of these financial statements.

FRS+K Co.

CHAIRMAN

CHIEF EXECUTIVE/MANAGING DIRECTOR

PAKISTAN POVERTY ALLEVIATION FUND
STATEMENT OF CHANGES IN FUND AND RESERVES
FOR THE YEAR ENDED JUNE 30, 2006

	Endowment Fund	Accumulated Surplus (Rupees)	Total
Balances as at June 30, 2004	500,000,000	290,736,854	790,736,854
Receipts during the year	150,000,000	-	150,000,000
Surplus after taxation for the year	-	196,210,811	196,210,811
Balances as at June 30, 2005	650,000,000	486,947,665	1,136,947,665
Receipts during the year	150,000,000	-	150,000,000
Surplus after taxation for the year	-	500,894,973	500,894,973
Balances as at June 30, 2006	<u>800,000,000</u>	<u>987,842,638</u>	<u>1,787,842,638</u>

The annexed notes from 1 to 28 form an integral part of these financial statements.

F.R.S. & Co.

CHAIRMAN


CHIEF EXECUTIVE/MANAGING DIRECTOR

**PAKISTAN POVERTY ALLEVIATION FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

1. STATUS, BACKGROUND AND NATURE OF OPERATIONS

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. The registered office of the Company is situated in Islamabad, Pakistan.

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 Organisations (POs), i.e., Non Government Organisations (NGOs), Community Based Organisations (CBOs), Rural Support Programmes (RSPs) and other private sector Organisations. 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. STATEMENT OF COMPLIANCE

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.

3. BASIS OF PREPARATION

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 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. The liability is provided on the basis of actuarial valuation carried out as at June 30, 2005 using "Projected Unit Credit Method". The actuarial gains and losses are amortized over the expected remaining service of employees. The details of actuarial valuation are given in note-18 to the financial statements.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognised actuarial gains / losses and unrecognised transitional liability. Actuarial gains / losses are recognised as income or expense when the cumulative unrecognised actuarial gains / losses exceed 10% of the defined benefit obligation.

4.2 Taxation

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

4.3 Provisions

Provisions are recognised 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.

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.

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4.4 Fixed assets - tangible at book value

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any.

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.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and the assets so replaced are retired.

Gain or loss on sale or retirement of fixed assets is included in current year's income and expenditure account.

4.5 Investments - held to maturity

These are investments with fixed or determinable payments and fixed maturity and the Company has positive intent and ability to hold the investment till maturity and are carried at amortised cost using the effective yield method.

4.6 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, cash with banks on current, saving and deposit accounts and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

4.7 Revenue recognition

Income is recognised on accrual basis except grants and donations that are recorded on receipt basis.

Grants related to income are recognised over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis.

4.8 Receipts - micro-credit loans and grants

Receipts from Government of Pakistan (GOP) on account of authorized allocation for micro-credit loans and grants, as defined and specified in Development Credit Agreement (DCA), are recognised on the basis of Financial Monitoring Reports, raised on quarterly basis, under relevant category of micro-credit loan fund, community physical infrastructure (CPI) grant fund, social sector development grant fund, emergency relief, housing reconstruction and community building, revitalization of communities/ rehabilitation of CPI schemes and capacity building grant fund as specified in Schedule 1 of DCA.

Receipts on account of micro credit and enterprise development facility (EDF) are recognised as loans. Grants specific to POs and PPAF are recognised as deferred liability and deferred income respectively.

Grants from USAID on account of EDF and grants are recognised on the basis of advance request raised on monthly basis. Receipts of EDF and grants specific to POs are recognised as deferred liability and grants specific to PPAF are recognised as deferred income.

Receipts from GOP, as explained in note 16.8.1, specific to POs and PPAF are recognised as deferred liability and deferred income respectively.

4.9 Borrowing costs

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

4.10 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 Special Drawing Rights (SDR) for micro credit loan, community physical infrastructure grant, social sector development, emergency relief, housing reconstruction and community building, revitalization of communities/ rehabilitation of CPI schemes and capacity building grant are included in their respective balances.

4.11 Financial instruments

Financial assets and liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially recognised 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.

4.12 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set off the recognised amounts and the Company intends to settle on a net basis or realized the asset and settle the liability simultaneously.

File # 6.

5. FIXED ASSETS - tangible, at book value

The following is a statement of operating assets:

	C O S T			D E P R E C I A T I O N			Book value As at June 30, 2006	Annual depreciation rate
	As at July 01, 2005	Additions/ (Deletions)	As at June 30, 2006	As at July 01, 2005	Charge for the year / (Deletions)	As at June 30, 2006		
	(Rupees)							%
Furniture and fixtures	3,685,023	961,730 (15,624)	4,631,129	1,792,767	778,843 (15,624)	2,555,986	2,075,143	20
Vehicles	10,967,870	14,719,000 (2,313,405)	23,373,465	7,777,281	4,398,707 (1,850,724)	10,325,264	13,048,201	20
Office equipment	6,315,358	3,035,084	9,350,442	3,296,814	1,598,998	4,895,812	4,454,630	20
Computer equipment	9,635,858	3,701,607	13,337,465	6,645,258	2,339,852	8,985,110	4,352,355	25
2006	30,604,109	22,417,421 (2,329,029)	50,692,501	19,512,120	9,116,400 (1,866,348)	26,762,172	23,930,329	
2005	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	

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	Note	2006 (Rupees)	2005 (Rupees)		
6. INVESTMENTS - long term					
Pakistan Investment Bonds (PIBs)	6.1	800,000,000	650,000,000		
Term Deposit Receipts (TDRs)		-	250,000,000		
		<u>800,000,000</u>	<u>900,000,000</u>		
6.1 Represent investments in PIBs as follows:					
		<u>Principal (Rupees)</u>	<u>Maturity date</u>	<u>Profit rate % Per annum</u>	<u>Payment terms</u>
		200 million	31-12-2010	14	Semi annually
		200 million	21-08-2011	13	Semi annually
		100 million	02-07-2014	8	Semi annually
		300 million	28-04-2014	8	Semi annually
7. LOANS TO PARTNER ORGANIZATIONS - secured, considered good					
Micro-credit Loans - IDA financing					
National Rural Support Programme		1,751,025,303	1,003,905,751		
Punjab Rural Support Programme		214,862,000	137,713,245		
Kashf Foundation		381,419,550	231,326,185		
Sarhad Rural Support Programme		43,166,668	21,386,268		
Thardeep Rural Development Programme		401,341,486	331,474,650		
Development Action for Mobilization and Emancipation		170,272,145	80,113,823		
Taraqee Foundation		262,231,731	292,635,993		
Sindh Agricultural & Forestry Workers Coordinating Organization		73,852,000	38,803,750		
Balochistan Rural Support Programme		6,422,011	9,829,000		
Sindh Rural Support Programme		14,110,000	8,570,000		
Jinnah Welfare Society		31,205,000	19,820,000		
Centre for Women Cooperative Development		19,993,137	19,362,937		
Rural Community Development Society		28,629,211	14,275,003		
Khwendo Kor Women and Children Development Programme		416,667	861,459		
Young Pioneers Society		7,500,000	3,637,400		
Women Social Organisation		5,145,000	3,016,166		
Anjuman-e- Falah-o-Behbood		4,670,500	2,560,887		
Community Support Concern		80,462,500	15,557,975		
Poverty Eradication Network		4,840,475	3,655,000		
Baanhn Beli		7,210,000	2,170,000		
Bunad Literacy Community Council		2,985,000	7,183,102		
Human Development Foundation		369,956	369,956		
Indus Resource Centre		6,813,000	2,651,166		
Network Leasing Corporation Limited		184,875,000	231,020,533		
Organization for Participatory Development		16,312,500	12,059,300		
Swabi Women Welfare Society		7,109,999	4,765,554		
Women Welfare Organization Poonch		2,911,845	3,286,260		
Orangi Charitable Trust		19,463,767	25,942,375		
Community Development Concerns		2,350,000	1,550,000		
Karwan Community Development Organization		3,355,000	2,356,200		
Kiran Welfare Organization		2,222,779	1,295,000		
Narowal Rural Development Programme		8,750,000	4,500,000		
Soon Valley Development Programme		6,010,000	-		
Asasah		181,076,300	-		
Baidarie		1,024,000	-		
Orix Leasing Pakistan Limited		20,861,370	-		
Network Micro-Finance Bank Limited		32,787,000	-		
Save The Poor		2,624,500	-		
Marvi Rural Development Organization		2,951,639	-		
		<u>4,013,629,039</u>	<u>2,537,654,938</u>		
Enterprise Development Loans - USAID/Pakistan financing					
Centre for Women Cooperative Development		15,770,833	5,422,500		
Rural Community Development Society		16,488,888	3,600,001		
Punjab Rural Support Programme		3,748,111	7,523,868		
Network Leasing Corporation Limited		70,018,918	124,412,250		
		<u>106,026,750</u>	<u>140,958,619</u>		
7.1 Less: Loan loss provision		<u>4,119,655,789</u>	<u>2,678,613,557</u>		
		<u>(123,589,674)</u>	<u>(80,339,009)</u>		
		<u>3,996,066,115</u>	<u>2,598,274,548</u>		
Less: Current maturity		<u>(3,409,632,688)</u>	<u>(2,142,365,585)</u>		
		<u>586,433,427</u>	<u>455,908,963</u>		

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- 7.1 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.) and eight percent per annum (8% p.a.). The later rate has been effective on all the financing agreements executed after March 31, 2006. 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	2006 (Rupees)	2005
7.2 Movement of loans to Partner Organizations			
Opening balance		2,678,613,557	1,118,493,882
Disbursements during the year		3,705,535,872	3,106,369,710
		<u>6,384,149,429</u>	<u>4,224,863,592</u>
Recoveries during the year		(2,264,493,640)	(1,546,250,035)
		<u>4,119,655,789</u>	<u>2,678,613,557</u>
Less: Loan loss provision		(123,589,674)	(80,339,009)
		<u>3,996,066,115</u>	<u>2,598,274,548</u>

8. Represent investments in term deposit receipts of various commercial banks maturing within the period of one year and earning average profit rate of 10.50% per annum.

9. **ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**

Advances - considered good

Employees	399,926	413,341
Suppliers	598,000	4,054,600
	<u>997,926</u>	<u>4,467,941</u>

Deposits

	892,900	582,900
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Prepayments

	9,132,609	6,385,504
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Other receivables - considered good

	1,497	106,468
	<u>11,024,932</u>	<u>11,542,813</u>

10. **PROFIT / SERVICE CHARGES RECEIVABLE**

Profit receivable on

Pakistan Investment Bonds (PIBs)	10.1	28,597,260	26,526,027
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Term deposit receipts / saving accounts	10.2	259,125,186	56,705,915
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Project bank accounts	10.3	8,831,172	-
		<u>296,553,618</u>	<u>83,231,942</u>

Service charge receivable on loans to POs	10.4	52,814,098	28,702,960
		<u>349,367,716</u>	<u>111,934,902</u>

- 10.1 Effective profit rates on the PIBs are disclosed in note 6.1.

- 10.2 Effective profit rates on term deposit receipts are disclosed in note 8.

- 10.3 Represents profit receivable on deposit account, specific to USDA. Effective profit rates are disclosed in note 11.1.

- 10.4 Effective service charges rate on loans to POs is disclosed in note 7.1.

11. **CASH AND BANK BALANCES**

Cash in hand

in head office	7,894	9,901
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in field coordination offices	100,000	-
	<u>107,894</u>	<u>9,901</u>

Cash at banks - current accounts

local currency	1,112,414	242,006
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local currency - specific to USAID grant	84,380	2,292,950
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foreign currency - specific to USAID grant - (US\$ 27,777)	1,670,231	-
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foreign currency - specific to IDA - US\$ 20,320,538 (2005: US\$ 19,991,655)	1,161,954,312	1,193,101,979
	<u>1,164,821,337</u>	<u>1,195,636,935</u>

Cash at banks - deposit accounts

local currency	3,239,635	6,557,454
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local currency - specific to USDA grant	550,341,232	384,134,929
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term deposit receipt	8,358,622	54,000,000
	<u>561,939,489</u>	<u>444,692,383</u>

11.1	<u>1,726,868,720</u>	<u>1,640,339,219</u>
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- 11.1 The balances in deposit accounts bear average mark up of 3.5% per annum. Average profit rate on TDRs is disclosed in note 8.

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	Note	2006 (Rupees)	2005
12. SERVICE CHARGES / COMMITMENT CHARGES PAYABLE			
Service charges payable	12.1	31,546,849	11,382,248
Commitment charges payable	12.2	2,721,204	37,391,983
		<u>34,268,053</u>	<u>48,774,231</u>
12.1	Represent service charges payable to GOP at the rate of 0.75% per annum on the principal amount of credit withdrawn from time to time.		
12.2	Represent commitment charges payable to GOP at the rate ranging from 0.30% to 0.35% per annum on the principal amount of the credit not withdrawn from time to time.		
13. ACCRUED AND OTHER LIABILITIES			
Accrued expenses		3,946,507	1,451,174
Other liabilities		661,602	-
		<u>4,608,109</u>	<u>1,451,174</u>
14. ENDOWMENT FUND			
PPAF - I		500,000,000	500,000,000
PPAF - II		300,000,000	150,000,000
	14.1	<u>800,000,000</u>	<u>650,000,000</u>

14.1 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. 300 million (out of the committed Rs. 500 million) for PPAF-II for establishing the Endowment Fund, under two separate Subsidiary Financing Agreements (SFAs) signed with PPAF on August 18, 1999 and March 24, 2004. The balance amount for PPAF-II Rs. 200 million will be received in the beginning of financial year 2007.

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.

		For the year (Rupees)	Cumulative to date
15. MICRO CREDIT LOAN FUND			
PPAF - I			
Opening balance		2,672,636,100	-
Amount received from GOP		-	2,631,238,091
Foreign exchange translation differences - Net		-	41,398,009
	15.1	<u>2,672,636,100</u>	<u>2,672,636,100</u>
PPAF - II			
Opening balance		3,809,837,235	-
Amount received from GOP		4,021,833,176	7,825,795,468
Foreign exchange translation differences - Net		9,252,062	15,127,005
	15.2	<u>7,840,922,473</u>	<u>7,840,922,473</u>
		<u>10,513,558,573</u>	<u>10,513,558,573</u>

15.1 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.

15.2 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.

		2006 (Rupees)	2005
16. DEFERRED LIABILITIES - GRANT FUND			
Community physical infrastructure (CPI)	16.1	231,994,680	286,734,889
Social sector development	16.2	(18,191,834)	10,454,508
Capacity building	16.3	128,338,977	175,620,822
Emergency relief	16.4	(19,954,101)	-
Housing reconstruction and community buildings	16.5	(179,846,974)	-
Revitalization of communities / rehabilitation of CPI schemes	16.6	(142,552,297)	-
United States Agency for International Development	16.7	247,232,995	186,069,224
United States Department of Agriculture	16.8	533,027,219	384,073,641
		<u>780,048,665</u>	<u>1,042,953,084</u>

Deferred liabilities grant fund represents amounts (receivable from donors)/payable to POs on non-reimbursable basis under respective financing agreements.

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	For the year (Rupees)	Cumulative to date
16.1 Community physical infrastructure		
Opening balance	286,734,889	-
Amount received from GOP	750,456,141	3,179,986,829
Foreign exchange translation differences - Net	1,726,393	(8,107,037)
	<u>1,038,917,423</u>	<u>3,171,879,792</u>
Less: Disbursements		
Sarhad Rural Support Programme	101,309,909	463,175,241
National Rural Support Programme	123,659,312	767,129,162
Punjab Rural Support Programme	67,972,417	415,243,963
Aga Khan Rural Support Programme	46,451,736	187,297,639
Thardeep Rural Development Programme	51,955,146	131,743,318
Taraqee Foundation	43,209,528	184,622,085
Balochistan Rural Support Programme	38,144,865	115,287,819
Jinnah Welfare Society	4,239,285	14,890,105
Rural Community Development Society	17,751,522	48,294,910
Women Welfare Organization Poonch	9,573,650	34,694,662
Sindh Agricultural & Forestry Workers Coordinating Organization	33,820,264	62,211,737
Himalayan Wildlife Foundation	-	3,070,205
Baanhn Beli	3,007,500	12,127,133
Community Mobilisation and Development Organization	3,299,972	10,056,622
Ghazi Brotha Taraqiatee Idara	10,928,107	55,897,741
Human Development Foundation	12,014,250	33,822,864
Islamic Relief	9,601,541	16,731,288
Participatory Integrated Development Society	18,570,941	36,302,876
Salik Development Foundation	11,519,000	29,501,555
Soon Valley Development Programme	19,254,710	42,704,873
Sungi Development Foundation	19,635,329	47,025,540
Women Social Organisation	5,322,000	7,487,000
Youth Commission for Human Rights	10,137,916	15,776,017
AKPBS-Water and Sanitation Extension Programme	43,986,750	70,017,148
Community Uplift Programme	22,577,688	35,577,742
Human Resource Development Society	9,404,900	16,508,700
Balochistan Environmental and Educational Journey	1,972,375	2,836,250
Omar Asghar Khan Development Foundation	-	1,114,350
Balochistan Rural Development & Research Society	1,707,431	1,972,331
SOS Children's Village	4,153,946	4,698,446
Indus Earth Trust	8,264,237	11,784,424
Green Circle Organization	2,608,250	4,318,200
Village Friends Organization	5,217,000	6,619,500
Kiran Welfare Organization	1,621,300	1,875,200
Social Action Bureau for Assistance in Welfare and Organisation Network	1,400,000	1,760,000
South Asia Partnership Pakistan	23,511,210	25,770,710
Strengthening Participatory Organization	6,588,000	6,588,000
Society for Conservation and Protection of Environment	5,824,137	6,643,137
Hazara Development and Advocacy Foundation	391,625	391,625
Young Pioneers Society	766,090	766,090
Sindh Rural Support Organization	4,471,554	4,471,554
Indus Resource Centre	758,500	758,500
All Pakistan Women Association	318,850	318,850
	<u>806,922,743</u>	<u>2,939,885,112</u>
	<u>231,994,680</u>	<u>231,994,680</u>
16.2 Social sector development		
Opening balance	10,454,508	-
Amount received from GOP	58,416,205	68,854,592
Foreign exchange translation differences - Net	134,384	150,505
	<u>69,005,097</u>	<u>69,005,097</u>
Less: Disbursements		
AKPBS-Water and Sanitation Extension Programme	5,793,874	5,793,874
Community Uplift Programme	3,310,704	3,310,704
Islamic Relief	1,740,125	1,740,125
National Rural Support Programme	9,319,306	9,319,306
Sindh Agricultural & Forestry Workers Coordinating Organization	9,713,529	9,713,529
Sungi Development Foundation	1,596,448	1,596,448
Taraqee Foundation	3,100,510	3,100,510
Indus Resource Centre	4,383,935	4,383,935
Mountain and Glacier Protection Organization	48,238,500	48,238,500
	<u>87,196,931</u>	<u>87,196,931</u>
	<u>(18,191,834)</u>	<u>(18,191,834)</u>

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	For the year (Rupees)	Cumulative to date
16.3 Capacity building		
Opening balance	175,620,822	-
Amount received from GOP	345,415,339	1,606,382,958
Foreign exchange translation differences - Net	794,614	(20,450,005)
	521,830,775	1,585,932,953
Less: Disbursements		
National Rural Support Programme	131,495,364	532,707,413
Punjab Rural Support Programme	38,424,987	179,829,451
Sarhad Rural Support Programme	5,814,531	115,628,826
Thardeep Rural Development Programme	53,287,517	177,041,786
Development Action for Mobilization and Emancipation	20,191,927	50,479,977
Taraqee Foundation	39,089,294	111,071,923
Balochistan Rural Support Programme	5,746,941	22,596,469
Sindh Agricultural & Forestry Workers Coordinating Organization	16,592,032	38,966,133
Sindh Rural Support Programme	2,275,687	9,002,615
Jinnah Welfare Society	2,520,734	18,919,411
Rural Community Development Society	6,007,449	17,579,146
Centre for Women Cooperative Development	1,953,613	4,869,644
Poverty Eradication Network	666,916	4,070,034
Khwendo Kor Women & Children Development Programme	374,801	2,920,128
Community Support Concern	10,897,873	17,567,740
Women Social Organisation	1,099,987	2,882,508
Young Pioneers Society	722,422	2,677,299
Anjuman-e- Falah-o-Behbood	844,158	2,752,833
Aga Khan Rural Support Programme	-	121,069
Women Welfare Organization Poonch	753,324	3,471,685
Kashf Foundation	18,235,067	56,429,097
Family Planning Association of Pakistan	-	5,171,862
Baanhn Beli	1,757,027	6,104,103
Bunyard Literacy Community Council	-	4,482,253
Ghazi Brotha Taraqiatee Idara	-	136,844
Human Development Foundation	-	6,968,401
Indus Resource Centre	2,205,365	5,593,487
Organization for Participatory Development	2,821,254	8,133,017
Soon Valley Development Programme	906,940	1,054,440
Sungi Development Foundation	-	293,689
Swabi Women Welfare Society	1,386,801	3,471,144
Youth Commission For Human Rights	-	60,200
Indus Earth Trust	-	51,796
Network Leasing Corporation Limited	-	4,814
Orangi Charitable Trust	2,987,494	9,764,681
Participatory Integrated Development Society	97,268	498,634
Community Development Concerns	365,646	1,483,886
Community Mobilisation and Development Organization	35,735	275,428
Green Circle Organization	-	272,000
Islamic Relief	313,238	503,238
Karwan Community Development Organization	641,820	1,061,694
Kiran Welfare Organization	1,067,088	1,676,138
Narowal Rural Development Programme	3,906,815	5,399,126
South Asia Partnership Pakistan	427,607	925,607
Disbursements continued - carried forward	375,914,722	1,434,971,669

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	Note	For the year	Cumulative to date
		(Rupees)	
Disbursements continued - brought forward		375,914,722	1,434,971,669
Salik Development Foundation		-	120,000
Society for Conservation and Protection of Environment		317,511	557,511
AKPBS-Water and Sanitation Extension Programme		-	108,000
Village Friends Organization		-	457,000
SOS Children's Village		200,000	200,000
Asasah		11,139,764	11,139,764
Baidarie		547,601	547,601
Balochistan Environmental and Educational Journey		270,000	270,000
Human Resource Development Society		120,000	120,000
Orix Leasing Pakistan Limited		513,100	513,100
Save The Poor		582,736	582,736
Marvi Rural Development Organization		1,811,375	1,811,375
Hazara Development and Advocacy Foundation		280,000	280,000
Society for Human Empowerment & Rural Development		207,500	207,500
Direct payments by PPAF for seminars and workshops for POs		1,587,489	3,797,729
Trainers' salary		-	1,909,991
		393,491,798	1,457,593,976
		128,338,977	128,338,977
16.4 Emergency relief			
Amount received from GOP		248,647,740	248,647,740
Foreign exchange translation differences - Net		572,004	572,004
		249,219,744	249,219,744
Less: Disbursements			
Sarhad Rural Support Programme		22,150,000	22,150,000
National Rural Support Programme		70,003,082	70,003,082
Omer Asghar Khan Development Foundation		27,500,000	27,500,000
Centre for Women Cooperative Development		2,328,960	2,328,960
Marvi Rural Development Organization		400,000	400,000
Women Welfare Organization Poonch		6,000,000	6,000,000
Islamic Relief		2,500,000	2,500,000
Direct Expenses by PPAF		138,291,803	138,291,803
		269,173,845	269,173,845
		(19,954,101)	(19,954,101)
16.5 Housing reconstruction and community buildings			
Amount received from GOP		419,188,700	419,188,700
Foreign exchange translation differences - Net		964,326	964,326
		420,153,026	420,153,026
Less: Disbursements			
Sarhad Rural Support Programme		45,950,000	45,950,000
National Rural Support Programme		325,000,000	325,000,000
Omer Asghar Khan Development Foundation		36,625,000	36,625,000
Sungi Development Foundation		67,425,000	67,425,000
Women Welfare Organization Poonch		12,500,000	12,500,000
Islamic Relief		112,500,000	112,500,000
		600,000,000	600,000,000
		(179,846,974)	(179,846,974)
16.6 Revitalization of communities / rehabilitation of CPI schemes			
Amount received from GOP		157,195,763	157,195,763
Foreign exchange translation differences - Net		361,622	361,622
		157,557,385	157,557,385
Less: Disbursements for			
revitalization of affected communities	16.6.1	172,365,015	172,365,015
rehabilitation of CPI schemes	16.6.2	127,744,667	127,744,667
		300,109,682	300,109,682
		(142,552,297)	(142,552,297)

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		For the year (Rupees)	Cumulative to date
16.6.1	Grants for revitalization of affected communities		
	Sarhad Rural Support Programme	16,745,150	16,745,150
	National Rural Support Programme	95,554,000	95,554,000
	Omer Asghar Khan Development Foundation	11,767,465	11,767,465
	Sungi Development Foundation	15,553,700	15,553,700
	Women Welfare Organization Poonch	5,120,950	5,120,950
	Islamic Relief	27,623,750	27,623,750
		<u>172,365,015</u>	<u>172,365,015</u>
16.6.2	Grants for rehabilitation of community physical infrastructure schemes		
	Sarhad Rural Support Programme	48,914,500	48,914,500
	National Rural Support Programme	51,765,000	51,765,000
	Omer Asghar Khan Development Foundation	11,783,500	11,783,500
	Women Welfare Organization Poonch	10,068,267	10,068,267
	Islamic Relief	5,213,400	5,213,400
		<u>127,744,667</u>	<u>127,744,667</u>

- 16.6.3 Agreements amending the DCA was signed between IDA and GOP on December 06, 2005, in respect of Grants for Emergency Relief and Rehabilitation & Reconstruction. As per agreement IDA agreed to reallocate a sum of SDR 3.53 million for activities responding to the Emergency by the earthquake and make available to GOP an additional sum of SDR of 68.90 million under Phase II to be utilized by GOP through the Company to support the relief, reconstruction and rehabilitation of communities affected by the earthquake which occurred on October 8, 2005.

Reallocated amount would cover the grants to affected communities for disaster recovery, whereas, an additional financing provided to the Company would cover the costs of (i) revitalization of the affected communities through intensive social mobilization, including carrying out of disaster management, rehabilitation and reconstruction training for the benefit of the affected communities and the staff of the POs, and provision of equipment, vehicles and operating costs to POs engaged in these activities (ii) cash grants for the construction of low-cost seismologic houses and multipurpose community buildings (iii) grants for the rehabilitation of community physical infrastructure schemes for, among other things, water, sanitation and feeder roads and (iv) financing of coordination, monitoring and supervision activities, including provision of technical assistance for earthquake resistance structures.

	Note	2006 (Rupees)	2005 (Rupees)
16.7	United States Agency for International Development		
	Capacity building grant fund - POs	16.7.1 3,128,592	3,333,907
	Enterprise development loans	16.7.2 244,104,403	182,735,317
		<u>247,232,995</u>	<u>186,069,224</u>
		For the year (Rupees)	Cumulative to date
16.7.1	Opening balance	3,333,907	-
	Amount received from USAID	3,302,018	9,863,085
	Amount contributed by PPAF	810,000	1,732,000
		<u>7,445,925</u>	<u>11,595,085</u>
	Less: Disbursements		
	Centre for Women Cooperative Development	907,391	2,978,678
	Rural Community Development Society	3,409,942	4,110,430
	Punjab Rural Support Programme	-	1,377,385
		<u>4,317,333</u>	<u>8,466,493</u>
		<u>3,128,592</u>	<u>3,128,592</u>
16.7.2	Opening balance	182,735,317	-
	Amount received from USAID	53,469,394	231,716,173
	Service charges earned	7,899,692	12,388,230
		<u>244,104,403</u>	<u>244,104,403</u>

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16.7.2.1 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.

16.7.2.2 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 period, Rs. 62 million have been disbursed to POs. Total disbursements for EDF under USAID aggregates to Rs. 235.416 million.

	For the year (Rupees)	Cumulative to date
16.8 United States Department of Agriculture		
Opening balance	364,073,641	-
Amount received from GOP	228,000,000	608,000,000
Profit on project bank account	21,191,667	21,191,667
	<u>613,265,308</u>	<u>629,191,667</u>
Less: Disbursements		
Green Circle Organization	1,048,160	1,537,160
Soon Valley Development Programme	17,011,064	18,503,064
Sarhad Rural Support Programme	6,510,000	11,819,000
Taraqee Foundation	-	4,806,201
Rural Community Development Society	1,048,493	3,436,925
Aga Khan Rural Support Programme	25,094,287	25,094,287
Indus Earth Trust	4,335,000	4,335,000
National Rural Support Programme	10,176,000	10,176,000
Sindh Agricultural & Forestry Workers Coordinating Organization	3,990,830	3,990,830
Thardeep Rural Development Programme	11,024,255	11,024,255
Seminars and Workshops	-	1,441,726
	<u>80,238,089</u>	<u>96,164,448</u>
	<u>533,027,219</u>	<u>533,027,219</u>

16.8.1 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 last year. Rs. 640 million have been received to date, while the remaining amount Rs. 877.76 million will be released by 2007-08. 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. Funding in respect of NDMC is recognised as deferred income in note 17.2.

	Note	2006 (Rupees)	2005
17. DEFERRED INCOME - GRANT FUND			
Capacity building - GOP	17.1	34,968,506	28,102,333
Capacity building - USDA	17.2	27,791,447	-
Revitalization of Communities/Rehabilitation of CPI schemes	17.3	10,662,358	-
Capacity building - USAID	17.4	1,332,506	(6,150,538)
		<u>74,754,817</u>	<u>21,951,795</u>
		For the year (Rupees)	Cumulative to date
17.1 Opening balance		28,102,333	-
Amount received from GOP		43,576,665	215,554,789
Foreign exchange translation differences - Net		100,246	1,648,469
		<u>71,779,244</u>	<u>217,203,258</u>
Less: Utilization against expenditure recognised as income		36,810,738	182,234,752
		<u>34,968,506</u>	<u>34,968,506</u>
17.2 Opening balance		20,000,000	-
Amount received from GOP		12,000,000	32,000,000
		<u>32,000,000</u>	<u>32,000,000</u>
Less: Utilization against expenditure recognised as income		4,208,553	4,208,553
		<u>27,791,447</u>	<u>27,791,447</u>

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		For the year (Rupees)	Cumulative to date
17.3	Opening balance	-	-
	Amount received from GOP	22,456,538	22,456,538
	Foreign exchange translation differences - Net	51,660	51,660
		22,508,198	22,508,198
	Less: Utilization against expenditure recognised as income	11,845,840	11,845,840
		10,662,358	10,662,358
17.4	Opening balance	(6,150,538)	-
	Amount received from USAID	12,291,023	15,620,065
	Less: Utilization against expenditure recognised as income	4,807,979	14,287,559
		1,332,506	1,332,506
		2006	2005
		(Rupees)	
18.	GRATUITY PAYABLE		
	The amounts recognised in the balance sheet are determined as follows:		
	Present value/amount of unfunded obligation	6,561,185	5,854,621
	Unrecognised actuarial loss/(gain)	(194,045)	(382,953)
	Unrecognised transitional liability	(749,210)	(998,947)
	Liability in the balance sheet	5,617,930	4,472,721
	The amounts recognised in the income and expenditure account are as follows:		
	Current service cost/provision for the year	1,064,513	993,493
	Interest cost	526,916	411,229
	Recognised transitional liability	249,737	249,737
	Total amount included in salaries and other benefits	1,841,166	1,654,459
	Movement in the liability recognised in the balance sheet:		
	At beginning of the year	4,472,721	3,320,529
	Amount recognised during the year - as shown above	1,841,166	1,654,459
	Benefit payments	(695,957)	(502,267)
	At end of the year	5,617,930	4,472,721
	The principal actuarial assumption used are as follows:		
	Discount rate	9% per annum	
	Expected rate of increase in salary	9% per annum	
	Average expected remaining working life time of employees	12 years	

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	Note	2006 (Rupees)	2005
19. COMMITMENTS			
Aggregate commitments under Financing Agreements for			
Loans		5,203,646,000	7,627,610,211
Community Physical Infrastructure		815,815,627	1,384,112,727
Capacity Building		353,615,003	693,295,016
Social Sector Development		45,867,766	-
Rehabilitation and Reconstruction		4,590,902,137	-
		<u>11,009,846,533</u>	<u>9,705,017,954</u>
19.1 Represent undisbursed amounts under respective Financing Agreements with POs executed upto June 30, 2006.			
20. CAPACITY BUILDING GRANTS			
Government of Pakistan - PPAF - II	17.1	36,810,738	37,567,507
US Department of Agriculture	17.2	4,208,553	-
Government of Pakistan - specific to rehabilitation and reconstruction	17.3	11,845,840	-
US Agency for International Development	17.4	4,807,979	6,828,328
		<u>57,673,110</u>	<u>44,395,835</u>
21. GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries, wages and other benefits	21.1	50,628,873	38,562,597
Rent		8,114,074	5,061,078
Repairs and maintenance		2,330,441	1,413,928
Traveling, lodging and conveyance		9,539,105	6,113,460
Communication		1,641,556	1,522,291
Printing and stationery		2,497,746	1,753,588
Insurance		745,158	544,776
Vehicles running and maintenance		3,405,491	1,757,185
Utilities		1,173,616	565,627
Training		1,708,896	1,865,408
Consultancy charges		17,039,485	15,867,698
Legal and professional charges		950,450	727,900
Auditors' remuneration	21.2	1,450,000	1,275,000
Advertisement		2,015,400	1,793,884
Media projection		2,236,648	365,237
Newspapers, books and periodicals		88,975	76,049
Depreciation	5	9,116,400	5,431,514
Seminar and workshops		3,710,621	1,512,446
Security services		440,033	245,933
Others		1,256,100	609,806
		<u>120,089,068</u>	<u>87,065,405</u>
21.1 Salaries, wages and other benefits include Rs. 1,841,166 (2005: Rs. 1,654,459) in respect of gratuity expense and Rs. 5,979,096 (2005: Rs. 3,982,888) in respect of remuneration of the chief executive.			
21.2 Auditors' remuneration			
Statutory audit		330,000	275,000
Audit of POs		1,120,000	1,000,000
		<u>1,450,000</u>	<u>1,275,000</u>
22. FINANCIAL CHARGES			
On micro credit loans		77,743,845	64,407,558
Bank charges		402,066	453,196
(Discount) / premium on the purchase of PIBs		(9,005,700)	783,050
		<u>69,140,211</u>	<u>65,643,804</u>
23. OTHER INCOME			
Gain on sale of fixed assets		712,669	57,062
Income from training		727,536	1,353,050
Others		355,069	67,016
		<u>1,795,274</u>	<u>1,477,128</u>
24. TAXATION			
PPAF is an approved welfare organisation under the Income Tax Ordinance, 2001. Accordingly, the deferred tax asset recognized last year, has been reversed.			

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25. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

25.1 Financial assets and liabilities

	Markup / Interest bearing				'Non-markup / interest bearing	Total
	Upto one year	One to five years	Over five years	Sub total		
(Rupees)						
Financial Assets:						
Investments - long term	-	200,000,000	600,000,000	800,000,000	-	800,000,000
Investments - short term	6,295,556,546	-	-	6,295,556,546	-	6,295,556,546
Loans to Partner Organisations	3,409,632,688	710,023,101	-	4,119,655,789	-	4,119,655,789
Other receivables	-	-	-	-	1,497	1,497
Profit/service charges receivable	-	-	-	-	349,367,716	349,367,716
Cash and bank balances	561,939,489	-	-	561,939,489	1,164,929,232	1,726,868,720
2006	10,267,128,723	910,023,101	600,000,000	11,777,151,824	1,514,298,444	13,291,450,268
2005	6,034,002,176	455,908,963	650,000,000	7,139,911,139	1,305,385,354	8,445,296,493
Financial Liabilities:						
Endowment Fund	-	-	-	-	800,000,000	800,000,000
Micro-credit Loan	-	581,007,848	9,932,550,725	10,513,558,573	-	10,513,558,573
Deferred liabilities - grant fund	-	-	-	-	780,048,665	780,048,665
Deferred income - grant fund	-	-	-	-	74,754,817	74,754,817
Service and commitment charges payable	-	-	-	-	34,268,053	34,268,053
Other liabilities	-	-	-	-	661,602	661,602
Taxation	-	-	-	-	2,115,574	2,115,574
2006	-	581,007,848	9,932,550,725	10,513,558,573	1,691,848,711	12,205,407,284
2005	-	444,202,728	6,038,270,607	6,482,473,335	1,768,213,937	8,250,687,272
Off balance sheet items:						
Commitments	-	-	-	-	11,009,846,533	11,009,846,533
2006	-	-	-	-	11,009,846,533	11,009,846,533
2005	-	-	-	-	9,705,017,954	9,705,017,954

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

25.2 Risk management

a) 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. 4.11 billion out of a total of Rs. 13.1 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.

b) Foreign exchange risk

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

c) Interest / mark-up rate risk

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

d) Liquidity risk

The Company's financial position is satisfactory and the Company does not have any liquidity problems.

25.3 Fair value of financial instruments

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values except for investments which are stated at cost.

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26. **NUMBER OF EMPLOYEES**

The Company had 80 (2005: 64) employees as at June 30, 2006.

27. **COMPARATIVE FIGURES**

Comparative figures have been rearranged and reclassified, wherever necessary for better presentation. Following are major reclassifications:

Reclassification		Reason for reclassification	Rupees
From	To		
Deferred liabilities – grant fund	Deferred income – grant fund	Deferred income segregated from deferred liabilities	21,951,795
Investments – short term	Cash and bank balances	Cash and cash equivalents separated from short term investments	54,000,000

28. **DATE OF AUTHORISATION**

These financial statements were authorised for issue on 13 SEP 2006 by the Board of Directors of the Company.

FRS + L Co.

 CHAIRMAN


 CHIEF EXECUTIVE/MANAGING DIRECTOR



The **PPAF logo** represents two parallel themes

Inverting the Income Pyramid

The larger outer triangle shows the traditional distribution of income, which counts the number of people at different income levels with the top of the pyramid being high income bands and the bottom being low income bands. Since there are very few people at the top and a great many people at the bottom, hence a broad big base converging into a narrow peak. The two together translate into a pyramid shape. The inner triangle represents PPAF goal: inverting the pyramid, so that there are fewer people at the lower levels of income, and a much greater number of people at the higher income level.

Window of Opportunity

The central triangle is also a window of opportunity; an opening that leads out of poverty, towards sustainable growth and development.

