



# Annual Report 2007



Pakistan Poverty Alleviation Fund





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## Acronyms

AKPBS	Agha Khan Planning and Building Services
AKRSP	Agha Khan Rural Support Programme
BRSP	Baluchistan Rural Support Programme
CB	Capacity Building
CECP	Committee Encouraging Corporate Philanthropy
CED	Credit & Enterprise Development (Unit)
CHC	Community Health Center
CMDO	Community Motivation and Development Organization
CPI	Community Physical Infrastructure (Unit)
DMPP	Drought Mitigation and Preparedness Project
DWSS	Drinking Water Supply Scheme
EDF	Enterprise Development Facility
ERD	Evaluation, Research & Development (Unit)
F&A	Finance & Accounts (Unit)
FPAP	Family Planning Association of Pakistan
H&E	Health & Education (Unit)
HID	Human & Institutional Development (Unit)
IA	Internal Audit (Unit)
IAUP	Integrated Area Upgrading Program
IR	Islamic Relief
IRC	Indus Resource Center
KfW	Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute)
M & C	Media & Communication (Unit)
MC	Microcredit
MGPO	Mountain and Glacier Protection Organization
NA	Northern Areas
NRSP	National Rural Support Programme
OAKDF	Omar Asghar Khan Development Foundation
PO	Partner Organization
PRSP	Punjab Rural Support Programme
PWMC	PPAF Water Management Center
RnR	Reconstruction & Rehabilitation (Unit)
RCDS	Rural Community Development Society
RHC	Rural Health Center
SAFWCO	Sindh Agricultural and Forestry Workers' Coordinating Organization
SRSP	Sarhad Rural Support Programme
TF	Taraqee Foundation
TRDP	Thardeep Rural Development Programme
WWOP	Women Welfare Organization Poonch

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## Company Information

### Chairman - General Body

Hussain Dawood Chairman, The Dawood Group

### Members

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
Rashid Bajwa	Chief Executive Officer, National Rural Support Programme
Javed Burki	Former Civil Servant
Junaid Iqbal Ch.	Additional Secretary, Economic Affairs Division, Government of Pakistan
Arif Hasan	President, Aurat Foundation
Ashraf Muhammad Hayat	Former Civil Servant
Akmal Hussain	Managing Director, Sayyed Engineers Ltd.
Maliha H Hussein	Independent Consultant
Ainullah Khan Kakarr	Former Civil Servant
Abdul Razzaq Kemal	Former Director, Pakistan Institute of Development Economics
Shoaib Sultan Khan	Chairman, National Rural Support Programme
Sono Khangharani	Executive Director, Thardeep Rural Development Programme
Rajab Ali Memon	Educationist
Hamayun Murad	Managing Director, Orix Leasing Pakistan Ltd.
Kaiser H Naseem	Manager, Pakistan Corporate Governance Project, International Finance Corporation
Aisha Ghaus Pasha	Former Deputy Director, Social Policy and Development Center
Mutawakkil Kazi	Member, Federal Public Service Commission
Aijaz Ahmed Qureshi	General Manager, Sindh Irrigation & Drainage Authority
Fazlullah Qureshi	Former Member, National Electric Power Regulatory Authority
Muhammad Ismail Qureshi	Secretary, Ministry of Food, Agriculture & Livestock, Government of Pakistan
Syed Ayub Qutub	Executive Director, Pakistan Institute of Environment Development & Research
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, Production & Special Initiatives, Government of Pakistan
Fareeha Zafar	Director, Society for the Advancement of Education

**Board of Directors**

Hussain Dawood	Chairman
Kamal Hyat	Chief Executive / Managing Director
Mueen Afzal	
Rafiud Deen Ahmad	
Rana Assad Amin	
Junaid Iqbal Ch.	
Arif Hasan	
Abdul Razzaq Kemal	
Aijaz Ahmed Qureshi	
Syed Ayub Qutub	
Fareeha Zafar	

**BoD Committees****Human Resource Committee**

Hussain Dawood	Chairman
Aijaz Ahmed Qureshi	Member
Fareeha Zafar	Member

**Audit Committee**

Mueen Afzal	Chairman
Rafiud Deen Ahmad	Member
Rana Assad Amin	Member
Aijaz Ahmed Qureshi	Member

**Company Secretary**

Ilfat Rasul Khan

**Auditors**

Ford Rhodes Sidat Hyder & Co. Chartered Accountants

**Legal Advisors**

Azam Chaudhry Law Associates

**Tax Advisors**

A. F. Ferguson & Company, Chartered Accountants

**Bankers**

ABN AMRO Bank, N.V., Allied Bank of Pakistan, Askari Commercial Bank Limited, Bank Alfalah Limited, Citibank, Faisal Bank Limited, Habib Bank Limited, National Bank of Pakistan, NDLC-IFIC Bank Limited, Saudi Pak Commercial Bank,  
Standard Chartered Bank Limited

**Registered Office**

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UAN: (+92-51) 111-000-102, Tel. 265 3304-05, 265 3597  
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Website: www.pfaf.org.pk



## Chairman's Message

It is my great pleasure to highlight our achievements during the year ending June 2007 which have been remarkable on all counts. In overall operational terms, there was a record increase in disbursements for core activities from Rs. 5,077 million in the year 2006 to Rs. 7,882 million in 2007. As a result of this 55 percent increase in outflows, the outreach of PPAF has now extended to the remotest parts of the country.

The microcredit operations of PPAF continue to grow. Disbursements have registered a significant increase of 68 percent to Rs. 6,228 million in June, 2007 from Rs. 3,705 million in the previous year. On the qualitative side, repayments continue at 100 percent with no defaults. An evaluation study, conducted by Gallup on the impact of our poverty alleviation initiatives, shows that there has been a significant increase in incomes and assets of the poor.

Infrastructure building grant operations of the PPAF have also recorded a very significant growth of 27 percent in disbursement from Rs. 887 million in the previous year to Rs. 1,127 million at the

end of the current financial year. While implementation of low cost, stand-alone projects continue, experience has shown that an integrated approach involving multiple interventions in a single village is more conducive for effective reduction of poverty. Increasingly, this has become our focus.

An outstanding achievement of the year has been the excellent effort being made by the PPAF Rehabilitation and Reconstruction Unit in restoring homes and livelihoods of the people in the earthquake affected areas. Despite a multiplicity of problems which follow naturally after a massive calamity which accounted for the lives of over 70,000 people, the RnR Unit met all challenges in a befitting manner. By end of June 2007, the Unit had disbursed over Rs. 8,000 million to 104,000 households.

For all these results, I am deeply indebted to the Board of Directors for their collective wisdom, care and diligence and to the General Body Members for their active interest in the affairs of PPAF. Similarly, I must compliment and congratulate the entire PPAF management team and staff



for their superb effort and ability in translating Board policies into commendable results. Support that we have received from our stakeholders, particularly the Government of Pakistan and our international and bilateral donors, has been exemplary. On behalf of the Board, I take this opportunity to express our gratitude for their unstinted support and cooperation. I would also like to express my appreciation to the Committee Encouraging Corporate Philanthropy for reposing their confidence in us to build numerous top quality public sector health and education facilities in the earthquake- devastated areas of the country. It would be our endeavour to assure them of the very best results.

For me, personally, this has been a journey of discovery, one that has in every sense reinforced and strengthened my belief that given integrity, professional competence and a passion to serve, we can change the world.

A handwritten signature in black ink, appearing to read 'Hussain Dawood', with a stylized, cursive script.

Hussain Dawood



## Chief Executive's Statement

The year ending 30 June, 2007, has built on the strong foundations of the previous years and the pace of development has picked up considerably. Outreach of PPAF extends to almost all districts of Pakistan and we can now see the possibility of having a presence throughout the country within next few years.

We will, however, need to reach a greater number of households as experience tells us that if the fight against poverty is to be won, then coverage must extend to at least 70 percent of the poor households. We are still far from this mark, but having invested in setting up a number of strong professional institutions over the past few years, there is every hope that this landmark can be achieved.

One of the severest tests this year for the PPAF and its partner organizations was the challenge of rehabilitation and reconstruction in the earthquake-affected areas of the country. Despite numerous unforeseen difficulties, the project remains on track and we hope to complete the project successfully by June 2008.

The role of the Chairman and Board of

Directors continue to be very supportive. Similarly, the General Body members have always given constructive advice. Together, they have ensured the establishment of sound corporate policies, which has resulted in an institutional culture that encourages transparency and due diligence.

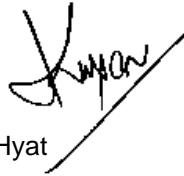
Partner organizations of PPAF continue to perform well. Many of them, who started small, have gradually grown into medium size organizations and show the promise of becoming major players in future. Their efforts are now being recognized at national level and some have already achieved international recognition.

By far, the major reason for the success of PPAF has been an extraordinary facilitation that the institution has received from all stakeholders, particularly the Government of Pakistan. In the same manner, we have enjoyed the trust and active support of all our donors and I would like to thank them for their very constructive engagement.

Management team and staff of PPAF continue to perform well. Their keen sense of ownership and dedication to work has contributed in no small measure to making

2007 a memorable year and I look forward to working with them in the challenging times ahead.

In the end, I would like to pay tribute to those amazing people and communities who are the main architects of this program. Their courage and spirit have taught us that given the will, the lives of the people can always change for the better.

A handwritten signature in black ink, appearing to read 'Kamal Hyat', with a long, sweeping underline that extends to the right.

Kamal Hyat

# Overview

As the largest wholesaler of funds for microcredit and infrastructure development to civil society organizations in the country, Pakistan Poverty Alleviation Fund (PPAF) has contributed immeasurably to community-driven development at grassroots in Pakistan. In the process, PPAF has facilitated the growth of a large number of NGOs, microfinance institutions and rural support programs working directly with poor communities.

By the end of the reporting period, PPAF had disbursed approximately Rs. 23 billion under its four windows of operation, i.e. Credit and Enterprise Development (Rs. 16.6 billion), Community Physical Infrastructure (Rs. 4.16 billion), Human and Institutional Development (Rs. 1.91 billion) and Health and Education (Rs. 239 million). These funds enabled poor communities to gain wider access to a host of financial and non-financial services, and contributed to a more efficient service delivery system with significant resource allocations for the institutional strengthening and capacity-building of partner organizations.

Provision of financial resources for the delivery of microcredit remained PPAF's largest operating window: by June 2007, PPAF had

disbursed Rs. 16.6 billion through 44 partner organizations in 80 districts. In the reporting period, 45 partner organizations received funds worth Rs. 1.126 billion for the development of infrastructure facilities, spanning various sectors including sanitation, irrigation, drinking water supply and communications. PPAF's efforts in this context have to date resulted in over 14,600 infrastructure schemes, benefiting approximately 1,100,000 households in 104 districts of the country.

With a growing outreach and expanding coverage, PPAF's microcredit operations increasingly focused on introducing better systems for attaining sustainable growth levels in future. To this end, Credit and Enterprise Development (CED) Unit integrated a Risk Management Framework (RMF) for timely identification of systemic and structural gaps within partner organizations.

In the meantime, Community Physical Infrastructure (CPI) Unit, while continuing to implement low cost, stand-alone infrastructure projects required by communities, progressively moved towards a more integrated project design encompassing multiple interventions for

better impact on the lives and livelihoods of communities. Consequently, PPAF's Integrated Area Upgrading Program (IAUP) and the Drought Mitigation and Preparedness Program (DMPP) have sought to implement a large number of spatially integrated interventions spread over comparatively larger areas.

PPAF's focus on developing a viable and sustainable institutional framework for service delivery at grassroots, ably led by the Human and Institutional Development (HID) Unit, took further momentum in the current financial year. Annual disbursements of HID Unit increased from Rs.398.54 million in FY 2005-6 to Rs. 451 million in the reporting period, covering a substantial portion of costs incurred in provisioning services to the poor. Of the latter, Rs.84.69 million (20 percent) were allocated specifically for training partner organizations' staff and participating communities. In FY 2006-7, PPAF finances made possible the training of a further 62,800 (approx.) community members and 2,319 partner organizations' staff members. The Unit also put in place quality control measures to rectify gaps in PPAF-supported training programs.

PPAF's growing investments in the health and education sectors reflected a pro-active approach towards women's empowerment. 75 percent of the over 81,000 patients who used the services of PPAF-supported Community Health Centers (CHCs) in the last two years were women. Similarly, the girl-child was the main beneficiary of PPAF-

led interventions in education sector, with girls accounting for 71 percent of the 8,610 new enrollments in PPAF-supported schools to date.

Successful continuation of PPAF's earthquake Reconstruction and Rehabilitation (RnR) program, despite a large number of problems, is testament to the will and efficiency of PPAF staff. Under the program, over 104,000 households have received housing grants by the end of the reporting period in earthquake-affected areas.

After seven years of successful operations, PPAF stands at the verge of ushering in a new era in community development at national level. A comprehensive institutional network constituting over 70 partner organizations has been successfully put in place to lead the process. All that remains now is to realize the potential through continuous hard work and commitment.

## Credit & Enterprise Development



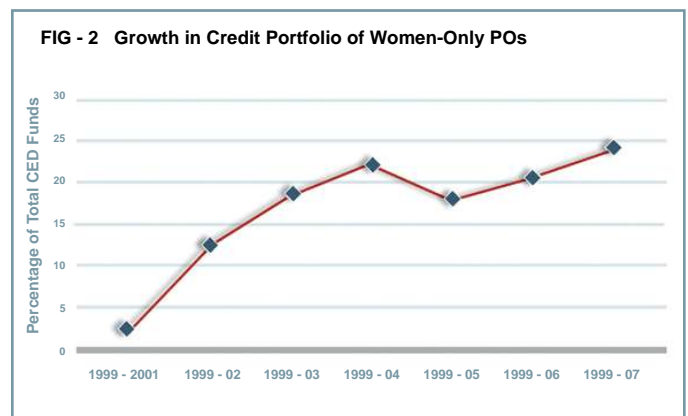
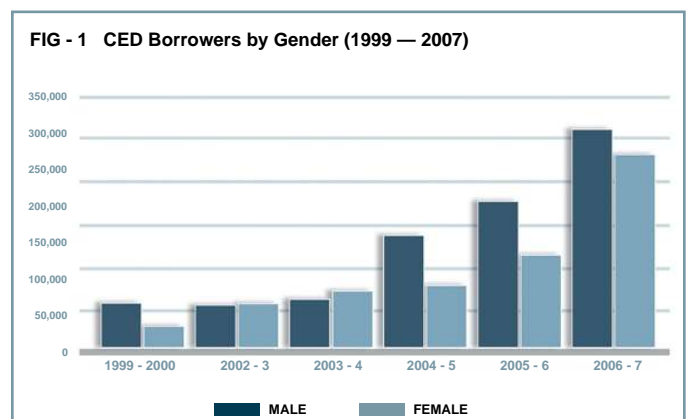
By the end of the financial year 2006-7, PPAF was placed as the premier source of funding for microfinance nationally. It had a market share of 43 percent of the 1.27 million current microcredit borrowers in Pakistan, while its partner organizations collectively accounted for a 59 percent share in the sector. As of June 2007, PPAF had disbursed Rs. 16.6 billion on a cumulative basis through 39 partner organizations in 80 districts.

These lending operations were supplemented with focused grant-based support and technical assistance for the development of sustainable institutional frameworks for efficient and cost-effective delivery of microcredit at grassroots level. Credit and Enterprise Development (CED) Unit acted as the conduit for PPAF's credit line, with the responsibility of ensuring a healthy portfolio that was equitably distributed in terms of gender and geographical coverage.

Independent third-party impact assessment studies commissioned by the PPAF verified the prevailing consensus on benefits that accrue from provision of microcredit to women. This, together with the evidence on marginalization of women from productive activities, drove PPAF's growing focus on greater female coverage. In FY 2006-7, not only did PPAF-financed microcredit loans to women reach a record number (266,495), the ratio of active female borrowers (54 percent) was also unprecedented (Figure 1).

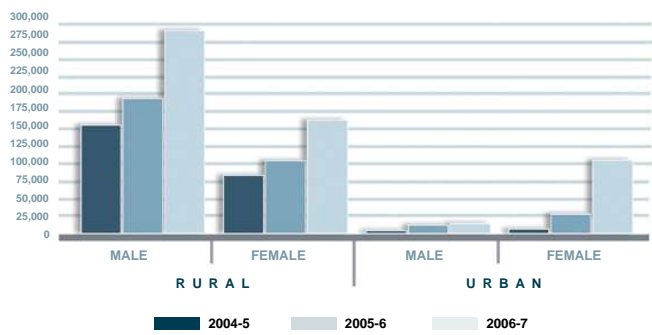
Although most PPAF partner organizations

work with women as well as with men, the gradual increase in the selection of partner organizations with an exclusively female clientele played a significant part in driving the ratio of women borrowers. The number of such partner organizations currently stands at 9, while their share in cumulative credit disbursements grew from just 1.74 percent in 2000-1 to over 24 percent in 2006-7 (Figure 2).

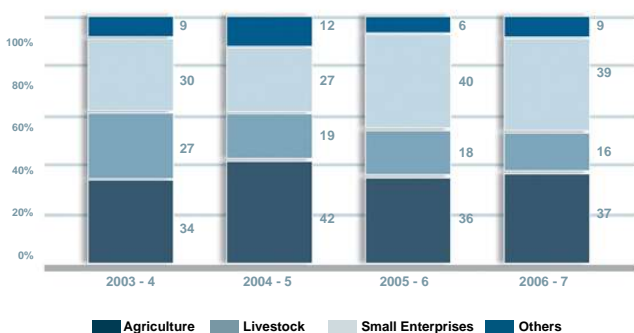




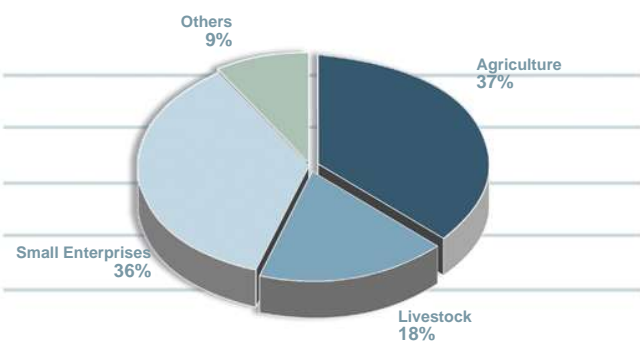
**FIG - 3 Gender Distribution of CED Borrowers by Region (2004 — 2007)**



**FIG - 4 Percentage Sectoral Share of CED Disbursements**



**FIG - 5 Sectoral Share of Cumulative MC Disbursements (1999 – 2007)**



Such a high growth in disbursements to female-focused partner organizations changed the profile of PPAF's beneficiary base in two important ways (Figure 3). Firstly, the gender gap in PPAF borrowers started shrinking in rural areas. Secondly, as most female-oriented partner organizations were running large operations in poor urban and semi-urban settlements, the hitherto predominant rural focus of PPAF microcredit operations began to shift. The fact that this burgeoning urban clientele was composed almost entirely of women living in some of the poorest quarters of big cities was a measure of PPAF's commitment to following a broad-based and poverty-targeted approach.

Shifting patterns visible in the sectoral share of microcredit disbursements over the past few years (Figure 4) were inextricably linked to above shifts in profile of PPAF loan beneficiaries. While the overall cross-regional increase in the ratio of female beneficiaries affected the share of livestock sector in particular, the growing urban-based loan portfolio reduced the combined share of agriculture and livestock sectors as a whole. On both counts, the share of small enterprises increased, reaching 40 percent and 39 percent in FYs 2005-6 and 2006-7 respectively. However, agriculture sector continued to account for well over one-third of PPAF's overall microcredit disbursements with approximately Rs. 6,228 million funds disbursed in cumulative terms (Figure 5).



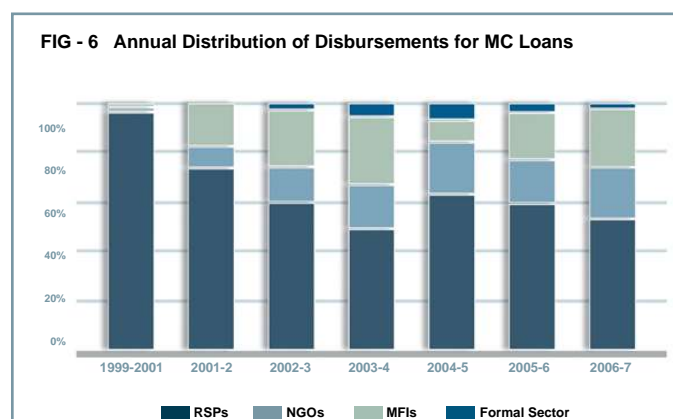
With an average loan size of approximately Rs. 12,200 and a cumulative outreach of 1.5 million loans, PPAF's microcredit facility tended to reach the poorest and the most excluded segments of society and accounted for an overwhelming share of PPAF's overall credit portfolio. However, the above core lending program did not meet the needs of the so-called 'missing middle', i.e. the relatively poor who were neither covered by civil society organizations' conventional poverty alleviation initiatives nor by formal sector financial institutions. PPAF's Enterprise Development Facility (EDF), initiated with the support of the United States Agency for International Development (USAID) in 2003, was designed to support the needs of this segment with loans ranging from Rs. 30,000 to Rs. 100,000. So far, over Rs. 371 million have been disbursed to six partner organizations under this facility with 4,662 borrowers (3,348 males and 1,314 females) availing the opportunity, mainly for local micro-businesses.

CED Unit follows strict criteria in distribution of funds to partner organizations, with particular emphasis on focused poverty-targeting and sustainability of interventions. The extent of funding to a partner organization is determined by the rationale of the proposal submitted, the strength of partner organizations' track record as well as absorption and debt service capacity of the organization.

By the end of the reporting period, CED Unit had entered into partnership with 39



partner organizations, of which 38 received funding in the current fiscal year. Although the Rural Support Programmes (RSPs) accounted for the bulk of PPAF disbursements for microcredit loans to the poor, the share of NGOs, Microfinance Institutions (MFIs) and a few formal sector financial institutions grew from a mere 2.86 percent in FYs 1999-2001 to 46.85 percent in FY 2006-7 (Figure 6).

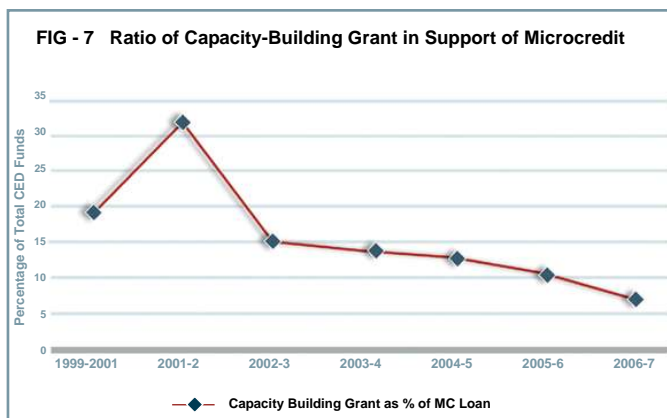


PPAF remained committed to strengthening institutional capacity and sustainability of partner organizations for better service delivery at grassroots

PPAF remained committed to strengthening the institutional capacity and sustainability of partner organizations for better service delivery at grassroots. In addition to working with partner organizations to formulating coherent, strategic and implementation plans, significant grant funding was dedicated towards meeting the operational, capital and training costs of partner organizations in support of their microcredit operations. Such grants were critical in providing an efficient institutional framework for the delivery of financial services to the poor and were proportionally reduced as PPAF partner organizations moved towards greater sustainability. The overall grant for capacity-building came down from 31.79 percent in 2001-2 to approximately 7 percent of disbursements for microcredit in FY 2006-7 (Figure 7).

Irrespective of the declining trend, smaller partner organizations continued to receive a much higher ratio of capacity-building grants in terms of their microcredit disbursements. The four smallest partner organizations, for instance, received capacity-building grants worth 43 percent of their collective microcredit disbursements until June 30, 2007. This was significantly higher than similar transfers to the four largest partner organizations (Table 1). As the smaller partner organizations achieved a greater measure of sustainability, the ratio of their capacity-building grant in support of microcredit operations was expected to decline correspondingly.

Building on the lessons learnt from the past,



CED Unit has introduced a comprehensive risk management framework to guide the process of resource allocation through timely identification of systemic and structural gaps within partner organizations. Simultaneously, PPAF is facilitating partner organizations in strengthening their social mobilization processes as necessary condition for minimizing portfolio risk. Through such concrete steps, PPAF seeks to ensure a more sustainable and cost-efficient microcredit service delivery at grassroots level in the years to come.

<b>Table I: Capacity Building Grant as Percentage of Microcredit Loan</b>							
	1999-2001	2001-2	2002-3	2003-4	2004-5	2005-6	2006-7
<b>4 Largest POs (Collective Overall CB Grant: 10.5 Percent)</b>							
NRSP	20.30	40.01	9.96	13.34	11.59	9.04	5.26
Kashf	10.74	0.00	3.54	6.89	2.40	4.31	2.02
TRDP	44.94	18.64	53.58	8.30	21.34	14.24	9.51
PRSP	-	30.45	17.54	9.84	22.32	14.23	13.49
<b>4 Smallest POs (Collective Overall CB Grant: 43 Percent)</b>							
STP	-	-	-	-	-	16.65	31.41
KWO	-	-	-	-	40.60	42.68	69.04
KK	-	69.34	100.60	301.35	40.46	49.97	17.71
Baidarie	-	-	-	-	-	36.51	44.07

### Box 2.1

#### Microfinance Innovation and Outreach Program

This program has been initiated by International Fund for Agricultural Development (IFAD). The US\$ 30.5 million program would support PPAF microfinance operations by creating a flexible funding facility for partner organizations to develop new financial products/services for rural areas. The project has four main components:

##### 1. Innovation and Outreach Facility

It offers allocation of grant versus credit resources on case to case basis for existing partner organizations of PPAF.

##### 2. Young Partner Program

This component has three main initiatives:

- *Young Partner Development Initiative* to enable organizations working in rural areas with potential to become serious microfinance providers.
- *International Linkage Partner Initiative* to identify young professional institutions and link them with renowned Microfinance Institutions (MFIs) for 9 months and provide them with credit line, technical and capacity-building assistance to establish MFIs in Pakistan.
- *Young Professional Scheme* to support young professionals from rural areas to join development sector.

##### 3. Support for Partner Organizations

This component aims at helping partner organizations work with program's cross-cutting themes. Funds will be available for training sessions, studies and technical support to help partner organizations understand themes and design their projects.

##### 4. Management Support

This component will provide incremental management resources to enable PPAF to take on added management load and responsibility.

## Community Physical Infrastructure

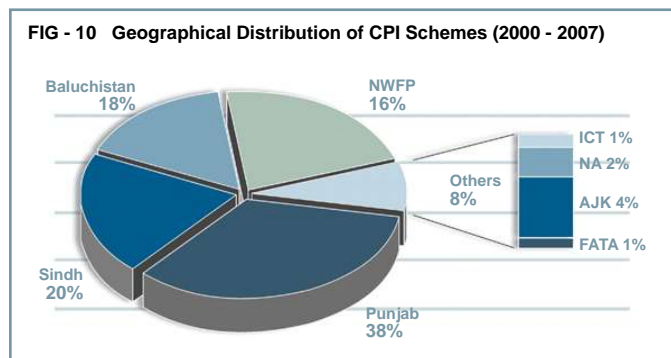
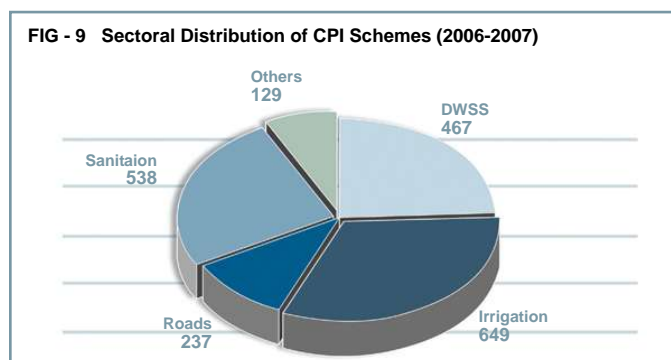
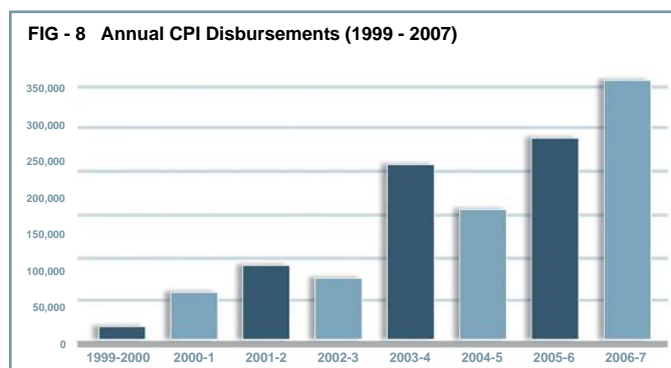


Provision of grants for development of rural infrastructure lies at the core of PPAF's poverty alleviation strategy. For effective utilization of these funds, Community Physical Infrastructure (CPI) Unit leads a participatory and demand-driven approach, and community ownership is secured through a cost-sharing mechanism with mobilized communities. The strategy has been successful in promoting both sustainability of interventions and community welfare at grassroots.

CPI Unit has, to date, transferred approximately Rs. 3.918 billion to participating communities through 44 partner organizations. In FY 2006-7 alone, a record sum of over Rs. 973.61 million was disbursed through 43 partner organizations (Figure 8). By June 2007, PPAF had financed over 13,498 infrastructure schemes, benefiting approximately 991,010 households in 110 districts including 4 tribal agencies. As in previous years, PPAF-financed infrastructure schemes in FY 2006-7 largely concentrated on three core sectors: drinking water supply (467 schemes), irrigation (649 schemes) and sanitation (538 schemes), which together accounted for over 82 percent of over 2,020 schemes initiated during the period (Figure 9).

CPI Unit operates on the principle of equitable geographical distribution of infrastructure schemes, with a focus on reaching the poor and marginalized communities. For this reason, the percentage share of rural Sindh, NWFP and

Baluchistan in terms of the number of CPI schemes has tended to be much higher than their percentage population share in the country (Figure 10). Further, distinctive needs and preferences of the poor communities living in different areas have been reflected in their varying sectoral shares across provinces (Table 2).





	Number of Projects / (%)				
	Punjab	Sindh	NWFP	Baluchistan	Others
DWSS	289 (5.7)	1,778 (66.6)	602 (27.2)	777 (32.6)	661 (58.9)
Irrigation	491 (48.7)	239 (8.9)	218 (9.8)	1,400 (58.8)	77 (6.9)
Roads/Bridges	698 (13.7)	307 (11.5)	330 (14.9)	37 (1.6)	262 (23.3)
Sanitation	1,521 (29.8)	262 (9.8)	883 (39.8)	96 (4.0)	66 (5.9)
Others	112 (2.2)	83 (3.1)	183 (8.2)	71 (3.7)	56 (5.0)
<b>Total</b>	<b>5,110</b> (100)	<b>2,669</b> (100)	<b>2,216</b> (100)	<b>2,381</b> (100)	<b>1,122</b> (100)

In rural Sindh, for instance, Drinking Water Supply Schemes (DWSS) have accounted for over 67 percent of 2,419 schemes initiated to date, a large number of which have been initiated with Thardeep Rural Development Programme (TRDP) to address community demands for safe drinking water in Thar Desert. In rural Punjab, on the other hand, participating communities have prioritized the irrigation sector, which accounts for 49 percent of over 5,000 infrastructure schemes initiated in the province.



Similarly, the impact of 1999-2002 drought in Baluchistan has been reflected in the prioritization of both the drinking water supply and irrigation sectors, which account for 33 percent and 59 percent of the interventions initiated to date in that province, respectively.

National Rural Support Programme (NRSP), with its country-wide coverage, has

remained PPAF's largest partner organization and accounts for over 23 percent of CPI funds disbursed to date. Similarly, TRDP and SAFWCO in Sindh, BRSP and TF in Baluchistan, and SRSP, PRSP and AKRSP in NWFP, Punjab, and the Northern Areas, have accounted for sizeable share in PPAF's CPI disbursements over the years (Table 3).

**Table 3: Geographical Distribution and Annual Disbursements of Top Eight CPI POs (1999-2007) Rupees in Millions**

PO	Area	99-01	2001-2	2002-3	2003-4	2004-5	2005-6	2006-7	Total
NRSP	National	152.8	109.6	41.4	176.1	163.6	133.8	215.1	992.4
SRSP	NWFP	27.1	125.0	58.8	126.5	29.7	107.8	132.0	607.0
PRSP	Punjab	0.0	37.4	45.0	174.9	90.1	68.0	141.2	556.5
AKRSP	NA	24.6	20.9	24.0	40.3	31.0	71.5	66.0	278.4
TF	Baluchistan	2.7	5.4	21.4	90.0	26.8	43.2	80.8	270.2
TRDP	Sindh	10.9	13.5	12.7	16.7	25.9	62.6	70.5	212.9
BRSP	Baluchistan	0.2	4.5	13.7	10.3	48.5	38.1	48.5	163.8
SAFWCC	Sindh	0.0	1.0	3.0	4.7	19.7	37.8	47.6	113.8
<b>Top 8 POs</b>	<b>Total Disbursements</b>	218.3	317.2	219.9	639.6	435.3	562.9	801.6	3194.8
	<b>% of overall CPI Disbursements</b>	99.24	98.36	82.97	83.48	75.83	63.33	70.52	76.55

Although the above eight partner organizations still account for the majority share of PPAF's cumulative CPI disbursements, their collective portion fell from over 98 percent in FY 2001-2 to approximately 70 percent in the current financial year. This reflected PPAF's effort to enroll new partner organizations from all parts of the country, with the aim of facilitating their growth into large and sustainable entities committed to PPAF's overarching objective of poverty alleviation.

Over the years, PPAF's community physical infrastructure program has moved towards a more holistic approach to infrastructure development. While low cost, stand-alone infrastructure projects continue to address specific requirements of communities at grassroots, the need for an integrated project design encompassing multiple interventions is increasingly being favoured in situations where isolated interventions

have been seen to have a limited impact on the lives and livelihoods of communities. Consequently, PPAF's Integrated Area Upgrading Program (IAUP) and Drought Mitigation and Preparedness Program (DMPP) have sought to implement a large number of spatially integrated interventions spread over comparatively larger areas. A typical Drought Mitigation and Preparedness Project (DMPP) includes over 130 conventional CPI projects/schemes in drought-hit areas, while an Integrated Area Upgrading Project on the average incorporates four to five such interventions. PPAF has planned to implement 4 DMP Projects and 125 IAU Projects. Of these, work on 4 DMPPs and 116 IAUPs has either been completed or is in progress.

Additionally, PPAF has introduced a number of technological innovations into the project preparation process as well as in project design. For instance, the use of remote

Over the years, PPAF's community physical infrastructure program has moved towards a more holistic approach to infrastructure development

PPAF has made conscious efforts to promote environment-friendly processes encompassing full scope of its infrastructure interventions

sensing and Geographical Information System (GIS) in the preparation of DMP projects has made planning and execution of such projects more efficient. Deliberate efforts are also underway to promote cleaner technologies such as micro-hydels, windmills and solar-operated water lifting systems. Simultaneously, PPAF has made conscious efforts to promote environment-friendly processes and designs encompassing the full scope of its infrastructure interventions. In this respect, a comprehensive environmental framework has been formulated as a guide for integrating environment-friendly practices into all infrastructure projects financed by PPAF.

In view of the qualitative and quantitative changes accompanying the evolution of PPAF's CPI program towards a more holistic and integrated approach, the program has been restructured to better meet the institutional requirements necessary to accommodate these changes. For better management and execution of the new initiatives, a separate unit – PPAF Water



Management Center (PWMC) – has been established to implement the entire spectrum of water-related interventions, with a special focus on isolated pockets of poverty in mountain, coastal and desert areas. The four-year financing plan of PWMC includes an indicative overall program cost of US \$ 37.256 million to be distributed amongst four program areas: Drought Mitigation and Preparedness projects, Small Hydel Power projects, Integrated Water Efficient Irrigation projects and the Sindh Coastal Area Development program (Table 4).

	Year I	Year II	Year III	Year IV	Total
Integrated Water Efficient Irrigation Projects	0.81	1.06	1.08	0.48	3.43
Small Hydel Power Projects	0.61	1.13	1.09	0.93	3.77
Drought Mitigation and Preparedness Projects	4.37	3.95	3.68	2.83	14.83
Sindh Coastal Area Development Program	1.75	5.00	5.00	3.42	15.17
Un-Allocated	0.02	0.02	0.02	0.02	0.06
<b>Total</b>	<b>7.56</b>	<b>11.15</b>	<b>10.87</b>	<b>7.67</b>	<b>37.26*</b>

\*Includes US\$ 19.305 million and US\$ 17.952 from USDA and WB funding respectively



PPAF's community physical infrastructure program, now run jointly by two separate and closely-knit units, has evolved into a technologically-efficient and environmentally-sound enterprise. Conceptually, the program is increasingly geared towards building synergies with a host of other poverty-focused interventions including healthcare, education and access to financial services.



### Box 3.1

#### PPAF Water Management Center

PPAF Water Management Center (PWMC) has been established as a central resource facility and a strategic program unit of Pakistan Poverty Alleviation Fund. PWMC is the first of its kind in Pakistan and has been set up with the support of the US Department of Agriculture (USDA).

The mission of the PWMC is to incorporate water-focused interventions aimed at reducing poverty and safeguarding against vulnerability related to water scarcity and /or water-related disasters.

PWMC harnesses technologies such as satellite imagery in service of poverty reduction activities and keeps an active synergy with national institutions such as Suparco, Geographical Survey of Pakistan and Metrological Department to address drought mitigation and water resource management in a holistic manner.

PWMC has employed its modern Geographical Information System capability and multi-disciplinary expertise in formulating national water management strategies, designing projects for implementation at local level and providing back-up professional support to partner organizations for implementing these projects.

The distinguished features of PWMC are strategic perspectives, local solutions, participatory processes, advanced technology applications, state-of-the-art Geographical Information System, 24 drought mitigation projects, 60 micro hydel projects and 750 water-efficient irrigation projects across the country.

# Human & Institutional Development



Human and Institutional Development (HID) Unit manages the capacity-building component of PPAF's programs. The Unit operates on the core assumption that strengthening the institutional and human resource base of partner organizations and participating communities will result in better service delivery and overall growth of participatory development framework at grassroots. Its multifaceted interventions throughout the country have led to extended outreach and better management in microcredit sector while helping mainstream marginalized communities in development decision-making processes.

Annual disbursements sanctioned by HID Unit increased from Rs. 392.54 million in FY 2005-6 to Rs. 450.87 million in the current financial year (Figure 11). Of overall HID funds disbursed in FY 2006-7, Rs. 366.18 (80 percent) were transferred to partner organizations for supporting the operational aspect (both recurring and non-recurring expenses) of delivering financial services to the poor while Rs. 84.694 million (20 percent) went into meeting their training requirements. Money disbursed under these heads facilitated partner organizations in expanding their coverage and outreach, while helping them improve their quality of service delivery at the same time.

HID Unit followed a rigorous schedule to oversee the progress of partner organizations through planned field visits; both for monitoring purposes and as follow ups of previous visits. During the current

financial year, 26 such monitoring and follow-up visits were conducted to different partner organizations. Additionally, 28 further visits were undertaken by HID staff to appraise needs and requirements of partner organizations as the basis for prospective grant allocations.

FIG - 11 Annual HID Disbursements (1999 - 2007)

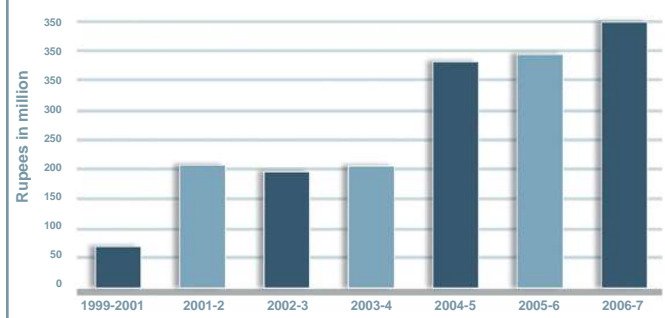


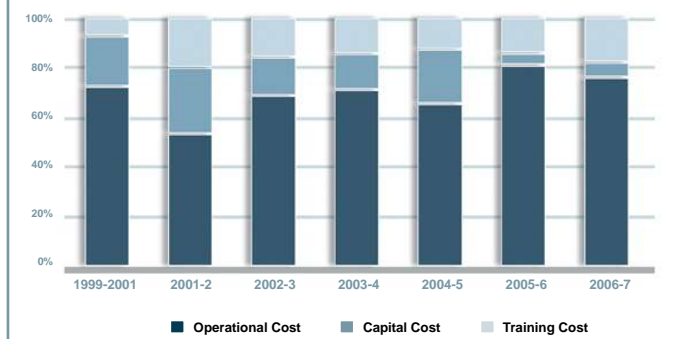
FIG - 12 Annual HID Disbursements by CB Category (1999 - 2007)



With a view to facilitating the long-term sustainability of its microcredit interventions, PPAF followed a policy of gradually decreasing funds allocated to partner organizations' microcredit operations. As the second phase of PPAF's World Bank-funded microcredit program neared its end,



**FIG - 13 Breakdown of CB Grant Funding**



this policy led to a fall in financing of non-recurring expenses of partner organizations while incremental increase in funds disbursed to meet partner organizations recurring expenses also leveled off (Figure 12). This policy was appropriately rationalized in terms of coping capacity, which usually varied with size, geographical spread and income-generating potential of each partner organization. Accordingly, partner organizations with a larger client base, better

income-generating potential in terms of interest-rate structures, and/or an urban focus, received lower capacity-building grants on average as a percentage of PPAF disbursements than partner organizations with a smaller number of active clients and/or a predominantly rural focus.

In order to support growing human resource requirements of the sector, HID Unit's disbursements for community and staff trainings recorded the highest annual growth rate in the current financial year, reaching Rs. 84.694 million or approximately 20 percent of annual Unit's disbursements, compared to Rs. 53.60 million (13.65 percent) in FY 2005-6 and Rs. 46.14 (12.18 percent) in FY 2004-5 (Figure 13).

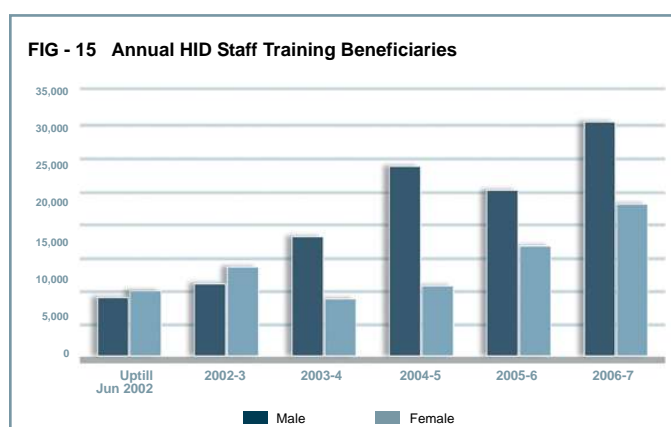
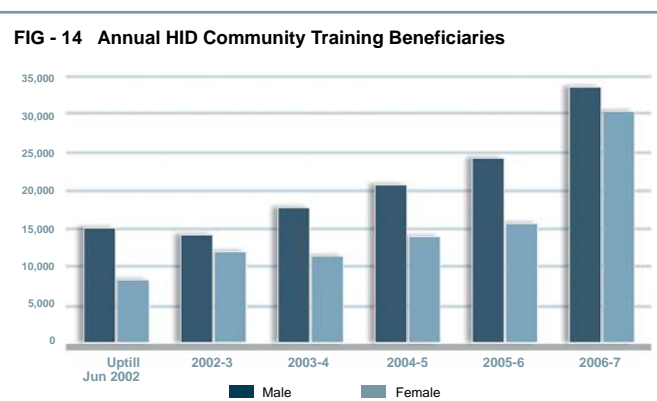
High growth in funds released for human resource development correspondingly led to a record number of training beneficiaries. In FY 2006-7, over 62,800 individuals at community level were trained under different categories including Enterprise Development and Vocational Skills Training. Additionally, PPAF's increasing focus on developing the productive skills of women was reflected in the high number of female beneficiaries, which constituted 47.5 percent of all community trainees – the highest percentage of women trainees in a financial year (Figure 14). HID Unit simultaneously put in place quality control measures to rectify gaps in PPAF-supported training programs. In FY 2006-7, follow-ups of 3,450 community trainees were carried out for this purpose.



In FY 2006-7, PPAF remained committed to providing financial resources for fulfilling the requisite staff needs of partner organizations. Simultaneously, it continued to pay particular attention to improving the quality of partner organizations staff for better and more efficient service-delivery at grassroots. For this purpose, HID Unit conducted regular staff training sessions for partner organizations where HID personnel as well as national and international consultants passed on crucial skills to partner organizations staff in fields ranging from community mobilization to a host of other technical subjects like credit appraisal, loan portfolio management, delinquency management and interest rate setting. In FY 2006-7 alone, a total of 2,319 staff members of partner organizations were trained in 210 sessions (Figure 15).

HID Unit is also engaged in capacity-building of both the partner organizations and communities. Apart from extending non-financial and technical assistance, HID Unit also provide technical facilitation in bringing improvement in social mobilization and capacity-building of communities through trainings to bring change in their lifestyles.

To assure quality and implementation of trainings at the community level, the Unit under take a follow-up of 3,400 beneficiaries in 2006-2007. HID has embarked upon making concrete efforts to improve utilization of community trainings and capacity-building intervention which would ultimately result in poverty alleviation



This exercise is aimed at assessing the gaps in different training programs in general and community management skills training, vocational skills training, enterprise development training, agriculture management training and livestock management training in particular. Regular follow-up and impact study assessment is a useful tool for future strategy formulation of training program for the organization. It is also a useful tool for the partner organizations to assess the gaps and loopholes in its program.

In the chain of assistance to other core programs of PPAF, HID Unit extends its technical facilitation in providing Management Information System (MIS) and System Reviews Development to its partner organizations.

To have clear policies, systems and procedures to follow, System Review/ Development is also essential for partner organizations. System Review/ Development facilitation provides the standard operations procedures (SOPs) to partner organizations.

As microcredit is the main package to be used for alleviating poverty, also exponential growth of PPAF partner organizations needs to be supported with MIS so that loan portfolio could be managed effectively and real time information could be assessed by PPAF partner organizations. MIS is also crucial for both the partner organizations and PPAF to manage microcredit effectively.

The above-mentioned training programs have played an important role in providing a skilled workforce to the microcredit sector. At the same time, high growth in the sector has led to a correspondingly high turnover of trained staff in partner organizations. HID Unit has sought to address this issue by providing a steady stream of skilled personnel through its internship and junior professionals (JP) programs. In FY 2006-7, four batches consisting of 32 internees completed HID internship program. The program included one month's rigorous training at Human and Institutional



Development Center (HIDC) run by HID Unit, followed by a three-month attachment period with a partner organization or an international NGO. Similarly, the JP program funded partner organizations for training young university graduates who could be inducted into junior posts after a six-month training period.

As PPAF funding accounts for a major share in the participatory development network at national level, HID Unit's role in developing performance and competency levels of its partner organizations has significantly contributed to overall growth in the sector. The potential for future growth is particularly manifest in PPAF's partner organizations, most of which have achieved sustainable service-delivery framework as a result of the Unit's support.

The Unit's role in developing performance and competency levels of its partner organizations has significantly contributed to overall growth in the sector

**Box 4.1****Third Microentrepreneurship Awards**

Third Micro-Entrepreneurship awards ceremony was organized by HID Unit in collaboration with the Citigroup Foundation in December 2006 to celebrate the efforts of successful entrepreneurs in microfinance sector. As a platform for highlighting best practices, the awards help in raising awareness regarding the potential of microfinance as a viable instrument in poverty alleviation.

From a total of 165 case studies received through different organizations, only 20 made it into the final round. These candidates, along with their credit officers, were interviewed by a panel of judges. The candidates were evaluated and assessed on the basis of their contribution in five areas: (i) economic success (ii) impact on family (iii) impact on community (iv) the magnitude of adverse circumstances faced by candidates and (v) creativity.

Altogether, 40 awards were distributed: two National Entrepreneurs and National Runners-up awards, each with cash prizes of Rs. 150,000 and Rs. 75,000 respectively; and four Regional Urban and four Regional Rural Entrepreneur awards with cash prizes of Rs. 100,000 each with runners-up in the last eight categories receiving Rs. 50,000 each. Additionally, four National Loan Recognition awards and 16 Regional Loan Recognition awards were given to loan officers, each with a cash prize of Rs. 20,000 and Rs. 15,000 respectively.

Out of these 40 awards, 28 went to PPAF beneficiaries and their loan officers, including the best National Entrepreneur Award (Male), two National Runners-up awards, all the four Best Regional Urban Entrepreneur awards and three of the four Best Regional Rural Entrepreneur awards.

## Health & Education





The Health and Education (H&E) Unit focuses on the provision of quality services to marginalized communities in primary education and healthcare. It was initiated as a response to the challenge of leading a holistic poverty alleviation program through effective synchronization of PPAF's diverse interventions, which already included microcredit, community infrastructure, institutional development, and skills enhancement for better livelihoods.

PPAF's growing investments in health and education sectors have led to a more comprehensive community empowerment approach, with particular emphasis on health and education of women and girls. In the last two years, PPAF-supported Community Health Centers (CHCs) provided a variety of curative health services to over

81,000 patients, 75 percent of whom were women. Similarly, the girl-child was prioritized as a special target group in education sector: girls account for 71 percent of the 8,610 new enrollments in PPAF-supported schools to date. By the end of the reporting year, PPAF had cumulatively disbursed over Rs. 100 million through 9 partner organizations in education sector and approximately Rs. 63 million in health sector through 10 partner organization (Table 5).

Almost all the allocations went to rural areas where health and education indicators, particularly with respect to women and girls, were well below the corresponding national averages. PPAF's partnership with CMDO, for instance, resulted in the establishment of 5 schools

PPAF's growing investments in the health and education sectors have led to a more comprehensive community empowerment approach

PO	Region	Schools		CHCs		Disbursements (PKR)		
		Pvt. Sector	Pub. Sector	Pvt. Sector	Pub. Sector	Education	Health	Total
AKPBSNA/Coast.	Sindh		3	4	1	1,851,417	10,362,293	12,213,710
CMDO	FATA	5		2		3,760,833	2,660,282	6,421,115
CUP	Rural NWFP	2				3,310,704		3,310,704
FPAP	Rural NWFP/Pun.			2			2,295,338	2,295,338
IR	Baluchistan				2		4,285,538	4,285,538
IRC	Rural Sindh	10				8,891,114		8,891,114
MGPO	AJK		2		1	48,350,293	13,400,400	61,750,693
NRSP	Rural Punjab	10	15	2		11,432,959	5,383,155	16,816,114
RCDS	Rural Punjab			2			4,208,193	4,508,193
SAFWCO	Rural Sindh	10		2		10,517,476	8,315,702	18,833,178
SOS	Rural Punjab	4	6	2		9,278,803	4,740,996	14,019,799
Sungi	Rural NWFP			2			7,110,623	7,110,623
TF	Baluchistan	2				3,100,510		3,100,510
<b>Total</b>		<b>43</b>	<b>26</b>	<b>18</b>	<b>4</b>	<b>100,494,109</b>	<b>63,062,520</b>	<b>163,556,629</b>



Unit has so far financed the establishment of 43 new schools while another 26 have been adopted from the public sector

and 2 community-based health centers in the deeply conservative Federally Administered Tribal Area (FATA), where gender segregation and impediments to girls' education are still strong. Similarly, in Sindh, where rural-urban disparities in literacy rates, infant mortality rates and incidences of diarrhea are higher than in most other parts of the country, PPAF's partnerships with AKPBS (Thatta), IRC (Jamshoro and Khairpur), and SAFWCO (Sanghar and Matiari) have resulted in the establishment/adoption of 23 schools and 3 CHCs, almost all in the rural areas.

H&E Unit has so far financed the establishment of 43 new schools while another 26 have been adopted from the public sector. In FY 2006-7, the Unit facilitated the establishment of 15 new education facilities in areas where such facilities were non-existent. In addition to establishing new schools, H&E Unit financed incremental improvements in the quality of existing facilities that had been

successfully adopted from the public sector. In the reporting year, 26 such schools were funded, resulting in marked improvements in infrastructure and staff quality.

Anticipating the problem of attracting top quality teaching staff to remote areas, the Unit prioritized the need to allocate significant funds for training the available local human resource. Further, in recognition of inadequacy of intermittent third-party staff training programs for the purpose, the Unit sought to introduce a more permanent solution by providing full-time and qualified trainers to partner organizations.

In keeping with PPAF's overall approach, effective quality control and community mobilization were prioritized as necessary components for sustainable interventions in education sector. PPAF-financed schools were encouraged from their inception to adopt a stringent monitoring framework that would ensure an ongoing system of feedback and reform. PPAF's partner organizations lead the monitoring effort while community-based education committees were empowered with the responsibility of looking into school affairs and identifying areas that needed improvement. This made school managers increasingly quality conscious and more accountable to communities. At the same time, the Unit facilitated capacity-building sessions for education committees to help them effectively under take their responsibilities. In the reporting year, 28 education committees were trained.

The Unit's health sector interventions developed within a similar framework as its education sector interventions. Community-based health committees, in coordination with implementing partner organizations, ensured participatory feedback mechanism with positive effects on quality of service. While most of PPAF-funded CHCs operate in private sector, the Unit successfully incorporated 3 public sector RHCs into the system as well, with improvement in quality of service delivery.

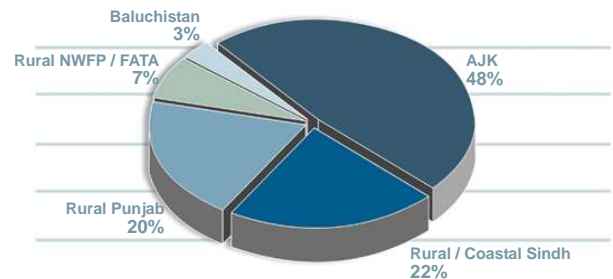
Such improvements were reflection of concerted training effort by PPAF and its partner organizations to capacitate CHC staff in provision of health services at grassroots. Training covered a wide array of interrelated subjects such as hygiene, counseling, mother-child and reproductive health, balanced-diet, family planning, communicable and non-communicable diseases, immunization, safe motherhood, infant care, etc. These, together with trainings imparted on administrative issues like planning, management, record-keeping, etc. went a long way in making PPAF-supported CHCs a quality healthcare service delivery system catering to the poor.

To make most of the limited financial resources, H&E Unit concentrated on provisioning resources for recurring expenses of schools and CHCs, which were housed in rented buildings (with the exception of those facilities that had been adopted from the public sector). However, in view of the need to reconstructing such facilities following the infrastructural damage caused by earthquake in AJK &

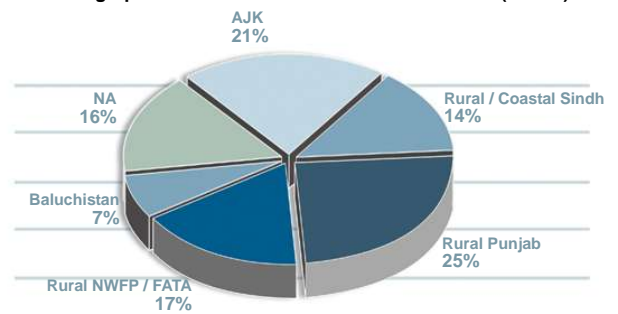
NWFP, PPAF took responsibility for reconstructing two schools and an RHC in District Muzaffarabad. In FY 2006-7, reconstruction of one Girl's High School in Chakothei was completed and it was opened by President General Pervez Musharraf on Oct 8, 2006. The second school has also been operationalized and will be inaugurated in October 2007.

Provisioning of reconstruction costs in AJK pushed up its percentage share in PPAF's H&E disbursements. AJK now accounts for 48 percent and 21 percent of overall PPAF H&E disbursements despite the fact that the region accounts for only 3 of 91 H&E facilities supported by PPAF (Figures 16 and 17).

**FIG - 16 Geographical Distribution of H&E Disbursements (Education)**



**FIG - 17 Geographical Distribution of H&E Disbursements (Health)**



## Reconstruction & Rehabilitation



Following the success of PPAF's Disaster Management Center in co-ordinating earthquake relief efforts in 2005, the Earthquake Reconstruction and Rehabilitation Authority (ERRA) of the Government of Pakistan chose PPAF as a key partner with the mandate to lead reconstruction efforts in 34 union councils of Azad Jammu and Kashmir and northern NWFP. To meet the challenge, Disaster Management Center was upscaled into a full-fledged Rehabilitation and Reconstruction (RnR) Unit. Initially the World Bank, and subsequently, IFAD, KfW and CECP extended much-needed financial resources to PPAF-led operations in the earthquake-affected areas.

While reconstruction of houses formed the major component of PPAF's RnR project, focus was also placed on long-term revival

of the affected communities by allocating significant funds for non-housing infrastructure, capacity-building and livelihoods.

An amount of over US\$ 227 million, constituting around 78 percent of funds at the Unit's disposal, was allocated for housing reconstruction. In keeping with ERRA guidelines, PPAF housing reconstruction subsidy amounted to Rs. 150,000 for each completely destroyed (CD) and Rs. 50,000 for each partially destroyed (PD) housing structure.

Development of basic non-housing infrastructure in the drinking water supply, communications, sanitation, health and education sectors was an important factor in strengthening support structures for sustainable revival of lives and livelihoods in the earthquake zone. The RnR project

In keeping with ERRA guidelines, PPAF housing reconstruction subsidy amounted to Rs.150,000 for each completely destroyed and Rs. 50,000 for each partially destroyed housing structure

Components	WB	IFAD	KfW	CECP	Total
Housing Reconstruction	198	17.51	11.67	-	227.18
CPI Rehabilitation	16	1.67	0.75	-	18.42
Community Buildings	4	-	-	-	4
Livestock Assets	-	3	-	-	3
Oper./Capital/Training Support (POs)	15	1.9	1.42	1.39*	19.71
Oper./Capital/Training Support (PPAF)	5	0.72	0.86	-	6.58
Consultancies	-	-	0.6	0.37	0.97
Contingencies	-	1.57	1.5	0.93	4
CHC(Operational/Capital Cost)	-	-	-	3.27	3.27
RHC (Operational/Capital Cost)	-	-	-	1.29	1.29
Schools (Operational/Capital Cost)	-	-	-	4.7	4.7
Branding of Schools & Health Units	-	-	-	0.06	0.06
<b>Total</b>	<b>238</b>	<b>26.37</b>	<b>16.8</b>	<b>12</b>	<b>293.17</b>

CHC: Community Health Center; RHC: Rural Health Center

\* A small portion of this amount will go to PPAF, the exact amount of which is still to be worked out between PPAF and its POs.





Under the IFAD-sponsored REACH project, an estimated 4,000 poor households have been earmarked for provision of one basic livestock unit

allocated US\$ 31.68 million for this purpose, approximately 11 percent of RnR funds, which included construction of 1,000 damaged infrastructure schemes, 200 community buildings and a number of health and education facilities. Construction of health and education facilities was undertaken with funding made available by the US Committee Encouraging Corporate Philanthropy (CECP) and involved reconstruction of 12 community health centers, 2 rural health centers, 4 secondary schools and 18 primary schools. Simultaneously, funds were allocated for restoration of livelihoods in the earthquake-affected zone. Economic well-being and survival for a large number of poor households, particularly in the upper valleys, was traditionally closely associated with livestock ownership. Under the IFAD-sponsored Restoration of Earthquake-Affected Communities and Households (REACH) project, an estimated 4,000 poor households were earmarked for provision of one 'basic livestock unit' (equivalent to one female cattle or buffalo), or a basic

herd of sheep and goats of an equivalent value. Households that had either lost livestock in earthquake or were amongst the poorest in the locality, were prioritized.

Keeping in view the operational difficulties associated with the nature of terrain in the earthquake-affected areas, as well as the unprecedented magnitude of the disaster, PPAF selected partner organizations and distributed responsibilities amongst them on the basis of organizational capacity and pre-earthquake operational presence in the region. Operational areas of the six partner organizations entrusted with the task of implementing the RnR project were accordingly assigned: Sarhad Rural Support Programme (15 union Councils), National Rural Support Programme (12 union councils), Islamic Relief (4 union councils), Women Welfare Organization Poonch (1 revenue village), Sungi Development Foundation (2 union councils) and Omar Asghar Khan Development Foundation (1 union council).

The share of funds allocated to each partner organization logically followed the need assessment conducted in each union council and the geographical expanse of the project area falling under each partner organization. Accordingly, NRSP received 75 percent of the disbursements in AJK while Sungi and OAKDF accounted for a 9 percent and 7 percent share respectively. A similar pattern was visible in NWFP, where SRSP received 84 percent of the funds disbursed, with Sungi and OAKDF accounting for 10 percent and 6 percent of RnR disbursements, respectively.

By June 2007, PPAF had disbursed over US\$147 million to seven partner organizations, with US\$138 million disbursed for housing reconstruction alone (Table 7). Additionally, approximately US\$3.65 million were transferred for infrastructure development and US\$5.4

hard earned. The damage assessment exercise carried out by 110 Social Mobilization Teams (SMTs) in adverse terrain and weather conditions was one of the most challenging aspects of RnR project. In the case of housing reconstruction, for instance, every household was documented

PO	Housing	CPI	Opr./Capital Cost	Training	Health	Total
NRSP	49,582,500	862,750	1,613,632	512,468	235,563	52,806,913
WWOP	681,667	510,383	915,877	21,037	-	2,128,963
IR	13,750,000	86,890	-	806,547	-	14,643,437
SRSP	63,205,833	815,242	708,366	108,774	-	64,838,215
OAKDF	4,249,792	196,392	181,462	140,823	-	4,768,468
SUNGI	6,723,016	269,448	15,006	442,130	-	7,449,601
MGPO	-	-	-	-	674,598	674,598
<b>Total</b>	<b>138,192,808</b>	<b>2,741,105</b>	<b>3,434,343</b>	<b>2,031,780</b>	<b>910,160</b>	<b>147,310,196</b>

	Disbursement to POs (USD)	Processed Cases			Disbursement to Affectees
		CD	PD	Total	
NRSP	49,582,500	34,678	1,983	36,661	45,000,000
WWOP	681,667	338	120	458	522,500
IR	13,750,000	10,564	160	10,724	13,338,333
SRSP	63,205,833	4 3,814	2,992	46,806	57,260,833
SUNGI	4,249,792	3,719	2,032	5,751	6,342,083
OAKDF	6,723,016	2,712	825	3,537	4,077,500
<b>Total</b>	<b>138,192,808</b>	<b>95,825</b>	<b>8,112</b>	<b>103,937</b>	<b>126,541,250</b>

million for meeting the operational and training costs of partner organizations Out of the funds disbursed for housing reconstruction, US\$ 126 million were transferred to over 103,000 households by the end of the current financial year (Table 8).

The above-mentioned achievements were

and the level of damage ascertained. Travelling at times by foot for hours to reach houses situated on mountain tops or in isolated valleys, the SMTs completed the damage assessment of more than 122,332 housing structures, placing each in one of three categories – Completely Destroyed (CD), Partially Destroyed (PD),

The damage assessment exercise carried out by Social Mobilization Teams in adverse terrain and weather conditions was one of the most challenging aspects of RnR project

and Non-Structural Destroyed (NSD) – on the basis of which funds were allocated. Additionally, every new house constructed was checked for compliance with guidelines issued by ERRRA for ensuring resistance to possible future earthquakes. For this purpose, partner organizations' staff, artisans and communities were trained and stringent monitoring processes put in place on the ground. All this was achieved within a reasonable time frame despite pressures from restless communities and local political leaders, which at times led to temporary breakdown in operations at a few locations, particularly at the time of damage assessment.

In order to equip SMT personnel with the requisite skills to make damage assessments, a total of 12 training workshops were conducted for 416 engineers and social mobilizers (Table 9). These were closely

coordinated by PPAF, partner organization staff and Emergency Architects (a French NGO). Additionally, a team from the National Society for Earthquake Technology (NSET) organized seven training events on construction-related skills for staff of partner organizations.

Training programs were run simultaneously for local skilled labour in the construction of seismically-safe housing units. Six training of trainers (TOT) sessions were conducted for craftsmen in collaboration with NSET, where 140 masons, 92 carpenters and 17 steel fixers received training on earthquake-resistant building techniques. These trainings were designed to familiarize participants with information-dissemination methodologies to help them transfer their acquired skills to communities. In their latter role, these trained craftsmen were hired to support employed engineers in SMTs during

A total of 12 training workshops were conducted for 416 engineers and social mobilizers

**Table 9: RnR Training Program**

Training Type	Events	Participants
Training of House Owners on Block Manufacturing	129	4843
Training of Engineers on Block Manufacturing	4	107
Training in Social Mobilization (CMSTS)	66	1593
Craftsmen Trainings	344	15,655
House Owners Orientation Sessions	1,061	74,042
Social Mobilization Trainings	7	176
Training of Engineers (Timber & Plinth Certification)	13	280
Training of Craftsmen in Timber Frame Construction	17	550
Training of Trainers of Craftsmen by NSET (TOT)	6	249
Training of Trainers Engineers/ Social Organizers (TOT) NSET	6	194
Damage Assessment Training by Emergency Architects & PPAF	12	416
<b>Total</b>	<b>1,665</b>	<b>98,105</b>



training sessions conducted for local craftsmen. So far, more than 15,655 skilled craftsmen have been trained in 344 training sessions in union councils allocated to PPAF.

While one SMT in each union council operated as a Craftsmen Training Unit (CTU), others functioned as Mobile Training Teams (MTT) with the responsibility of orienting house owners in safe housing reconstruction techniques at their doorstep. Each session conducted by a MTT was approximately four hours long and was attended by groups of 50-100 community participants at village level. So far, over 1,061 such session have been conducted.

The Unit's role in capacitating partner organizations staff and communities in earthquake-resistant building techniques has led to better preparedness at the community level for similar events in future. It has simultaneously increased competencies of local labor force and had a positive impact on the restoration of livelihoods. The latter objective has been further augmented through provisioning of livestock assets in selected target areas.

Successful implementation of RnR project and relief operations under Disaster Management Center in the immediate aftermath of October 8 earthquake can rightly be judged as one of PPAF's most challenging undertakings to date. The success of the project is a testament to the hard work put in by the staff of partner organizations and RnR Unit, cooperation received from the affected communities



and donor community's commitment to the cause.

PPAF's partner organizations following the Social Mobilization's basic principles of inclusion, cohesion and accountability have mobilized community members to form community organizations. 2,474 COs have been formed with cumulative membership of 78,263. Formation of community organizations is ongoing and community activists are receiving community management skills trainings in affected areas to take charge of their own development.

Since the project inception in March 2006 to June 2007, PPAF has disbursed Rs. 8,650.45 million to six partner organizations working on reconstruction and rehabilitation in 34 earthquake affected union councils. On completion of the damage assessment of 122,332 housing units, partner organizations in coordination with PPAF's regional teams have disbursed Rs. 7,470.97 to 102,280 beneficiaries for housing reconstruction.

So far, more than 15,655 skilled craftsmen have been trained in 344 training sessions in union councils allocated to PPAF

## Evaluation, Research & Development



Evaluation, Research and Development (ERD) Unit supports PPAF operations by collecting, consolidating, analyzing and eventually disseminating information on all PPAF-supported interventions to the PPAF Board of Directors, donors, Government of Pakistan and other stakeholders. Additionally, it strives to establish poverty-focused and result-based evaluative mechanisms, tools and standards within PPAF and its partner organizations.

In pursuit of the above-mentioned objectives, ERD Unit is in the process of developing a standard centralized database for all PPAF interventions, which will combine all PPAF data sets within a single comprehensive data source. Simultaneously, the Unit is developing modules for online data entry to expedite the process of data collection and dissemination. In its final form, the database will link five types of primary data on a regular basis: a) quarterly data of all infrastructure projects for each partner organization; b) quarterly data of all PPAF credit beneficiaries for each partner organization; c) quarterly data of all PPAF staff and community trainings; d) quarterly data of all health and education interventions for each partner organization; and e) socio-economic profiles of a sample of PPAF credit beneficiaries and infrastructure projects.

In FY 2006-7, the Unit continued efforts to institutionalize the standardised process of data storage and processing within PPAF partner organizations. These efforts included consultative workshops with senior

management of partner organizations, training sessions for designated partner organization staff, as well as troubleshooting and follow-up visits involving hands-on training sessions and capacity-building of social organizers in the administration of survey tools. While installation and troubleshooting visits for the standardized database software helped strengthen partner organization staff capacity, constant interaction between ERD Unit and partner organization staff also led to debugging and fine tuning of the software.

During the current financial year, software installation and training were completed for selected partner organizations in the Baluchistan and Lahore regions. A three-day training session on the collection, handling and entry of data for the relevant staff of six partner organizations in Baluchistan was successfully conducted at the Baluchistan Rural Support Programme's premises in Quetta. A similar exercise was conducted in Social Action Programme Pakistan (SAP-PK) office for the staff of four partner organizations in Lahore region. Simultaneously, 50 sets of the software along with installation manuals were couriered to partner organizations located in Punjab, NWFP and the Northern Areas with visits for back up and support, if required.

The process had its challenges. Several issues were identified as key constraints in successful operationalization of the process at partner organization level. These

The Unit is in the process of developing a standard centralized database for all PPAF interventions, which will combine all PPAF data sets within a single comprehensive data source



The Unit plays a vital role in deepening PPAF's understanding of poverty as well as in guiding the program's focus towards implementing better targeting methodologies

constraints included demands by partner organizations for greater operational support and lack of mandatory in-house skill-sharing mechanisms, which was accentuated further by high turnover of Monitoring and Evaluation (M&E) staff in several organizations. In view of the extraordinary cost implications tied to provisioning of additional operational funds for all partner organizations, ERD Unit adopted a phased approach wherein ERD staff would closely coordinate with ten largest partner organizations in terms of PPAF CPI disbursements for generating a set of socio-economic baseline reports at initial stage. The process of hiring enumerators and data entry operators for the exercise has been initiated.

In the reporting year, ERD Unit collected two sets of baseline data in PPAF project areas, i.e. Soon Valley (District Khushab) and earthquake-hit areas. Baseline socio-economic data of 660 households in earthquake zone, covering 11 union

councils in Abbotabad, Mansehra, Battagram, Bagh and Poonch, were collected by a team of enumerators led by an ERD team (Box 7.1). Questionnaires were administered to a sample of 30 households each in 2 villages of every selected union council. Additionally, village-level information was collected from key informants in every village. A first draft of the report has been compiled. A similar baseline survey in five sample villages was conducted in Soon Valley where PPAF had provided funds for a Drought Mitigation and Preparedness Project.

ERD Unit plays a vital role in deepening PPAF's understanding of poverty as well as in guiding the program's focus towards implementing better targeting methodologies. In this regard, centralized database is expected to deliver useful results in future. Socio-economic profiles of a representative sample of beneficiaries for each intervention category will provide a resource to assess impact of PPAF initiatives in the long run. Simultaneously, successful institutionalization of the process within each PPAF partner organization will help plug gaps in poverty mapping, while consequently facilitating better targeting methodologies at the grassroots. Further, the rich resource of socio-economic data at community and household level in PPAF project areas spread over a hundred districts will help in mitigating data deficiencies at the national level for analysts working in a variety of research fields.



**Box 7.1****Baseline Survey of PPAF's RnR Project**

An ERD team, together with a group of enumerators, completed a baseline survey in earthquake-affected areas of NWFP and AJK. The sample included Abbotabad, Mansehra and Battagram districts of NWFP, and Bagh and Poonch districts of AJK. Questionnaires were administered to a sample of 30 households each in 2 villages of every selected union council in the sample. Villages were selected on the basis of their proximity to and distance from the main access road by including one nearby and one distant village in each union council. Further, village level information was collected from key informants in every village. Following is the sampling plan of the survey:

PO	District	Union Council	Villages	House Holds
Sungi	Abbotabad	Boi	Dhanni (Near)	30
			Tori Shareef (Far)	30
SRSP	Mansehra	Satbani	Pattang (N)	30
			Satbani (F)	30
		Bhogarhmang	Dadar (N)	30
			Granthali (F)	30
		Hillkot	Hill Kot (N)	30
			Sattan Gali (F)	30
	Battagram	Peshora	Peshora (N)	30
			Lundai (F)	30
		Pashto	Pashto (F)	30
			Jhangri (F)	30
NRSP	Bagh	Bir Pani	Bir Pani (N)	30
			Kotla Jabar (F)	30
		Thub	Ghaniabad (N)	30
			Bhati Sharif (F)	30
	Poonch	Pakhar	Rhair Bai (N)	30
			Dana No. 4	30
Dhamni	Dharaik (N)	30		
	Tarappi (F)	30		
Islamic Relief	Bagh	Nar Sher Khan	Maharrian	30
			Kola lohar Baila	30
<b>Total</b>				<b>660</b>

## Media & Communication





As the largest indigenous, non-profit organization working for poverty alleviation at the grassroots in Pakistan, it is important that PPAF's vision and objectives be understood by all relevant parties. Media and Communication (M&C) Unit leads this effort by promoting PPAF's message, with the overall aim of spreading awareness at governmental, non-governmental and community levels.

The Unit contributes to the debate at grassroots development by publishing substantive literature involving reports, brochures, newsletters, manuals, flyers and fact-sheets covering various aspects of PPAF's activities and programs. 'Povertyline', a quarterly newsletter highlighting PPAF's activities and poverty-focused issues in general has become a regular feature of the Unit's publishing activities. In the current financial year, the Unit also published two manuals; one on Management Information Systems (MIS) and a second on social mobilization for trainers and communities. Simultaneously, the Unit published case studies to promote best practices in participatory development and to give voice to the experiences and needs of marginalized communities.

Such initiatives helped PPAF keep stakeholders, including communities and partner organizations, abreast of new developments with respect to the organization's program, growth and future direction. The Unit's close coordination with mainstream print and electronic media

formed a crucial bridge in this respect. In the current financial year, the Unit continued with its mission of delivering PPAF's message to a wider audience by arranging interviews of senior PPAF officials on leading television channels. It also took the lead in presenting Nobel Laureate, Professor Muhammad Yunus, to the nation by arranging for a special televised appearance and a widely acclaimed feature on his life and achievements.

In support of PPAF's Reconstruction and Rehabilitation (RnR) project in earthquake zone, the Unit launched a new radio program as an additional forum for educating affected communities in building earthquake-resistant housing structures in accordance with guidelines issued by the Earthquake Reconstruction and Rehabilitation Authority (ERRA). The program drew a large audience and went a long way in clearing lingering doubts and confusions on a number of important issues regarding housing reconstruction in earthquake-hit areas. Similarly, a three-part series of morale-boosting documentaries were produced to salute the will and courage of people who had suffered disabilities in October 8, 2005 earthquake. Based on real life stories, the documentaries were shot in AJK and NWFP.

The M&C Unit also holds the responsibility of supporting program Units in arranging events and activities on a wider scale involving media workshops. To this end, the Unit participated actively in arranging workshop

The Unit contributes to the debate by publishing literature covering various aspects of PPAF's activities and programs



on social mobilization in January 2007 in which national and international speakers participated.

To give first hand chance to print and electronic media to witness the impact of PPAF interventions, media visits for journalists were arranged to randomly selected locations in earthquake zone. Similar visits were also arranged to other locations with interventions covering different aspects of PPAF programs. Recognizing the importance of social mobilization as the central theme of PPAF's developmental strategy, the Unit subsequently took the initiative of integrating Interactive Theater as a useful instrument in strengthening the process. This aimed at encouraging community members to discuss important issues through active participation.

In presenting PPAF to the world, the Media and Communication Unit has been devoted to advocating the cause of participatory

development. More importantly, it does not conceptualize its work as aimed at crafting an unqualified eulogy to PPAF.

The M&C Unit plays a vital role in keeping all the stakeholders abreast of day-to-day developments in the PPAF programs across the country. The Unit brings out leaflets, brochures, booklets and other relevant and support materials to provide first hand knowledge to all the concerned.

Improving the image of the Company is among the top priorities of the Unit and it is done through publishing features articles and news items in the leading newspapers of the country and arranging interviews of the PPAF high officials at popular national and international television channels. But, during all this exercise, balance is always maintained in the projection of PPAF activities in all national and international newspapers and hookups.

Most publications, including case studies and reports, incorporate empirically verifiable claims substantiated mostly by independent third party assessments. M&C Unit's close coordination with ERD Unit further facilitates objective representation of PPAF's achievements. All this has contributed to establishing the Unit's credibility, which it resolves to maintain in the years to come.

**Box 8.1****Baatain Chacha Danish Ki**

## PPAF New Radio Program

PPAF launched a new radio program “*Baatain Chacha Danish Ki*” in May 2007. The program aimed at providing reconstruction guidelines outlined by ERRA to all those engaged in housing reconstruction in earthquake-affected areas of AJK and NWFP.

“*Baatain Chacha Danish Ki*” was a part of PPAF awareness raising initiatives that helped people understand importance of rebuilding houses that could withstand earthquake of intensity similar to the one that jolted the area on October 8, 2005.

The 15 minute radio feature provided entertainment along with useful information on issues and problems that the target group came across while going through the reconstruction phase. The lead character – *Chacha Danish* – addressed variety of issues associated with reconstructing seismically-safe housing units in simple but captivating style of discussion. The program covered issues ranging from selection of a suitable site to purchasing quality building material and choosing the right building design to adopting an architectural technique most suited to the terrain where reconstruction was to be carried out.

The script of each episode was prepared after consulting the ERRA guidelines as well as PPAF executives, experts, engineers, architects and Government of Pakistan and ERRA officials working on the assignment. Every measure was taken to provide precise, useful, correct and comprehensible information to earthquake affectees so that they could rebuild seismically-safe houses.

The effectiveness and popularity of the program can be gauged from the fact that a large number of program listeners made telephone calls and sent letters with queries regarding technically safe construction in the hilly areas. *Chacha Danish* – the popular character – addressed these queries effectively.

The radio program, comprising 13 episodes, covered vast terrains of AJK and parts of the NWFP. The program was aired regularly from Radio Buraq FM 104, FM 100 and Radio Pakistan.

# Human Resource, Procurement & Administration





Human Resource, Procurement and Administration Unit strives to sustain professionalism through efficient human resource management policies covering recruitment, selection, grievance handling, training and performance management. It further seeks to provide an enabling work environment through timely logistical support and efficient management of facilities.

During the current financial year, 61 new personnel were inducted to manage growing operations of the organization. Further, the Unit facilitated the temporary induction of 10 internees in line with PPAF's policy of providing young people with the opportunity to amass relevant work experience in development sector. This was in addition to regular internship program run by HID Unit.

The Unit is responsible for the procurement of all goods and services on the request of various PPAF units and staff. All procurements are made in a transparent manner under the rules and regulations set out in the donor specific guidelines and Standard Procurement Procedures of the PPAF. During the current financial year, 271 cases of goods procurement were processed on the basis of need, as assessed by various units. Similarly, 55 consultancy assignments were contracted out after a thorough examination of consultant credentials and experience in accordance with prescribed procedures.

PPAF has through the years made generous contributions to developing staff

competencies by providing the best on-the-job training opportunities for its employees in some of the best national and international training institutions available. In the current financial year, seven PPAF staff members were sent abroad to attend much sought after training programs at JFK School, Harvard, Boulder Microfinance Program, International Water Management Institute, Administrative Staff College of India, Amsterdam Institute of Finance and AUS-HS Australia, while another 26 employees were financed to attend various national-level training courses. Additionally, ten staff members were sent on exposure visits to different countries for collecting first-hand knowledge of successful poverty alleviation programs.

Human Resource, Procurement and Administration Unit facilitates an enabling work environment so as to create better job satisfaction for all its employees. From logistical support for offices in Islamabad as well as for conducting all field activities to orientation sessions and grievance handling, the Unit has demonstrated valuable administrative, resource management and conflict resolution skills.

Keeping the staff informed of all rules and regulations also falls within the purview of the Unit's operational responsibilities. At the same time, the Unit plays an important role in ensuring a competitive work environment through a well-designed incentive structure including regular salary increments and a performance-based promotion system.

All procurements are made in a transparent manner under the set rules and regulations

# Internal Audit





As an independent channel of information working directly under the Chief Executive, the Internal Audit Unit (IAU) performs the important task of ensuring adherence to agreed-upon standards of financial management, information disclosure and quality control within PPAF and its partner organizations.

In pursuit of these objectives, the Unit follows a carefully organized annual work plan which includes an ongoing and phased audit schedule. Within PPAF, the Unit has the responsibility of reviewing all financial transactions and procurements, in addition to physically verifying all organizational assets. Such exercises simultaneously feed into the Unit's advisory role, with the overall objective of strengthening the organization's internal control systems while structuring them to meet established standards of transparency.

PPAF's recognition of the need to maintain high corporate standards is reflected in the IAU's growth, both in terms of manpower and scope of activity. In the current financial year, three additional staff members were recruited to cope with the Unit's increasing workload. Additionally, the Unit was further strengthened when the Board of Directors appointed a three-member audit committee under the chairmanship of Mr. Mueen Afzal for quarterly review of PPAF's financial status, with IAU playing a vital role in the process.

As part of its regular in-house activities, the Unit submitted twelve monthly audit

reports to the Chief Executive in the current financial year. These reports furnished real time assessment of problems and suggested remedies to plug all existing and foreseeable gaps in the organization's internal control systems. On the basis of the Unit's recommendations, immediate action was taken to improve procedural mechanisms in procurement verification, logistics, documentation and asset control systems.

A major part of the Unit's responsibilities specifically deal with ensuring similar procedural and managerial efficiency within partner organizations. In this capacity, the Unit strives to equip partner organizations with requisite knowledge and skills for better adherence to required standards in financial and management structures, while facilitating their steady progression into viable and sustainable entities.

During the year under review, the Unit undertook audit visits to 31 partner organizations. The visiting staff provided each partner organization with comprehensive guidelines on various procedural and structural issues. Bolstered by the increase in staff members, the Unit has planned audit visits to all PPAF partner organizations in the next financial year. With a comprehensive systems review of all PPAF operational units also planned for next financial year, the Unit is fast realizing its full potential, of which tremendous benefits are expected to accrue to PPAF in the long run.

A major part of Unit's responsibilities specifically deal with ensuring similar procedural efficiency within partner organizations

## Finance & 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 F&A Unit maintain the highest standards of financial management. In the conduct of its routine business, the Unit strictly follows standard operating procedures laid out in a comprehensive operational manual, developed to ensure high standards of financial management.

The Unit ensures compliance with the regulations of Securities and Exchange Commission of Pakistan and covenants stipulated in agreements signed with all parties, including the Government of Pakistan and donors, i.e. the World Bank (WB), US Agency for International Development (USAID), US Department of Agriculture (USDA), International Fund for Agricultural Development (IFAD), KfW Development Bank (Germany) and US Committee Encouraging Corporate Philanthropy (CECP).

F&A Unit works closely with other operational and support units of the PPAF in order to ensure adherence to due process and facilitate funding. The activities of the Unit are carried out in an automated computerized environment through customized software dedicated to PPAF requirements. A comprehensive manual for financial management has been developed

which governs the work processes of the Unit. Books of accounts are being kept in accordance with the statutory requirements and agreements with GoP and donors. All documentary records and transactions are subjected to strict scrutiny by independent internal and external auditors, as well as by the supervision missions of the different donors.

The Unit places a high priority on completeness, true and fair presentation and timely issuing of its periodic financial statements and other financial and non-financial information for management, donors and stakeholders. The relevant internal reports are submitted to management on a 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, donors' specific periodic reports and audited financial statements are submitted on timely basis.

Operations of PPAF for the year ended June 30, 2007 were audited by its external auditors Messers Ford Rhodes Sidat Hyder & Co., Chartered Accountants. The external auditors furnished unqualified opinions that financial affairs of the company were being conducted in accordance with approved accounting standards and requirements of Companies Ordinance 1984; financial statements prepared by the management present true and fair view of

The Unit works closely with other operational and support units of PPAF in order to ensure adherence to due process and facilitate funding

The Unit looks after the corporate affairs of PPAF and is committed to high standards of corporate governance

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. Field visits form an integral part of the audit exercise. The audited financial statements alongwith Auditors' and Directors' Reports for the year 2007 were finalized and got approved from the Board of Directors within two and a half months of close of the financial year.

In addition to preparing the financial statements as per statutory requirement, the Unit also prepared separate financial statements of the WB, IFAD, and KfW Projects for the year ended June, 30, 2007 and had these audited from its external auditors. The external auditors issued un-qualified reports in respect of donors' specific financial statements. The Board of Directors also approved these financial statements

Disbursements to PPAF under the WB Projects were on the basis of Financial Monitoring Reports (FMRs). This report based disbursement is allowed only to those institutions that have effective systems and procedures. In view of PPAF's strong financial management systems, the IFAD also approved FMR based disbursements for its projects. The IFAD appointed WB as "Cooperating Institution" for its Microfinance Innovation and Outreach Program and Project for Restoration of Earthquake-Affected Households and Communities. By virtue of this, the

monitoring and review of these projects rested with WB.

All the FMRs and withdrawal applications related to WB as well as IFAD projects were submitted in time. These were reviewed by WB and 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 January 2007 reaffirmed the existence of effective controls, while appreciating the timely submission of audited financial statements and quarterly FMRs.

As a result of combined efforts of F&A team and PPAF tax advisors, the Central Board of Revenue granted renewal of approval to PPAF for the next two tax years (i.e. upto June 30, 2008) as "Welfare Institution" for the purpose of clause 58 of Part I of the Second Schedule to the Income Tax Ordinance, 2001.

For carrying out necessary rehabilitation and reconstruction program, PPAF was approved/committed financial resources of US\$ 143 million by WB grant during the reporting year. This included funding of US\$ 138 million for housing subsidy and US\$ 5 million for earthquake disability project.

The F&A Unit was actively involved in negotiations for these projects and finalizing legal as well as financial modalities. All

conditions precedent to project effectiveness were met in time and on completion of necessary formalities, these projects were declared effective in June 2007.

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 obligations 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 evidencing statutory meetings and other formal requirements are being maintained while reports to the Securities and Exchange Commission of Pakistan are submitted well in time.

The Unit draws its strength from a well-coordinated operational structure with clearly defined spheres of responsibility amongst a qualified and dedicated staff. The latter are facilitated by customized software applications, fine tuned to the specific requirements of the Unit. Timely, accurate and transparent execution of all activities and responsibilities have thus become a hallmark of the Unit. The F&A Unit also plays an active part in monitoring the financial flows to the partner organizations and also ensures that they are observing the legal covenants. The Unit also gets the audited financial statements from all its partner organizations within six months of close of their financial year. The

partner organizations are also required to submit management letter issued by their external auditors. The financial statements and management letters are reviewed by F&A Unit and necessary actions are taken accordingly.

The F&A Unit is committed to the best practices set out in the code of corporate governance. This is reflected in all activities, systems, and procedures. In the current financial year, the Unit reaffirmed its capacity as an able financial manager with a penchant for efficiency and transparency. Keeping this tradition alive will be the Unit's main priority in the next financial year.



## Directors' Report





The Board of Directors of Pakistan Poverty Alleviation Fund (PPAF) is pleased to present the seventh Annual Report along with the audited financial statements of the Company for the year ended June 30, 2007.

During the year, PPAF continued to build on the growth it achieved in the previous years and was successful in addressing the needs of the poor by following a strategy that engages diverse instruments for effective delivery and impact. Its integrated approach focusing on provision of credit, infrastructure, health, education and skill development addressed the many facets of poverty and worked towards reducing vulnerability, especially for women. The benefits of PPAF interventions have been equitably distributed across all regions of the country. The Company has helped in raising awareness, creating social capital and engineered the basis for a long term development process with the participation of disadvantaged people of Pakistan.

During the period under review, PPAF was actively involved in rehabilitation and reconstruction operations, on a major scale, in the earthquake affected areas. PPAF in close coordination with Earthquake Reconstruction and Rehabilitation Authority (ERRA) continued its multi-pronged strategy for the restoration of lives and livelihoods, which has involved reconstruction of 122,000 housing units; rehabilitation of 1,200 community infrastructure schemes and training of over 100,000 individuals on large scale in the earthquake affected 34 union councils of NWFP and AJK. PPAF

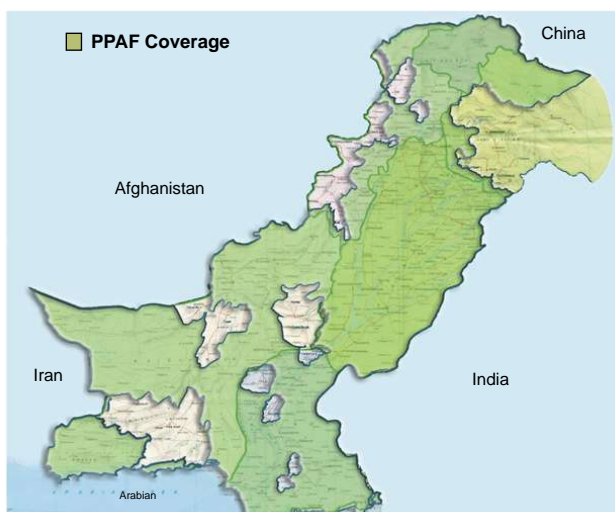
remained consistent with its policy of incorporating participatory development and community mobilization as the cornerstones of its overall strategy. Its rehabilitation and reconstruction program was guided by two fundamental objectives (i) assist people in rebuilding their lives by providing safe and better housing and restoring basic infrastructure services through a community driven approach (ii) build capacities of affectees with the purpose of enabling them to take control of their lives on a sustainable basis.

PPAF also maintained impressive progress with respect to specific deliverables, for each of its core components of credit and enterprise development; community physical infrastructure; education; health; and capacity-building in the broader context of poverty alleviation.

PPAF has effectively enhanced the retail capacity in the country where the poor have had very limited access to resources. It has raised the standards of civil society organizations to higher levels of social responsibility, economic discipline and institutional management. These are essential ingredients for sustainable development. PPAF has been particularly successful in its vision of institutionalizing and professionalizing its partners that helped in graduating a number of small and emerging organizations and taking them to scale. With the support of PPAF, appropriate capacities have been built within the partner organization and their

communities. An excellent track record has also been set in use of donors' resources both in terms of quality and rate of utilization.

PPAF performance and achievements were recognized by the World Bank Mission that conducted supervision of Second Project in January 2007. The Mission reviewed overall project progress and assessed whether PPAF was meeting its development objectives. The Mission affirmed that the Second PPAF Project was on track, partnering with the right kind of institutions to achieve its development objective, and was meeting and in some instances even exceeded its disbursement and outreach targets set at appraisal.



By the end of June 2007, PPAF had formed over 60,000 community organizations and its funding had been equitably disbursed in urban and rural areas of 111 districts of

the country through 70 partner organizations of which 10 were focusing exclusively or predominantly on women. On cumulative basis, PPAF financed 1,513,000 microcredit loans, of which 664,400 (44%) were to women. Over 14,900 infrastructure projects were initiated and 206,000 staff and community members were trained.

PPAF financial and non-financial services are estimated to have, on a cumulative basis, benefited (directly or indirectly) over 9 million individuals from its credit program and over 6.5 million individuals from infrastructure, health and education interventions, across the country.

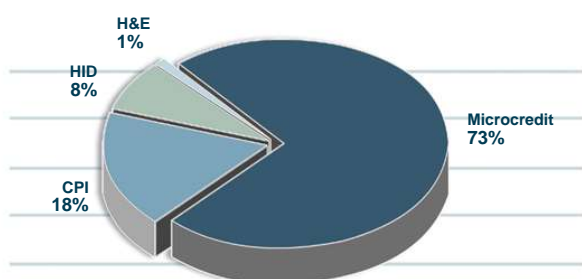
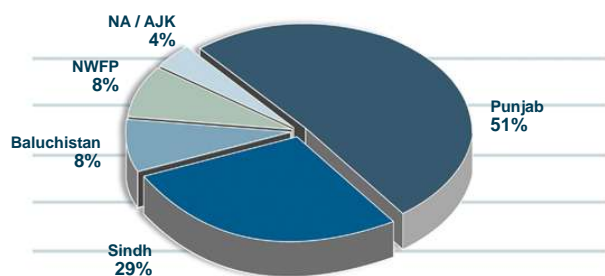
### Operational and Financial Results

During the year, the Company achieved record operational results that further strengthened its financial position. PPAF has been able to maintain steady progress in all aspects of its operations.

Total disbursements for core operations during year were Rs. 7,882 million compared to Rs. 5,077 million in the preceding year, indicating an increase of 55%. Loan (microcredit and enterprise development facility) disbursements were Rs 6,228 million as compared to Rs 3,705 million; infrastructure disbursements were Rs 1,127 million as compared to Rs 887 million; capacity-building disbursements were Rs 451 million against Rs 398 million and disbursements for education and health were Rs 76 million as against Rs 87 million

**Table 10: Disbursements – Core Operations**

	Rs. in million		%
	2007	2006	Variance
Loans	6,228	3,705	+ 68
Infrastructure	1,127	887	+ 27
Capacity building grants	451	398	+ 13
Health / education grants	76	87	- 13
Total	7,882	5,077	+ 55

**FIG - 18 Share of Funds Disbursed - Core Operations****FIG - 19 Provincial Distribution of Funds - Core Operations**

during the preceding year (Table 11). In addition, Rs 7,924 million was disbursed during the year for relief, rehabilitation and reconstruction operations in earthquake-affected areas.

By the end of June 2007, cumulative disbursements for core operations crossed the Rs 22 billion mark and stood at Rs 22,898 million. Credit and enterprise development, the largest component of the PPAF, accounted for 73% of total disbursements followed by community physical infrastructure (18%); capacity-building assistance (8%); and health & education had a share of 1% (Figure 18).

The cumulative disbursements as on June 30, 2007 for relief, rehabilitation and reconstruction activities were Rs 9,080 million.

PPAF interventions are being carried out in all parts of the country. Provincial distribution of funding under the mainstream programs remained consistent with previous allocations: 51% of the resources deployed in Punjab, 29% in Sindh, 8% each in NWFP and Baluchistan and 4% in Northern Areas/AJK (Figure 19).

The total amount of endowment fund increased by Rs 200 million to Rs 1,000 million due to receipt of the final installment of Government of Pakistan contribution.

During the year, PPAF received a grant of Rs 878 million from Government of Pakistan in respect of U.S. Department of Agriculture

(USDA) project. With this release, the total amount committed for the project i.e. Rs 1,518 million has been received.

The Central Board of Revenue vide its notification C.No. 1(8)SS(A/ITR)/05 dated June 30, 2006 has renewed approval of PPAF as welfare organization for the purpose of clause 58 of Part I of the Second Schedule to the Income Tax Ordinance, 2001. After making the necessary tax provisions, the cumulative savings for the Company upto June 30, 2007, as a consequence of exemption from levy of tax, was around Rs 550 million.

PPAF has fully utilized the World Bank funds allocated for microcredit component under the second project and is meeting its obligations through its own reserves built up from repayments received from partner organizations.

Total Company's net assets (total assets less current liabilities) on June 30, 2007 crossed Rs 18 billion mark and stood at Rs 18,391 million against Rs 13,156 million as at June 30, 2006 – an increase of 40%. Similarly loans receivable from partner organizations were Rs 5,816 million as against Rs 4,120 million as at June 30, 2006. PPAF continued to maintain 100% recovery rate in respect of its lending operations.

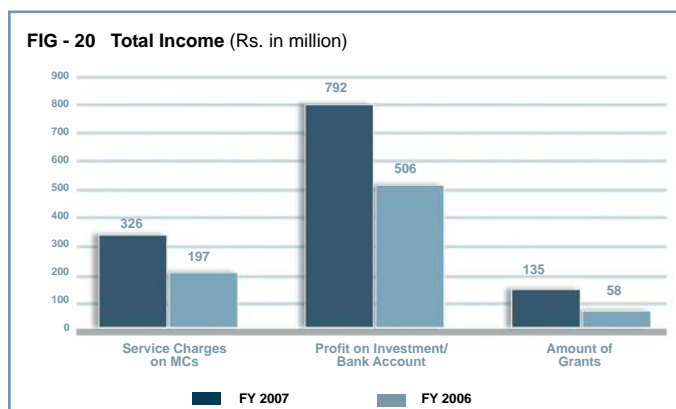
Total income generated during the year was Rs 1,255 million compared to Rs 763 million last year – an increase of 64%. Service charges on loan to partner organizations increased by 65% due to

high credit disbursements. Income on investments and saving accounts increased by 56% due to increase in the level of investments and improved profit rates. During the year, capacity-building grant increased by 133% due to the availability of financing from Government of Pakistan and donor agencies for PPAF operational support (Figure 20).

The general and administrative expenses for the year increased by 71% 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. Loan loss provision was made at 3% of the gross outstanding balances of loans to partner organizations. The provision once made is not reduced with reductions of outstanding balances of loan in subsequent years. The financial charges include commitment and service charges on long term loan, bank charges; and adjustment in respect of discount received on purchase of Pakistan Investment Bonds.

The Management places high priority on complete, true and fair presentation and timely issuing of its periodic financial and non-financial information to the regulatory authorities, donors and other stakeholders of the Company.

In addition to preparing the financial statements as per statutory requirement, the Company also prepares separate financial statements for different donors'

**Table 11: Financial Results**

(Rs. in million)

	2007	2006
Service charges on loans	326	197
Amortization of deferred grant	135	58
Income on investments/saving accounts	792	506
Other income	2	2
<b>Total income</b>	<b>1,255</b>	<b>763</b>
General and administrative expenses	(205)	(120)
Contribution for USAID program	(1)	(1)
Contribution to earthquake relief fund	-	(1)
Loan loss provision	(51)	(43)
Financial charges	(84)	(69)
<b>Total expenditure</b>	<b>(341)</b>	<b>(234)</b>
Surplus before taxation	914	529
Taxation	(85)	(28)
Surplus after taxation	829	501

projects and has these audited from its external auditors.

The audited financial statements along with Auditors' and Directors' Reports for the year 2007 were approved by the Board of Directors within two and a half months of close of the financial year. In addition, the audited financial statements of the World Bank, International Fund for Agricultural Development; and KfW Development Bank (Germany) Projects for the year ended June, 30, 2007 were also approved by the Board of Directors. The external auditors issued un-qualified reports in respect of the above statutory and donors' specific financial statements.

### Rehabilitation and Reconstruction Operations

For carrying out rehabilitation and reconstruction operations in earthquake-affected areas, PPAF signed agreements with the World Bank; International Fund for Agricultural Development; KfW Development Bank; and Committee Encouraging Corporate Philanthropy of USA, involving a grant funding of US\$ 155 million. These commitments were based on initial estimation carried out in November 2005 by World Bank and Asian Development Bank, according to which 34,000 housing units were identified for compensation. However, the detailed assessment by PPAF and its partner organizations revealed that extent of damage was far greater than envisaged earlier. A total of 122,000 housing units were assessed out of which 107,000 were





found Completely Destroyed and 10,000 were found to be Partially Destroyed while remaining were declared as having Negligible Structural Damage. Out of the above, at present 90,000 houses were found to be eligible under current policy. PPAF's damage assessment was endorsed by the ERRA. In order to enable PPAF disburse funds to all the eligible affectees, Government of Pakistan requested the World Bank for additional financing of US\$ 138 million as grant for PPAF. On completion of necessary formalities, Legal Agreements for this supplementary financing were signed in May and the project was declared effective in June 2007. The first installment under this project was received by the Company on June 28, 2007.

The Government of Pakistan and the World Bank also approved grant of US\$ 5 million for PPAF for the earthquake disability project to be carried out in PPAF designated 34 union councils in close coordination with ERRA. The proposed project aim to improve

the quality of life of people with disabilities: by ensuring better mobility; improved physical and mental health; and increased participation in social and economic life. Agreements for this project were signed between Government of Pakistan, World Bank and the Company in May 2007.

### **Committees of the Board**

Good governance has always been viewed by the Board as the fundamental principle in enhancing the timeliness, accuracy, comprehensiveness and transparency of financial and non financial information. In order to follow the best practices, the Board in January 2007, endorsed the Code of Corporate Governance of listing regulations by constituting Audit and Human Resource committees.

### **Audit Committee**

The Audit Committee consists of four non-executive Directors of the Company. The Committee meets at least once every quarter of the year. Since its formation in January 2007, the Committee held two meetings.

The terms of reference of the Audit Committee have been approved by the Board of Directors. The committee assists the Board in overseeing the company's financial control, with particular emphasis on integrity of internal controls and financial reporting; qualification and independence of Company's external auditors; and performance of Company's internal audit function and of its external auditors.



### **Human Resource Committee**

The Human Resource Committee consists of three non-executive Directors of the Company. The Committee meets at least once every year. During the year, the Committee held one meeting.

The terms of reference of the Human Resource Committee have been approved by the Board of Directors. The committee assists the Board in overseeing the Company's human resource policies and framework with particular emphasis on ensuring fair and transparent compensation policy; ensure continuous development and skill enhancement of employees; and ensure a plan of continuity and succession for senior management.

### **Future Outlook**

The Company aims to sustain its value through expansion and innovation. A quality that clearly sets PPAF apart is consistently delivering on commitments, which is fully validated and endorsed by our partners and is evident from the fact that the Government of Pakistan and international development agencies continued to repose their confidence in the Company to enhance the quality and quantity of PPAF programs and take these to the next level.

The Government of Pakistan has requested the World Bank to provide funding of US\$ 75 million to finance Social Mobilization through PPAF. This component will enable PPAF partner organizations to expand their social mobilization programs to cover an additional 1 million poor rural households in 25 of the poorest districts of the country

and provide a solid base for PPAF's poverty reduction programs under the proposed third Project.

The International Fund for Agricultural Development has approached PPAF for undertaking program for increasing sustainable microfinance. The project involves funding of US\$ 35 million and focuses on provision of microcredit to the poor on a self sustaining basis and envisages developing access to banks/financial institutions for future growth and expansion.

The World Bank will also appraise PPAF for its third project by the end of 2007. The project would support PPAF's continued future expansion of its microfinance and community productive infrastructure programs. It would also bring innovations to the delivery of financial and non financial services to the poor.

The provision of financial services to the poor is a major element of overall poverty reduction framework of the Government of Pakistan. This strategic framework, as enunciated by the Prime Minister, envisions 3 million active borrowers in the medium term, increasing to 10 million borrowers in the long run. To achieve this goal, PPAF will play a major role. With resource backed capacity, PPAF has driven the microfinance sector over the last six years. This is evident in the high growth and outreach levels exhibited by its partner organizations. The quality of PPAF's portfolio remained fully protected and operational sustainability of

its partners has been raised from extremely low levels prior to PPAF support. The Company has played critical role in three key areas of the microfinance sector: building retail capacities, ensuring that credit delivery costs are competitive; and enhancing sustainability.

Independent and externally commissioned studies have concluded that PPAF loans have brought a positive change in the incomes, assets, lifestyles as well as the social status of borrowers.

#### **Asia/Pacific Regional Microcredit Summit 2008**

Microcredit Summit Campaign has selected PPAF, after extensive search, to co-host Asia/Pacific Regional Microcredit Summit from March 4-6, 2008 in Islamabad. An agreement to this effect was signed on April 16, 2007 between the Microcredit Summit Campaign and PPAF.

In February 1997, the worlds first Microcredit Summit was convened to launch a nine-year Campaign to reach 100 million of the world's poorest families (especially women), with credit for self-employment and other financial and business services by the end of 2005. Since inception, the Microcredit Summit Campaign has focused on four core themes: 1) reaching the poorest, 2) reaching and empowering women, 3) building financially self-sufficient institutions, and 4) ensuring a positive, measurable impact on the lives of the clients and their families. The

Microcredit Summit Campaign is a global effort to restore to people control over their own lives and destinies.

The Asia/Pacific Region Microcredit Summit 2008 will include: 1) specially commissioned papers for discussion in plenary sessions, 2) presentation of two Institutional Action Plans 3) workshop sessions at the beginner, intermediate, and advanced levels, 4) intensive day-long courses on a variety of related subjects, and 5) additional associated sessions organized by delegates. About 1,000 delegates from more than 40 countries are expected to attend this premier international event, including heads of state and government. The Summit will offer an opportunity for microfinance practitioners, advocates, academies, investors, donors, and economic/policy managers to assess progress, discuss challenges to achieving the new goals for 2015, and identify strategies for overcoming those challenges.

As co-host of the Summit, PPAF will have the opportunity to internationalize itself and establish network with other leading microfinance players of the World.

#### **Auditors**

The external auditors of the Company, M/s Ford Rhodes Sidat Hyder and Company, Chartered Accountants, have completed their assignment for the financial year ended June 30, 2007 and shall retire at the conclusion of 11<sup>th</sup> Annual General Meeting. The Audit Committee of the Board observed that M/s Ford Rhodes Sidat Hyder and

Company, Chartered Accountants, were the auditors of the Company for the last eleven years. In order to comply with best practices of corporate governance, the Committee proposed change of auditors and recommended appointment of M/s A. F. Ferguson and Company, Chartered Accountants, as auditors of the Company for the financial year ending June 30, 2008.

Based on Audit Committee proposal, the Board of Directors recommends appointment of M/s A. F. Ferguson and Company, Chartered Accountants, as auditors of the Company for the financial year ending June 30, 2008.

### **Conclusion**

PPAF's performance this year is another addition to the Company's advance in all spheres of its activities that validates our corporate and management strategies. It has been successful in maintaining organizational transparency through rigorous internal and external processes. This has been complemented by prudent management and quality profile of an expanding portfolio. By virtue of its performance, PPAF has earned a high level of trust and confidence with Government, donor agencies and civil society. Through these partnerships, PPAF will continue to develop and strengthen a range of specific as well as broad based initiatives focused on underprivileged communities and individuals. By emerging as the preferred source of financing for its clientele, PPAF stayed well positioned to address the needs of stakeholders on medium as well as long term scale.

A major role of PPAF in the national framework of economic development and poverty reduction is focused on financial services to the poor. PPAF today stands at the threshold of bringing about a transformation in the attitudes of the poor across the country. Wherever PPAF sponsored infrastructure schemes, credit facilities and training programs are operative, the poor have started reaping the benefits of self-help strategies, generating income and reducing dependence on external support.

### **Acknowledgement**

The roles and responsibilities of the Board of Directors are becoming ever more demanding. It is my privilege to thank all the Directors for their commitment and continued support. Their vision and expertise has added value and dynamism to all facets of Company's functioning.

The Board acknowledges the support and guidance extended by the Members of General Body over the years. We are fortunate to have the members who are well versed with the attributes and concept of social mobilization and whose inputs have added great value to our efforts. We are indebted to our partner organizations and their communities for their support that has contributed to our success.

The Board would like to express its profound gratitude to the Government of Pakistan and World Bank whose faith and support over the years has nurtured a mutually beneficial relationship which plays a pivotal

role in the progress of the Company. The Board takes this opportunity to also thank its other donor agencies – U.S. Agency for International Development; U.S. Department of Agriculture; International Fund for Agricultural Development; KfW Development Bank (Germany); and Committee Encouraging Corporate Philanthropy (USA) for their support and guidance.

The Board is immensely proud of the professional management team and all the employees for demonstrating commitment and consistently delivering outstanding performances. The significant results achieved by the Company during the year have been possible through the concerted and enthusiastic efforts of the employees.

The Board acknowledges the participation and invaluable contributions towards the affairs of the Company by the outgoing directors Mr. Ahmed Jawad, Mr. Kaiser H. Naseem and Ms. Maliha H. Hussein during their tenure. The Board is pleased to welcome Mr. Junaid Iqbal Ch., who was nominated by the Government in place of Mr. Ahmed Jawad. The Board also takes this opportunity to welcome Mr. Mueen Afzal, Mr. Rafiud Deen Ahmad, Mr. Arif Hasan, Dr. Abdul Razzaq Kemal, Mr. Aijaz Ahmed Qureshi, Syed Ayub Qutub and Dr. Fareeha Zafar who were elected as Directors by the General Body. We look forward to working in partnership with them to benefit from their vision and valued experience which we are confident will go a long way in the future growth and prosperity of the Company.

It has been an immense pleasure to see the powerful strides that PPAF has taken over the years, leading to its present status as a major player in the dynamics of economic and social change. It has in addition been a bridge between the public and private sector domains, adding to performance and credibility of both, and paving way for a very promising future.



Hussain Dawood  
Chairman

September 17, 2007

## Financial Highlights

	2007	2006	2005	2004	2003	2002
<b>Disbursements - Rs. in million</b>						
<b>Core Operations</b>						
Microcredit/enterprise development loans	6,228	3,705	3,106	1,462	1,314	655
Grants	1,654	1,372	958	974	463	534
<b>Rehabilitation &amp; Reconstruction</b>						
Grants	7,924	1,169	-	-	-	-
<b>Total disbursements</b>	<b>15,806</b>	<b>6,246</b>	<b>4,064</b>	<b>2,436</b>	<b>1,777</b>	<b>1,189</b>
<b>Outreach - Numbers</b>						
Partner Organizations	70	68	56	42	38	29
Districts	111	108	97	95	84	60
Villages	27,578	23,354	19,863	13,054	8,650	4,223
<b>Balance Sheet - Rs. in million</b>						
Total assets (less current liabilities)	18,391	13,156	8,689	3,496	2,703	1,656
Microcredit/enterprise development loans receivable	5,642	3,996	2,598	1,081	1,201	695
Total investments	8,762	7,096	4,401	2,287	1,465	833
Equity and reserves	2,817	1,788	1,137	791	710	618
Long term and deferred liability	15,574	11,368	7,552	2,705	1,993	1,038
<b>Operational Results - Rs. in million</b>						
Total income	1,255	763	305	222	230	145
General and admin expenses - core operations	159	108	87	71	63	43
General and admin expenses - rehabilitation & reconstruction	46	12	-	-	-	-
Surplus before provisions for taxation and loan loss	965	572	152	133	149	94
Surplus after provisions for taxation and loan loss	829	501	196	81	92	59
<b>Financial Ratios</b>						
Surplus before tax and loan loss provision	77%	75%	50%	60%	65%	65%
Surplus after tax and loan loss provision	66%	66%	64%	36%	40%	41%
Return on assets	5%	5%	3%	3%	4%	4%
Return on equity	36%	34%	20%	11%	14%	10%
Repayment rate (microcredit)	100%	100%	100%	100%	100%	100%
Total general and admin expenses/total disbursements	1%	2%	2%	3%	4%	4%
Total general and admin expenses/average total assets	1%	1%	1%	2%	3%	3%
Income on loans/general and admin expenses on core operations	205%	164%	101%	97%	89%	68%
Debt/equity	79 : 21	85 : 15	85 : 15	77 : 23	73 : 27	63 : 37
Current ratio	65 : 1	256 : 1	125 : 1	23 : 1	32 : 1	18 : 1



## PAKISTAN POVERTY ALLEVIATION FUND

### AUDITORS' REPORT AND FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2007



■ **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](http://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, 2007** 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, 2007 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 17 SEP 2007

*Fazl Khoshdel & Co.*  
CHARTERED ACCOUNTANTS

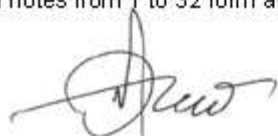
# Balance Sheet

as at June 30, 2007

	<u>Note</u>	<u>2007</u>	<u>2006</u>
		(Rupees)	
<b>NON CURRENT ASSETS</b>			
Fixed assets - tangible	5	38,067,237	23,930,329
Intangible assets	6	3,481,990	-
Long term investments	7	1,000,000,000	800,000,000
Loans to Partner Organizations	8	496,346,361	586,433,427
		<u>1,537,895,588</u>	<u>1,410,363,756</u>
<b>CURRENT ASSETS</b>			
Current maturity of loans to Partner Organizations	8	5,145,578,946	3,409,632,688
Short term investments	9	7,762,254,107	6,295,556,547
Advances, deposits, prepayments and other receivables	10	36,061,552	11,024,932
Profit/service charges receivable	11	453,060,640	349,367,716
Cash and bank balances	12	3,718,131,407	1,726,868,720
		<u>17,115,086,652</u>	<u>11,792,450,603</u>
<b>CURRENT LIABILITIES</b>			
Service and commitment charges payable	13	(52,519,814)	(34,268,053)
Accrued and other liabilities	14	(8,320,948)	(4,608,109)
Payable to gratuity fund	15	(3,046,125)	(5,617,930)
Current portion of long term loan	17	(111,342,020)	-
Taxation		(87,115,574)	(2,115,574)
		<u>(262,344,480)</u>	<u>(46,609,666)</u>
		<u>16,852,742,172</u>	<u>11,745,840,937</u>
		<u>18,390,637,760</u>	<u>13,156,204,693</u>
<b>REPRESENTED BY:</b>			
ENDOWMENT FUND	16	1,000,000,000	800,000,000
ACCUMULATED SURPLUS		1,816,572,462	987,842,638
		<u>2,816,572,462</u>	<u>1,787,842,638</u>
<b>LONG TERM AND DEFERRED LIABILITIES</b>			
Long term loans	17	10,776,767,410	10,513,558,573
Deferred liabilities - grant fund	18	4,701,508,285	780,048,665
Deferred income - grant fund	19	95,789,603	74,754,817
		<u>15,574,065,298</u>	<u>11,368,362,055</u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	20	-	-
		<u>18,390,637,760</u>	<u>13,156,204,693</u>

## AUDITORS' REPORT ANNEXED

The annexed notes from 1 to 32 form an integral part of these financial statements.



**CHAIRMAN**



**CHIEF EXECUTIVE / MANAGING DIRECTOR**

# Income and Expenditure Account

For the year ended June 30, 2007

	Note	2007	2006
		(Rupees)	
<b>INCOME</b>			
Service charges on loans to Partner Organizations	21	325,762,082	197,234,175
Amortization of deferred income - grant fund	22	134,628,003	57,673,110
Income on investments and saving accounts	23	792,196,275	506,601,358
		<u>1,252,586,360</u>	<u>761,508,643</u>
<b>EXPENDITURE</b>			
General and administrative expenses	24	(205,316,642)	(120,089,068)
Contribution for USAID financing programme		(60,000)	(810,000)
Contribution to President's Earthquake Relief Fund		-	(1,000,000)
Loan loss provision		(50,902,861)	(43,250,665)
		<u>(256,279,503)</u>	<u>(165,149,733)</u>
Surplus of income over expenditure		996,306,857	596,358,910
Financial charges	25	(84,381,199)	(69,140,211)
Other income	26	1,804,166	1,795,274
Surplus before taxation		913,729,824	529,013,973
Taxation	28	(85,000,000)	(28,119,000)
<b>Surplus transferred to statement of changes in fund and reserves</b>		<u>828,729,824</u>	<u>500,894,973</u>

The annexed notes from 1 to 32 form an integral part of these financial statements.



**CHAIRMAN**



**CHIEF EXECUTIVE / MANAGING DIRECTOR**



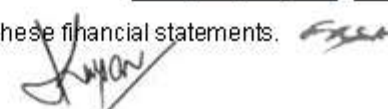
# Cash Flow Statement

For the year ended June 30, 2007

Note	2007	2006
	(Rupees)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash generated from / (used in) operations		
Surplus before taxation	913,729,824	529,013,973
Adjustment for non cash items:		
Depreciation	14,099,360	9,116,400
Amortization of intangible assets	1,160,663	-
Amortization of deferred income	(134,628,003)	(57,673,110)
Provision for gratuity	3,046,125	1,841,166
Loan loss provision	50,902,861	43,250,665
Gain on sale of fixed assets	(1,214,017)	(712,669)
Financial charges	84,381,199	69,140,211
	17,748,188	64,962,663
	931,478,012	593,976,636
Working capital changes		
(Increase) / decrease in current assets:		
Advances, deposits, prepayments and other receivables	(25,036,620)	517,881
Profit/service charges receivables	(103,692,925)	(237,432,814)
Increase / (decrease) in current liabilities:		
Accrued and other liabilities	3,712,839	3,156,935
	(125,016,706)	(233,757,998)
Cash generated from operations	806,461,306	360,218,638
Financial charges paid	(66,129,441)	(83,646,389)
Disbursements to partner organizations:		
Loans	(6,228,046,713)	(3,705,535,872)
Grants	(9,577,816,936)	(2,541,450,421)
Recoveries of loans from partner organizations	4,531,284,660	2,264,493,640
Payment to gratuity fund	(5,617,930)	(695,957)
Taxes paid	-	(7,107,101)
	(11,346,326,360)	(4,073,942,100)
Net cash used in operating activities	(10,539,865,054)	(3,713,723,462)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(7,962,254,107)	(6,195,556,547)
Proceeds from encashment of investments	6,295,556,547	3,446,944,209
Capital expenditure incurred	(33,051,905)	(22,417,421)
Proceeds from disposal of fixed assets	1,387,001	1,175,350
Net cash used in investing activities	(1,698,362,464)	(2,769,854,409)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts for endowment fund	200,000,000	150,000,000
Long term loans - receipts	374,550,857	4,031,085,238
Deferred liabilities - grant fund receipts	13,499,276,557	2,278,546,002
Deferred income - grant fund receipts	155,662,789	110,476,132
Net cash generated from financing activities	14,229,490,203	6,570,107,372
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,991,262,687	86,529,501
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,726,868,720	1,640,339,219
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b> 12	<b>3,718,131,407</b>	<b>1,726,868,720</b>

The annexed notes from 1 to 32 form an integral part of these financial statements.

  
**CHAIRMAN**

  
**CHIEF EXECUTIVE / MANAGING DIRECTOR**



# Statement of Changes in Funds and Reserves

For the year ended June 30, 2007

	<u>Endowment Fund</u>	<u>Accumulated Surplus (Rupees)</u>	<u>Total</u>
<b>Balance as at July 01, 2005</b>	<b>650,000,000</b>	<b>486,947,665</b>	<b>1,136,947,665</b>
Receipts during the year	150,000,000	-	150,000,000
Net surplus for the year	-	500,894,973	500,894,973
<b>Balance as at July 01, 2006</b>	<b>800,000,000</b>	<b>987,842,638</b>	<b>1,787,842,638</b>
Receipts during the year	200,000,000	-	200,000,000
Net surplus for the year	-	828,729,824	828,729,824
<b>Balance as at June 30, 2007</b>	<b>1,000,000,000</b>	<b>1,816,572,462</b>	<b>2,816,572,462</b>

The annexed notes from 1 to 32 form an integral part of these financial statements.

*FSK*



**CHAIRMAN**



**CHIEF EXECUTIVE / MANAGING DIRECTOR**

# Notes to the Financial Statements

For the year ended June 30, 2007

## 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 organizations (POs), i.e., Non Government organizations (NGOs), Community Based organizations (CBOs), Rural Support Programmes (RSPs) and other private sector organizations.

## 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 except for the revaluation of certain financial instruments held in foreign currency at the exchange rate prevailing on the balance sheet date and employees benefit obligation as per actuarial valuation.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1 Employee benefits

The Company operates defined benefit gratuity fund for all eligible employees who complete the qualifying period of service. The fund is administered by trustees. Annual contribution to the gratuity fund is based on Actuarial valuation using projected unit credit method, related details of which are given in note 15 to the financial statements. All contributions are charged to income and expenditure account for the year. Actuarial gains/losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognized over the average remaining service life of the employees. The last Actuarial valuation of the scheme was carried out as at June 30, 2007.

### 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. PPAF being an approved welfare organization has been granted exemption from income tax under clause 58(1) of Part I of the Second Schedule of the Income Tax Ordinance 2001.

### 4.3 Provisions

Provisions are recognized when the Company has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of obligation.

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.

# Notes to the Financial Statements

For the year ended June 30, 2007

## 4.4 Fixed assets - tangible

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 statement of income and expenditure.

## 4.5 Intangible assets

Costs that are directly associated with identifiable software products controlled by the Company and have probable economic benefit beyond one year are recognized as intangible assets.

Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Intangible assets are amortized on a straight line basis over their estimated useful lives.

## 4.6 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 amortized cost using the effective yield method.

## 4.7 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost in case of local currency and at closing exchange rate in case of foreign currency. 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.

## 4.8 Revenue recognition

Income is recognized on accrual basis except grants and donations that are recorded on receipt basis. Service charges on loans and profit/markup on investments and bank accounts are recognized on time proportionate basis.

Grants related to income are recognized as deferred income and amortized over the periods necessary to match them with the related costs for which these are intended to compensate, on a systematic basis.

## 4.9 Receipts - micro-credit loans and grants

Receipts from Government of Pakistan (GOP) on account of International Development Association (IDA) and International Fund for Agricultural Development (IFAD) projects are recognized on the basis of Financial Monitoring Reports, raised on quarterly basis, under relevant categories 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 the Financing Schedules of the respective Financing Agreements.



# Notes to the Financial Statements

For the year ended June 30, 2007

Receipts from Government of Pakistan (GOP) on account of KfW Development Bank (KfW) projects are recognized on the basis of Statement of Expenditures (SOEs), raised on quarterly basis, under relevant categories of housing reconstruction and community building, revitalization of communities/ rehabilitation of CPI schemes and capacity building grant fund as specified in the Financing Schedule of the respective Financing Agreement.

Receipts from Government of Pakistan (GOP) on account of United States Department of Agriculture (USDA) projects are recognized on the basis of requests by the Company, on annual basis, under relevant category of CPI grant fund and capacity building grant fund as specified in the agreed plan of action.

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

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

Grants from Committee Encouraging Corporate Philanthropy (CECP) on account of reconstruction and refurbishment of education and health facilities affected by earthquake are recognized on the basis of advance request raised on quarterly basis. Receipts of grants specific to POs are recognized as deferred liability, whereas, grants specific to PPAF are recognized as deferred income.

#### 4.10 Borrowing costs

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

#### 4.11 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.

#### 4.12 Financial instruments

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

#### 4.13 Related party transactions

All transactions with related parties arising in normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes, as admissible, except in extreme rare circumstances where, subject to the approval of Board of Directors, it is in the interest of the company to do so.

#### 4.14 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 recognized amounts and the Company intends to settle on a net basis or realized the asset and settle the liability simultaneously.

# Notes to the Financial Statements

For the year ended June 30, 2007

## 5. FIXED ASSETS - tangible, at book value

The following is a statement of operating assets:

	C O S T			Rate	D E P R E C I A T I O N			Book value As at June 30, 2007 (Rupees)
	As at July 01, 2006 (Rupees)	Additions/ (Deletions) (Rupees)	As at June 30, 2007 (Rupees)		As at July 01, 2006 (Rupees)	Charge for the year / (Deletions) (Rupees)	As at June 30, 2007 (Rupees)	
Furniture and fixtures	4,631,129	2,295,616	6,926,745	20	2,555,986	1,191,489	3,747,475	<b>3,179,270</b>
Vehicles	23,373,465	12,337,200 (2,316,365)	33,394,300	20	10,325,264	6,186,024 (2,143,381)	14,367,907	<b>19,026,393</b>
Office equipment	9,350,442	3,954,748	13,305,190	20	4,895,812	2,334,083	7,229,895	<b>6,075,295</b>
Computer equipment	13,337,465	9,821,688	23,159,153	25	8,985,110	4,387,764	13,372,874	<b>9,786,279</b>
<b>2007</b>	50,692,501	28,409,252 (2,316,365)	76,785,388		26,762,172	14,099,360 (2,143,381)	38,718,151	<b>38,067,237</b>
<b>2006</b>	30,604,109	22,417,421 (2,329,029)	50,692,501		19,512,120	9,116,400 (1,866,348)	26,762,172	<b>23,930,329</b>

## 6. INTANGIBLE ASSETS

	C O S T			Rate	A M O R T I Z A T I O N			Book value As at June 30, 2007 (Rupees)
	As at July 01, 2006 (Rupees)	Additions (Rupees)	As at June 30, 2007 (Rupees)		As at July 01, 2006 (Rupees)	For the year (Rupees)	As at June 30, 2007 (Rupees)	
Satellite imageries	-	1,136,000	1,136,000	25	-	284,000	284,000	<b>852,000</b>
Other softwares	-	3,506,653	3,506,653	25	-	876,663	876,663	<b>2,629,990</b>
<b>2007</b>	-	4,642,653	4,642,653		-	1,160,663	1,160,663	<b>3,481,990</b>
<b>2006</b>	-	-	-		-	-	-	-

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# Notes to the Financial Statements

For the year ended June 30, 2007

	Note	2007	2006
		(Rupees)	
<b>7. LONG TERM INVESTMENTS - held to maturity</b>			
Pakistan Investment Bonds (PIBs)	7.1	1,000,000,000	800,000,000

7.1 Represents investments in PIBs as follows:

Principal (Rupees)	Maturity Date	Profit rate % per annum	Payment terms
200 million	31-12-2010	14.00	Semi annually
200 million	21-08-2011	13.00	Semi annually
100 million	28-04-2014	8.00	Semi annually
300 million	28-04-2014	8.00	Semi annually
200 million	19-05-2011	9.30	Semi annually

## 8. LOANS TO PARTNER ORGANIZATIONS - secured, considered good

	Note	2007	2006
		(Rupees)	
Microcredit/Enterprise Development Loans - IDA financing	8.1	5,711,832,709	4,013,629,039
Enterprise Development Loans - USAID/Pakistan financing	8.2	104,585,133	106,026,750
	8.3	5,816,417,842	4,119,655,789
Less: Loan loss provision	8.4	(174,492,535)	(123,589,674)
		5,641,925,307	3,996,066,115
Less: Current maturity		(5,145,578,946)	(3,409,632,688)
		496,346,361	586,433,427

8.1 Microcredit/Enterprise Development Loans - IDA financing

Micro credit loans

National Rural Support Programme	2,243,233,827	1,751,025,303
Punjab Rural Support Programme	555,249,671	214,862,000
Kashf Foundation	926,832,045	381,419,550
Sarhad Rural Support Programme	54,333,333	43,166,668
Thardeep Rural Development Programme	396,625,396	401,341,486
Development Action for Mobilization and Emancipation	296,848,209	170,272,145
Taraqee Foundation	30,354,105	262,231,731
Sindh Agricultural & Forestry Workers Coordinating Organization	127,494,000	73,852,000
Balochistan Rural Support Programme	2,474,885	6,422,011
Sindh Rural Support Programme	7,775,000	14,110,000
Jinnah Welfare Society	46,783,500	31,205,000
Centre for Women Cooperative Development	78,508,782	19,993,137
Rural Community Development Society	40,541,665	28,629,211
Khwendu Kor Women and Children Development Programme	1,468,750	416,667
Young Pioneers Society	4,400,000	7,500,000
Women Social Organization	6,331,100	5,145,000
Balances continued - carried forward	4,819,254,268	3,411,591,909

# Notes to the Financial Statements

For the year ended June 30, 2007

	2007	2006
	(Rupees)	
Balances continued - brought forward	4,819,254,268	3,411,591,909
Anjuman-e- Falah-o-Behbood	4,328,500	4,670,500
Community Support Concern	200,946,874	80,462,500
Poverty Eradication Network	4,399,730	4,840,475
Baanhn Beli	9,930,000	7,210,000
Bunyd Literacy Community Council	3,300,000	2,985,000
Human Development Foundation	-	369,956
Indus Resource Centre	11,446,333	6,813,000
Network Leasing Corporation Limited	156,033,538	184,875,000
Organization for Participatory Development	50,542,111	16,312,500
Swabi Women Welfare Society	9,500,002	7,109,999
Women Welfare Organization Poonch	2,406,616	2,911,845
Orangi Charitable Trust	28,812,103	19,463,767
Community Development Concerns	4,510,026	2,350,000
Karwan Community Development Organization	2,850,000	3,355,000
Kiran Welfare Organization	3,677,781	2,222,779
Narowal Rural Development Programme	12,625,000	8,750,000
Soon Valley Development Programme	8,385,000	6,010,000
Asasah	238,023,145	181,076,300
Baidarie	2,833,670	1,024,000
Orix Leasing Pakistan Limited	74,259,748	20,861,370
Network Micro-Finance Bank Limited	21,886,250	32,787,000
Save The Poor	5,040,300	2,624,500
Marvi Rural Development Organization	8,010,306	2,951,639
Sindh Rural Support Organization	24,520,048	-
	5,707,521,349	4,013,629,039
Enterprise Development Loans		
Jinnah Welfare Society	4,311,360	-
	5,711,832,709	4,013,629,039
8.2 Enterprise Development Loans - USAID/Pakistan financing		
Centre for Women Cooperative Development	59,166,666	15,770,833
Rural Community Development Society	13,055,555	16,488,888
Punjab Rural Support Programme	-	3,748,111
Network Leasing Corporation Limited	20,671,245	70,018,918
Community Support Concern	8,741,667	-
Sindh Agricultural & Forestry Workers Coordinating Organization	2,950,000	-
	104,585,133	106,026,750

- 8.3 The Company disbursed Micro-credit loans and Enterprise Development Facility (EDF) to POs under respective Financing Agreements at a service charge of six percent per annum (6% p.a.) and eight percent per annum (8% p.a.). The later rate is 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.

# Notes to the Financial Statements

For the year ended June 30, 2007

- 8.4 Represents minimum provision of three percent (3%) of the gross outstanding loans, provided that the amount of provision once made is not reduced with the reduction of outstanding loan balances, in subsequent years.

	<b>2007</b>	<b>2006</b>
	(Rupees)	
8.5 Movement of loans to Partner Organizations		
Opening balance	4,119,655,789	2,678,613,557
Disbursements during the year	6,228,046,713	3,705,535,872
	<u>10,347,702,502</u>	<u>6,384,149,429</u>
Recoveries during the year	(4,531,284,660)	(2,264,493,640)
	5,816,417,842	4,119,655,789
Less: Loan loss provision	(174,492,535)	(123,589,674)
	<u>5,641,925,307</u>	<u>3,996,066,115</u>

## 9. SHORT TERM INVESTMENTS

Represents term deposit receipts and certificate of investments of various commercial banks and investment banks respectively, maturing within one year from the date of investment at annual markup rates ranging from eight point six percent per annum (8.60% p.a) to eleven point two five percent per annum (11.25% p.a.).

The total amount of investments includes Rs 1,050,000,000 (2006: Nil) held in respect of USDA project activities.

	<b>Note</b>	<b>2007</b>	<b>2006</b>
		(Rupees)	
<b>10. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>			
Advances - considered good			
Employees	10.1	1,173,037	399,926
Suppliers		19,005,992	598,000
		<u>20,179,029</u>	<u>997,926</u>
Deposits		1,257,900	892,900
Prepayments		14,480,164	9,132,609
Other receivables - considered good		144,459	1,497
		<u>36,061,552</u>	<u>11,024,932</u>

- 10.1 This includes salary and car advances given to the employees of the Company, carrying annual mark up of 3% and 8% respectively. The principal amount is repayable in 18 equal monthly installments.

## 11. PROFIT / SERVICE CHARGES RECEIVABLE

Profit receivable on			
Pakistan Investment Bonds (PIBs)		30,501,918	28,597,260
Term deposit receipts / saving accounts		323,506,945	259,125,186
Project bank accounts / investments		18,759,448	8,831,172
		<u>372,768,311</u>	<u>296,553,618</u>
Service charge receivable on loans to POs		80,292,329	52,814,098
		<u>453,060,640</u>	<u>349,367,716</u>

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# Notes to the Financial Statements

For the year ended June 30, 2007

	Note	2007	2006
		(Rupees)	
<b>12. CASH AND BANK BALANCES</b>			
Cash in hand			
in head office		1,884	7,894
in centers		27,910	-
in field coordination offices		73,655	100,000
		<u>103,449</u>	<u>107,894</u>
Cash at banks - current accounts			
local currency		15,668,481	1,112,414
local currency - specific to USAID grant		87,026	84,380
foreign currency - specific to KfW		331,710,464	-
foreign currency - specific to IDA		2,330,179,583	1,161,954,312
foreign currency - specific to IFAD-MIOP		157,775,952	-
foreign currency - specific to IFAD-REACH		484,589,774	-
		<u>3,320,011,280</u>	<u>1,163,151,106</u>
Cash at banks - deposit accounts			
local currency		63,636,192	3,239,635
local currency - specific to USDA grant		220,243,255	550,341,232
foreign currency - specific to USAID grant		1,130,394	1,670,231
foreign currency - specific to CECF		113,006,837	-
short term deposit receipts		-	8,358,622
	12.1	<u>398,016,678</u>	<u>563,609,720</u>
		<u>3,718,131,407</u>	<u>1,726,868,720</u>

12.1 The balances in deposit accounts carry average mark up of 5.30% per annum (2006: 3.50% per annum).

	Note	2007	2006
		(Rupees)	
<b>13. SERVICE AND COMMITMENT CHARGES PAYABLE</b>			
Service charges payable	13.1	47,691,500	31,546,849
Commitment charges payable	13.2	4,828,314	2,721,204
		<u>52,519,814</u>	<u>34,268,053</u>

13.1 Represent service charges payable to GOP at the rate of 0.75% per annum on the principal amount of long term loan outstanding withdrawn from time to time.

13.2 Represent commitment charges payable to GOP at the rate ranging from 0.20% to 0.30% per annum on the principal amount of long term loan not withdrawn from time to time.

	Note	2007	2006
		(Rupees)	
<b>14. ACCRUED AND OTHER LIABILITIES</b>			
Accrued expenses		4,309,318	3,946,507
Other liabilities		4,011,630	661,602
		<u>8,320,948</u>	<u>4,608,109</u>

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# Notes to the Financial Statements

For the year ended June 30, 2007

	<b>Note</b>	<b>2007</b>	<b>2006</b>
		(Rupees)	
<b>15. PAYABLE TO GRATUITY FUND</b>			
15.1 The amounts recognised in the balance sheet are determined as follows:			
Present value of defined benefit obligation		12,499,564	6,561,185
Fair value of any plan assets		(5,836,707)	-
Net actuarial gains / (losses) not recognized		(3,117,259)	(194,045)
Transitional asset / (liability) not yet recognized		(499,473)	(749,210)
		<u>3,046,125</u>	<u>5,617,930</u>
15.2 The amounts recognised in the income and expenditure account are as follows:			
Current service cost		2,581,021	1,064,513
Interest cost		590,507	526,916
Expected return on plan assets		(258,075)	-
Recognized transitional (assets) / liability		249,737	249,737
		<u>3,163,190</u>	<u>1,841,166</u>
15.3 Movement in the liability recognised in the balance sheet:			
Opening net (asset) / liability		5,617,930	4,472,721
(Prepaid cost) / expense		3,163,190	1,841,166
Contributions		(5,734,995)	(695,957)
Closing net (asset) / liability		<u>3,046,125</u>	<u>5,617,930</u>
15.4 The principal actuarial assumption used are as follows:			
Value discount rate		10% per annum	9% per annum
Salary increase rate		10% per annum	9% per annum
Expected return on plan assets		10% per annum	9% per annum

	<b>Note</b>	<b>2007</b>	<b>2006</b>
		(Rupees)	
<b>16. ENDOWMENT FUND</b>			
PPAF - I		500,000,000	500,000,000
PPAF - II		500,000,000	300,000,000
	16.1	<u>1,000,000,000</u>	<u>800,000,000</u>

16.1 This represent the amounts paid by GOP for endowment fund under the Subsidiary Financing Agreements(SFAs) as detailed in Note 17.1 and 17.2. Under the SFA, the fund is to be invested in the government schemes/ bonds and income generated therefrom shall be utilized for revenue and capital expenditure of the Company.

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# Notes to the Financial Statements

For the year ended June 30, 2007

<b>Note</b>	<b>For the year</b>	<b>Cumulative to date</b>
	(Rupees)	
<b>17. LONG TERM LOANS - Unsecured</b>		
Government of Pakistan - PPAF - I (IDA financing)		
	2,672,636,100	-
	-	2,631,238,091
	-	41,398,009
17.1	2,672,636,100	2,672,636,100
	(111,342,020)	(111,342,020)
	2,561,294,080	2,561,294,080
Government of Pakistan- PPAF - II (IDA financing)		
	7,840,922,473	-
	256,710,742	8,082,506,210
	(816,215)	14,310,790
17.2	8,096,817,000	8,096,817,000
Government of Pakistan - (IFAD financing)		
17.3	118,656,330	118,656,330
	10,776,767,410	10,776,767,410

17.1 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 to be utilized by GOP through the Company.

Under Subsidiary Financing Agreement (SFA) dated August 18, 1999 executed between GOP and the Company, 50% of the amount was disbursed as loan to the Company and the balance as grant on non reimbursable basis. The principal loan amount of the project is repayable in Pak Rupees 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.

Under the SFA the company has committed to pay a service charge of 0.75 % per annum on the principal amount of loan withdrawn and outstanding from time to time and the commitment charge at the rate set by the IDA on the principal amount of the loan not withdrawn from time to time. The service and commitment charges are payable on May 15 and November 15 each year.

17.2 Second DCA was signed between IDA and the GOP on January 20, 2004, in respect of PPAF II. As per agreement IDA shall make available to GOP a sum of Special Drawing Rights (SDR) of 168.1 million over a period of four years to be utilized by GOP through the Company.

# Notes to the Financial Statements

For the year ended June 30, 2007

Under SFA dated March 24, 2004 executed between GOP and the Company, the GOP agreed to provide 56% of the amount as loan to the Company and the balance as grant on non reimbursable basis. The principal loan amount of the project is repayable in Pak Rupees over a period of twenty three years, including a grace period of eight years, in thirty semi-annual installments, payable on each Feb 01, and August 01 commencing from February 01, 2012 and ending on August 01, 2026. Each installment upto and including the installment payable on August 01, 2017 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.

Under the SFA the company has committed to pay a service charge of 0.75 % per annum on the principal amount of loan withdrawn and outstanding from time to time and the commitment charge at the rate set by the IDA on the principal amount of the loan not withdrawn from time to time. The service and commitment charges are payable on February 01 and August 01 each year.

- 17.3 Programme Loan Agreement was signed between International Fund for Agricultural Development (IFAD) and GOP on January 18, 2006, in respect of "Microfinance Innovation and Outreach Programme" (MIOP). As per agreement IFAD shall make available to GOP a sum of SDR of 18.30 million over a period of five years to be utilized by GOP through the Company.

Under Subsidiary Loan and Grant Agreement (SLGA) dated April 18, 2006 executed between GOP and the Company, the GOP agreed to provide 50% of the amount as loan to the Company and the balance as grant on non reimbursable basis on account of capacity building. The principal loan amount of the project is repayable in Pak Rupees over a period of twenty three years, including a grace period of eight years, in thirty equal semi-annual installments commencing from June 01, 2014 and ending on December 01, 2028.

Under the SLGA, the Company has committed to pay a service charge of 0.75 % per annum on the principal amount of loan withdrawn and outstanding from time to time. The service charge is payable on June 01 and December 01 each year.

	<u>Note</u>	<u>2007</u>	<u>2006</u>
		(Rupees)	
<b>18. DEFERRED LIABILITIES - GRANT FUND</b>			
Government of Pakistan - IDA	18.1	2,322,422,440	(211,549)
US Agency for International Development/Pakistan	18.2	179,540,573	247,232,995
Government of Pakistan - USDA	18.3	1,237,959,342	533,027,219
Government of Pakistan - KfW	18.4	331,710,464	-
Government of Pakistan - IFAD (MIOP)	18.5	39,119,621	-
Government of Pakistan - IFAD (REACH)	18.6	484,589,774	-
Committee Encouraging Corporate Philanthropy	18.7	106,166,071	-
		<u>4,701,508,285</u>	<u>780,048,665</u>

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





# Notes to the Financial Statements

For the year ended June 30, 2007

	<u>Note</u>	<u>2007</u>	<u>2006</u>
		(Rupees)	
<b>18.1 Grants from Government of Pakistan - IDA</b>			
Community physical infrastructure	18.1.1	362,024,575	231,994,680
Social sector development	18.1.2	3,421,872	(18,191,834)
Capacity building - POs	18.1.3	147,476,438	128,338,977
Emergency relief	18.1.4	(1,261,537)	(19,954,101)
Rehabilitation & Reconstruction	18.1.5	1,810,761,092	(322,399,271)
		<u>2,322,422,440</u>	<u>(211,549)</u>

	<u>Note</u>	<u>For the year</u>	<u>Cumulative to date</u>
		(Rupees)	

## 18.1.1 Community physical infrastructure

Opening balance	231,994,680	-
Amount received	1,104,135,414	4,284,122,243
Foreign exchange translation differences - Net	(3,510,612)	(11,617,648)
	<u>1,332,619,482</u>	<u>4,272,504,595</u>
Less: Disbursements		
Sarhad Rural Support Programme	126,109,761	589,285,002
National Rural Support Programme	182,419,096	949,548,258
Punjab Rural Support Programme	141,219,445	556,463,408
Aga Khan Rural Support Programme	58,067,273	245,364,912
Thardeep Rural Development Programme	39,241,212	170,984,530
Taraqee Foundation	42,077,338	226,699,423
Balochistan Rural Support Programme	48,491,893	163,779,712
Jinnah Welfare Society	10,160,506	25,050,611
Rural Community Development Society	17,615,890	65,910,800
Women Welfare Organization Poonch	7,377,356	42,072,018
Sindh Agricultural & Forestry Workers Coordinating Organization	24,100,330	86,312,067
Himalayan Wildlife Foundation	579,000	3,649,205
Baanhn Beli	9,195,000	21,322,133
Community Mobilisation and Development Organization	17,579,548	27,636,170
Ghazi Brotha Taraqiatee Idara	4,247,250	60,144,991
Human Development Foundation	7,208,000	41,030,864
Islamic Relief	28,503,959	45,235,247
Participatory Integrated Development Society	23,502,201	59,805,077
Salik Development Foundation	908,280	30,409,835
Soon Valley Development Programme	-	42,704,873
Sungi Development Foundation	9,560,412	56,585,952
Women Social organization	3,866,000	11,353,000
Youth Commission for Human Rights	2,660,430	18,436,447
AKPBS-Water and Sanitation Extension Programme	33,497,664	103,514,812
Community Uplift Programme	15,343,000	50,920,742
Human Resource Development Society	15,438,375	31,947,075
Balochistan Environmental and Educational Journey	4,838,465	7,674,715
Omar Asghar Khan Development Foundation	2,259,300	3,373,650
Disbursements continued - carried forward	<u>876,066,984</u>	<u>3,737,215,529</u>

# Notes to the Financial Statements

For the year ended June 30, 2007

Note	For the year	Cumulative to date
	(Rupees)	
Disbursements continued - brought forward	876,066,984	3,737,215,529
Balochistan Rural Development & Research Society	3,063,150	5,035,481
SOS Children's Village	8,385,595	13,084,041
Indus Earth Trust	6,920,080	18,704,504
Green Circle Organization	680,000	4,998,200
Village Friends Organization	2,411,502	9,031,002
Kiran Welfare Organization	1,016,225	2,891,425
Social Action Bureau for Assistance in Welfare & organization Network	5,378,000	7,138,000
South Asia Partnership Pakistan	27,873,819	53,644,529
Strengthening Participatory Organization	8,807,200	15,395,200
Society for Conservation and Protection of Environment	5,981,225	12,624,362
Hazara Development and Advocacy Foundation	4,274,940	4,666,565
Young Pioneers Society	3,345,370	4,111,460
Sindh Rural Support Organization	9,838,802	14,310,356
Indus Resource Centre	1,027,250	1,785,750
All Pakistan Women Association	1,516,550	1,835,400
Health and Nutrition Development Society	440,500	440,500
Society for Human Empowerment and Rural Development	2,862,715	2,862,715
Badin Rural Development Society	705,000	705,000
	970,594,907	3,910,480,019
	<u>362,024,575</u>	<u>362,024,575</u>

## 18.1.2 Social sector development

Opening balance	(18,191,834)	-
Amount received	97,984,948	166,839,540
Foreign exchange translation differences - Net	(311,544)	(161,039)
	79,481,570	166,678,501
Less: Disbursements		-
AKPBS-Water and Sanitation Extension Programme	6,419,836	12,213,710
Community Uplift Programme	-	3,310,704
Islamic Relief	2,545,413	4,285,538
National Rural Support Programme	7,496,808	16,816,114
Sindh Agricultural & Forestry Workers Coordinating Organization	9,119,649	18,833,178
Sungi Development Foundation	5,514,175	7,110,623
Taraqee Foundation	-	3,100,510
Indus Resource Centre	4,507,179	8,891,114
Mountain and Glacier Protection Organization	13,512,193	61,750,693
SOS Children Villages	14,019,799	14,019,799
Community Mobilisation and Development Organization	6,421,115	6,421,115
Rural Community Development Society	4,208,193	4,208,193
Family Planning Association of Pakistan	2,295,338	2,295,338
	76,059,698	163,256,629
	<u>3,421,872</u>	<u>3,421,872</u>



# Notes to the Financial Statements

For the year ended June 30, 2007

Note	For the year	Cumulative to date
	(Rupees)	
<b>18.1.3 Capacity building - POs</b>		
Opening balance	128,338,977	-
Amount received	457,255,889	2,063,638,847
Foreign exchange translation differences - Net	(1,453,851)	(21,903,856)
	584,141,015	2,041,734,991
Less: Disbursements		
National Rural Support Programme	121,405,982	654,113,395
Punjab Rural Support Programme	80,181,440	260,010,891
Sarhad Rural Support Programme	9,956,461	125,585,287
Thardeep Rural Development Programme	52,306,482	229,348,268
Development Action for Mobilization and Emancipation	16,077,587	66,557,564
Taraqee Foundation	11,774,598	122,846,521
Balochistan Rural Support Programme	2,625,941	25,222,410
Sindh Agricultural & Forestry Workers Coordinating Organization	17,404,731	56,370,864
Sindh Rural Support Programme	2,017,308	11,019,923
Jinnah Welfare Society	4,966,504	23,885,915
Rural Community Development Society	4,203,716	21,782,862
Centre for Women Cooperative Development	6,414,595	11,284,239
Poverty Eradication Network	435,036	4,505,070
Khwendo Kor Women & Children Development Programme	519,272	3,439,400
Community Support Concern	17,396,457	34,964,197
Women Social organization	715,648	3,598,156
Young Pioneers Society	1,029,002	3,706,301
Anjuman-e- Falah-o-Behbood	907,585	3,660,418
Aga Khan Rural Support Programme	-	121,069
Women Welfare Organization Poonch	2,071,852	5,543,537
Kashf Foundation	20,587,066	77,016,163
Family Planning Association of Pakistan	-	5,171,862
Baanhn Beli	984,546	7,088,649
Bunyad Literacy Community Council	1,920,272	6,402,525
Ghazi Brotha Taraqiatee Idara	848,000	984,844
Human Development Foundation	-	6,968,401
Indus Resource Centre	190,541	5,784,028
Organization for Participatory Development	2,703,354	10,836,371
Soon Valley Development Programme	2,205,591	3,260,031
Sungi Development Foundation	-	293,689
Swabi Women Welfare Society	1,198,236	4,669,380
Youth Commission for Human Rights	-	60,200
Indus Earth Trust	-	51,796
Network Leasing Corporation Limited	-	4,814
Orangi Charitable Trust	2,761,731	12,526,412
Participatory Integrated Development Society	624,897	1,123,531
Community Development Concerns	620,469	2,104,355
Community Mobilisation and Development Organization	725,000	1,000,428
Green Circle Organization	-	272,000
Islamic Relief	-	503,238
Disbursements continued - carried forward	387,779,900	1,813,689,004





# Notes to the Financial Statements

For the year ended June 30, 2007

Note	For the year	Cumulative to date
	(Rupees)	
Disbursements continued - brought forward	387,779,900	1,813,689,004
Karwan Community Development Organization	131,644	1,193,338
Kiran Welfare Organization	1,699,230	3,375,368
Narowal Rural Development Programme	2,142,780	7,541,906
South Asia Partnership Pakistan	169,208	1,094,815
Salik Development Foundation	-	120,000
Society for Conservation and Protection of Environment	-	557,511
AKPBS-Water and Sanitation Extension Programme	336,000	444,000
Village Friends Organization	-	457,000
SOS Children's Village	-	200,000
Asasah	23,597,812	34,737,576
Baidarie	1,372,500	1,920,101
Balochistan Environmental and Educational Journey	204,904	474,904
Human Resource Development Society	-	120,000
Orix Leasing Pakistan Limited	3,198,735	3,711,835
Save The Poor	1,560,100	2,142,836
Marvi Rural Development Organization	3,302,920	5,114,295
Hazara Development and Advocacy Foundation	1,661,500	1,941,500
Society for Human Empowerment & Rural Development	75,727	283,227
AKPBS-Water and Sanitation Extension Programme	313,830	313,830
Balochistan Rural Development & Research Society	1,106,298	1,106,298
Badin Rural Development Society	280,000	280,000
Health and Nutrition Development Society	230,000	230,000
Sindh Rural Support Organization	1,069,500	1,069,500
Direct payments for seminars and workshops	6,431,989	10,229,718
Trainers' salary	-	1,909,991
	<b>436,664,577</b>	<b>1,894,258,553</b>
	<b>147,476,438</b>	<b>147,476,438</b>

## 18.1.4 Emergency relief

Opening balance	(19,954,101)	-
Amount received	26,653,937	275,301,677
Foreign exchange translation differences - Net	(84,747)	487,257
	<b>6,615,089</b>	<b>275,788,934</b>
Less: Disbursements		
Sarhad Rural Support Programme	2,907,200	25,057,200
National Rural Support Programme	3,590,000	73,593,082
Omer Asghar Khan Development Foundation	1,379,426	28,879,426
Centre for Women Cooperative Development	-	2,328,960
Marvi Rural Development Organization	-	400,000
Women Welfare Organization Poonch	-	6,000,000
Islamic Relief	-	2,500,000
Direct expenses by PPAF	-	138,291,803
	<b>7,876,626</b>	<b>277,050,471</b>
	<b>(1,261,537)</b>	<b>(1,261,537)</b>



# Notes to the Financial Statements

For the year ended June 30, 2007

	<u>Note</u>	<u>2007</u>	<u>2006</u>
		(Rupees)	
<b>18.1.5 Rehabilitation &amp; Reconstruction</b>			
Housing reconstruction and community buildings	18.1.5.1	1,290,301,000	(179,846,974)
Revitalization of affected communities / rehabilitation of CPI schemes	18.1.5.2	520,460,092	(142,552,297)
		<u>1,810,761,092</u>	<u>(322,399,271)</u>
	<b>Note</b>	<b>For the year</b>	<b>Cumulative to date</b>
		(Rupees)	
<b>18.1.5.1 Housing reconstruction and community buildings</b>			
Opening balance		(179,846,974)	-
Amount received		7,705,616,551	8,124,805,251
Foreign exchange translation differences - Net		(24,500,100)	(23,535,774)
		<u>7,501,269,477</u>	<u>8,101,269,477</u>
Less: Disbursements			-
Sarhad Rural Support Programme		2,265,800,000	2,311,750,000
National Rural Support Programme		2,649,950,000	2,974,950,000
Omer Asghar Khan Development Foundation		218,362,500	254,987,500
Sungi Development Foundation		335,955,977	403,380,977
Women Welfare Organization Poonch		28,400,000	40,900,000
Islamic Relief		712,500,000	825,000,000
		<u>6,210,968,477</u>	<u>6,810,968,477</u>
		<u>1,290,301,000</u>	<u>1,290,301,000</u>
<b>18.1.5.2 Revitalization of communities / rehabilitation of CPI schemes</b>			
Opening balance		(142,552,297)	-
Amount received		785,012,825	942,208,588
Foreign exchange translation differences - Net		(2,496,022)	(2,134,400)
		<u>639,964,506</u>	<u>940,074,188</u>
Less: Disbursements for;			-
revitalization of affected communities			
Sarhad Rural Support Programme		6,873,622	23,618,772
National Rural Support Programme		32,291,038	127,845,038
Omer Asghar Khan Development Foundation		7,616,127	19,383,592
Sungi Development Foundation		11,951,998	27,505,698
Women Welfare Organization Poonch		606,201	5,727,151
Islamic Relief		20,924,089	48,547,839
Disaster Management Trainings		1,670,708	1,670,708
		<u>81,933,783</u>	<u>254,298,798</u>
rehabilitation of CPI schemes			
Sarhad Rural Support Programme		-	48,914,500
National Rural Support Programme		-	51,765,000
Omer Asghar Khan Development Foundation		-	11,783,500
Women Welfare Organization Poonch		21,403,731	31,471,998
Islamic Relief		-	5,213,400
Sungi Development Foundation		16,166,900	16,166,900
		<u>37,570,631</u>	<u>165,315,298</u>
		<u>520,460,092</u>	<u>520,460,092</u>

# Notes to the Financial Statements

For the year ended June 30, 2007

18.1.6 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 the agreement, IDA agreed to reallocate a sum of SDR 3.53 million for activities responding to the Emergency by the earthquake as disclosed in note 17.1.4 to these financial statements, and to make available to GOP an additional sum of SDR of 68.90 million under Phase II to GOP.

Second agreements amending the DCA was signed between IDA and GOP on May 02, 2007, in respect of Grants for Rehabilitation & Reconstruction. As per agreement IDA agreed to make available to GOP an additional sum of SDR of 91.80 million under Phase II to GOP.

The GOP will utilize these amounts through the Company to support the relief, reconstruction and rehabilitation of communities affected by the earthquake which occurred on October 8, 2005.

Under agreements amending the SFAs dated May 03, 2006 and June 22, 2007 executed between GOP and the Company, the GOP agreed to provide SDR 68.90 million and SDR 91.80 million respectively to the Company as grants on non reimbursable basis.

	<u>Note</u>	<u>2007</u>	<u>2006</u>
		(Rupees)	
<b>18.2 Grants from US Agency for International Development/Pakistan</b>			
Capacity building - POs	18.2.1	(1,500,633)	3,128,592
Enterprise development loans	18.2.2	181,041,206	244,104,403
		<u>179,540,573</u>	<u>247,232,995</u>
	<b>Note</b>	<b>For the year</b>	<b>Cumulative to date</b>
		(Rupees)	
<b>18.2.1 Capacity building - POs</b>			
Opening balance		3,128,592	-
Amount received		9,430,200	19,293,285
Foreign exchange translation differences - Net		87,781	87,781
		<u>12,646,573</u>	<u>19,381,066</u>
Amount contributed by PPAF		60,000	1,792,000
		<u>12,706,573</u>	<u>21,173,066</u>
Less: Disbursements			
Centre for Women Cooperative Development		8,929,766	11,908,444
Rural Community Development Society		1,070,440	5,180,870
Sindh Agricultural & Forestry Workers Coordinating Organization		1,998,600	1,998,600
Community Support Concern		2,208,400	2,208,400
Punjab Rural Support Programme		-	1,377,385
		<u>14,207,206</u>	<u>22,673,699</u>
		<u>(1,500,633)</u>	<u>(1,500,633)</u>
<b>18.2.2 Enterprise Development loans</b>			
Opening balance		244,104,403	-
Amount received		30,497,300	262,213,473
Foreign exchange translation differences - Net		283,885	283,885
		<u>274,885,588</u>	<u>262,497,358</u>
Service charges earned		3,763,818	16,152,048
		<u>278,649,406</u>	<u>278,649,406</u>
Less:			
Ineligible costs repaid during the year	18.2.2.2	97,608,200	97,608,200
		<u>181,041,206</u>	<u>181,041,206</u>





# Notes to the Financial Statements

For the year ended June 30, 2007

- 18.2.2.1 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. 130.60 million have been disbursed to POs. Total disbursements for EDF under USAID aggregates to Rs. 340.516 million.
- 18.2.2.2 This represents the amounts recovered from partner organizations on account of ineligible costs for the year 2004-05 not covered under respective financing agreements, and paid to USAID/Pakistan. The ineligible costs (Rs. 55,290,720) for the year 2005-06 is not recognized in these financial statements pending finalization of the matter between the Company and USAID.
- 18.2.3 PPAF signed a cooperative agreement with the U.S. Agency for International Development Mission to Pakistan (USAID/Pakistan). The period of this agreement was 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 loans and bank account.

Note	For the year	Cumulative to date
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(Rupees)

## 18.3 Grants from Government of Pakistan - USDA

Opening balance	533,027,219	-
Amount received	834,100,000	1,442,100,000
Profit on project bank account	26,894,379	48,086,046
	1,394,021,598	1,490,186,046
Less: Disbursements		
Green Circle Organization	-	1,537,160
Soon Valley Development Programme	8,765,000	27,268,064
Sarhad Rural Support Programme	5,870,000	17,689,000
Taraqee Foundation	38,674,674	43,480,875
Rural Community Development Society	6,634,144	10,071,069
Aga Khan Rural Support Programme	7,928,387	33,022,674
Indus Earth Trust	763,000	5,098,000
National Rural Support Programme	32,692,224	42,868,224
Sindh Agricultural & Forestry Workers Coordinating Organization	23,450,458	27,441,288
Thardeep Rural Development Programme	31,284,369	42,308,624
Seminars and Workshops	-	1,441,726
	156,062,256	252,226,704
	1,237,959,342	1,237,959,342

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# Notes to the Financial Statements

For the year ended June 30, 2007

- 18.3.1 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 on non reimbursable basis. The total programme size is Rs.1,518 million, out of which Rs 400 million have been received during the year 2004-05, Rs 240 million during the year 2005-06 and Rs 878 million during current year. 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 19.4.

## 18.4 Grants from Government of Pakistan - KfW

	<b>Note</b>	<b>2007</b>	<b>2006</b>
		(Rupees)	
Housing reconstruction and community buildings	18.4.1	240,918,857	-
Revitalization of affected communities / rehabilitation of CPI schemes	18.4.2	90,791,607	-
		<b>331,710,464</b>	<b>-</b>
	<b>Note</b>	<b>For the year</b>	<b>Cumulative to date</b>
		(Rupees)	
18.4.1 Housing reconstruction and community buildings			
Amount received		748,918,857	748,918,857
Less: Disbursements:			
Sarhad Rural Support Programme		508,000,000	508,000,000
		<b>240,918,857</b>	<b>240,918,857</b>
18.4.2 Revitalization of affected communities / rehabilitation			
Amount received		113,521,857	113,521,857
Less: Disbursements:			
Sarhad Rural Support Programme		22,730,250	22,730,250
		<b>90,791,607</b>	<b>90,791,607</b>
18.4.3 On June 09, 2006 the Government of Pakistan and KfW Development Bank (KfW) signed a programme agreement under which KfW has extended a financial contribution of EURO 14 million as non reimbursable grant for reconstruction of rural housing and related infrastructure of communities in district Jabori and Sachan Kalan of North West Frontier Province (NWFP) affected by the earthquake occurred on October 08, 2005. The allocated amount will cover the grants to affected communities for (a) reconstruction of housing (b) rehabilitation of community infrastructure (c) costs of trainings for the affected communities and staff of the POs (d) operating costs and cost of equipments to POs engaged in these activities. The period of this agreement is of two years, starting from the date of signing i.e. June 09, 2006 through June 08, 2008. Under SFA dated September 25, 2006 executed between GoP and PPAF, GOP agreed to provide EURO 14 million to the company as grant on non reimbursable basis.			

# Notes to the Financial Statements

For the year ended June 30, 2007

	<u>Note</u>	<u>2007</u>	<u>2006</u>
		(Rupees)	
<b>18.5 Grants from Government of Pakistan - IFAD (MIOP)</b>			
Amount received on account of capacity building grants for POs.		39,119,621	-
<b>18.6 Grants from Government of Pakistan - IFAD (REACH)</b>			
Housing reconstruction and community buildings	18.6.1	373,004,043	-
Revitalization of affected communities	18.6.2	111,585,731	-
		<u>484,589,774</u>	<u>-</u>
		<b>For the year</b>	<b>Cumulative to date</b>
		(Rupees)	
<b>18.6.1 Housing reconstruction and community buildings</b>			
Amount received		1,345,604,043	1,345,604,043
Less: Disbursements:			
Sarhad Rural Support Programme		972,600,000	972,600,000
		<u>373,004,043</u>	<u>373,004,043</u>
<b>18.6.2 Revitalization of affected communities</b>			
Amount received		118,062,131	118,062,131
Less: Disbursements:			
Sarhad Rural Support Programme		6,476,400	6,476,400
		<u>111,585,731</u>	<u>111,585,731</u>
<b>18.6.3</b>			
On June 14, 2006 the Government of Pakistan and International Fund for Agricultural Development (IFAD) signed a Project Loan Agreement under which IFAD has extended a financial contribution of Special Drawing Rights (SDRs) 18.350 million under the project "Restoration of Earthquake Affected Communities and Households"(REACH). The allocated amount will cover the grants to affected communities for (a) reconstruction of housing (b) rehabilitation of community infrastructure (c) grants for livestock (d) costs of trainings for the affected communities and staff of the POs (e) operating costs and cost of equipments to POs engaged in these activities. The period of this agreement is of three years from the effective date i.e. August 01, 2006.			
Under SFA dated September 19, 2006 executed between GoP and PPAF, GOP agreed to provide SDRs 18.350 million to the company as grant on non reimbursable basis.			
		<b>For the year</b>	<b>Cumulative to date</b>
		(Rupees)	
<b>18.7 Grants from Committee Encouraging Corporate Philanthropy</b>			
Amount received		182,554,083	182,554,083
Foreign exchange translation differences - Net		(315,887)	(315,887)
		<u>182,238,196</u>	<u>182,238,196</u>
Less: Disbursements:			
National Rural Support Programme		15,734,750	15,734,750
Mountain and Glacier Protection Organization		41,700,375	41,700,375
Community Uplift Programme		18,637,000	18,637,000
		<u>76,072,125</u>	<u>76,072,125</u>
		<u>106,166,071</u>	<u>106,166,071</u>





# Notes to the Financial Statements

## For the year ended June 30, 2007

18.7.1 On August 15, 2006 the Company and CECP signed a programme agreement under which CECP has agreed to make available an amount of US Dollars 12 million over a period of three years commencing from October 1, 2006 to September 30, 2009 to the Company as grant on non reimbursable basis for design, reconstruction and refurbishment of regional health centers, clinics, primary schools and secondary schools affected by the earthquake.

### 19. DEFERRED INCOME - GRANT FUND

Government of Pakistan (GoP)

Capacity Building - IDA (PPAF II)

Capacity Building - IDA (RNR)

Capacity Building - IFAD (MIOP)

Capacity Building - USDA

Capacity building - USAID/Pakistan

Capacity building - CECP

Note	2007	2006
	(Rupees)	
19.1	27,333,262	34,968,506
19.2	10,088,186	10,662,358
19.3	53,420	-
19.4	51,779,926	27,791,447
	89,254,794	73,422,311
19.5	(305,996)	1,332,506
19.6	6,840,805	-
	<b>95,789,603</b>	<b>74,754,817</b>

Note	For the year	Cumulative to date
	(Rupees)	
19.1	34,968,506	-
	50,264,304	265,819,093
	(159,816)	1,488,653
	85,072,994	267,307,746
	57,739,732	239,974,484
	<b>27,333,262</b>	<b>27,333,263</b>
19.2	10,662,358	-
	41,316,464	63,773,002
	(131,302)	(79,642)
	51,847,520	63,693,360
	41,759,334	53,605,174
	<b>10,088,186</b>	<b>10,088,186</b>
19.3	432,489	432,489
	379,069	379,069
	<b>53,420</b>	<b>53,420</b>
19.4	27,791,447	-
	43,900,000	75,900,000
	71,691,447	75,900,000
	19,911,521	24,120,074
	<b>51,779,926</b>	<b>51,779,926</b>
19.5	1,332,506	-
	4,148,327	19,768,392
	38,615	38,615
	5,519,448	19,807,007
	5,825,444	20,113,003
	<b>(305,996)</b>	<b>(305,996)</b>

# Notes to the Financial Statements

For the year ended June 30, 2007

	Note	2007	2006
		(Rupees)	
<b>24. GENERAL AND ADMINISTRATIVE EXPENSES</b>			
Salaries, wages and other benefits	24.1	80,407,533	50,628,873
Rent		14,223,941	8,114,074
Repairs and maintenance		3,694,858	2,330,441
Traveling, lodging and conveyance		23,365,390	9,539,105
Communication		1,839,110	1,641,556
Printing and stationery		5,710,501	2,497,746
Insurance		1,140,814	745,158
Vehicles running and maintenance		4,229,900	3,405,491
Utilities		1,368,658	1,173,616
Training		6,237,662	1,708,896
Consultancy charges		36,638,405	17,039,485
Legal and professional charges		816,800	950,450
Auditors remuneration	24.2	1,810,000	1,450,000
Advertisement		3,346,135	2,015,400
Media projection		939,532	2,236,648
Newspapers, books and periodicals		132,655	88,975
Depreciation	5	14,099,360	9,116,400
Amortization	6	1,160,663	-
Seminar and workshops		1,823,788	3,710,621
Security services		743,290	440,033
Others		1,587,647	1,256,100
	24.3	<u>205,316,642</u>	<u>120,089,068</u>

24.1 Salaries, wages and other benefits include Rs. 3,163,190 (2006: Rs. 1,841,166) in respect of gratuity expense and Rs. 7,355,490 (2006: Rs. 5,979,096) in respect of remuneration of the chief executive.

	Note	2007	2006
		(Rupees)	
<b>24.2 Auditors' remuneration</b>			
Statutory and projects' audit		510,000	330,000
Audit of POs		1,300,000	1,120,000
		<u>1,810,000</u>	<u>1,450,000</u>

24.3 Total general and administration expenses include Rs. 134,628,003 (2006: Rs. 57,673,110) incurred on different programme activities as disclosed in note 22.

## 25. FINANCIAL CHARGES

On micro credit loans	87,632,038	77,743,845
Bank charges	344,961	402,066
Discount on the purchase of PIBs	(3,595,800)	(9,005,700)
	<u>84,381,199</u>	<u>69,140,211</u>

## 26. OTHER INCOME

Gain on sale of fixed assets	1,214,017	712,669
Markup on loans to employees	21,763	10,734
Income from training	380,000	727,536
Others	188,386	344,335
	<u>1,804,166</u>	<u>1,795,274</u>





# Notes to the Financial Statements

## For the year ended June 30, 2007

### 27. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

#### 27.1 INTEREST RATE EXPOSURE:

##### Financial assets and liabilities

	Markup / interest bearing with maturity				Non markup / interest bearing with maturity				2007 Total	2006 Total
	Up to one year	One to five years	Over five years	Sub total	Up to one year	One to five years	Over five years	Sub total		
(Rupees)										
<b>Financial Assets:</b>										
Long term investments	-	400,000,000	600,000,000	1,000,000,000	-	-	-	-	1,000,000,000	800,000,000
Investments - short term	7,782,256,107	-	-	7,782,256,107	-	-	-	-	7,782,256,107	6,285,536,948
Loans to										
Partner Organizations	5,145,578,946	486,346,361	-	5,641,925,307	-	-	-	-	5,641,925,307	3,986,086,115
Deposits and other receivables	1,173,037	-	-	1,173,037	1,402,358	-	-	1,402,358	2,575,396	1,294,323
Profit/loss charges receivable	-	-	-	-	452,060,641	-	-	452,060,641	452,060,641	248,267,716
Cash and bank balances	398,016,678	-	-	398,016,678	3,320,174,728	-	-	3,320,174,728	3,718,121,405	1,726,888,720
	<u>12,207,022,768</u>	<u>886,346,361</u>	<u>600,000,000</u>	<u>14,802,369,129</u>	<u>3,774,577,728</u>	<u>-</u>	<u>-</u>	<u>3,774,577,728</u>	<u>18,577,946,856</u>	<u>12,169,152,422</u>
<b>Financial Liabilities:</b>										
Long term loans	111,242,020	725,068,704	8,940,356,687	10,776,767,411	-	-	-	-	10,776,767,411	10,513,568,573
Debtors liabilities - grant fund	-	-	-	-	4,701,508,286	-	-	4,701,508,286	4,701,508,286	780,048,665
Service and commitment charges payable	-	-	-	-	52,519,814	-	-	52,519,814	52,519,814	24,268,053
Other liabilities	-	-	-	-	8,320,948	-	-	8,320,948	8,320,948	4,608,108
Payable to Creditry fund	-	-	-	-	(2,046,125)	-	-	(2,046,125)	(2,046,125)	(5,617,920)
Taxation	-	-	-	-	-	-	-	-	-	2,115,574
	<u>111,242,020</u>	<u>725,068,704</u>	<u>8,940,356,687</u>	<u>10,776,767,411</u>	<u>4,758,302,923</u>	<u>-</u>	<u>-</u>	<u>4,758,302,923</u>	<u>15,536,070,324</u>	<u>11,228,981,044</u>
<b>Off balance sheet items:</b>										
Commitments	-	-	-	-	3,855,071,028	-	-	3,855,071,028	3,855,071,028	11,009,846,523
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,855,071,028</u>	<u>-</u>	<u>-</u>	<u>3,855,071,028</u>	<u>3,855,071,028</u>	<u>11,009,846,523</u>

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

#### 27.2 RISK MANAGEMENT POLICIES

##### 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. 5.64 billion out of a total of Rs. 18.61 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) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. 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

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company's financial position is satisfactory and the Company does not have any liquidity problems.

##### e) Fair value of financial instruments

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

# Notes to the Financial Statements

For the year ended June 30, 2007

	<u>Note</u>	<u>2007</u>	<u>2006</u>
		(Rupees)	
<b>28. TAXATION</b>			
Current year		76,000,000	-
Prior years		9,000,000	-
Deferred		-	28,119,000
		<u>85,000,000</u>	<u>28,119,000</u>

## 29. NUMBER OF EMPLOYEES

The Company had 155 (2006: 80) employees as at June 30, 2007.

## 30. EXCHANGE RATE

The exchange rate of Rs. 60.20/USD has been used for translation of financial instruments held in foreign currency.

## 31. COMPARATIVE FIGURES

Comparative figures have been rearranged and reclassified, wherever necessary for better presentation.

## 32. DATE OF AUTHORISATION

These financial statements were authorised for issue on 17 SEP 2007 by the Board of Directors of the Company.



**CHAIRMAN**



**CHIEF EXECUTIVE/MANAGING DIRECTOR**



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