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Annual Report 2008

Pakistan Poverty Alleviation Fund

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
GTZ	Gesellschaft fur Technische Zusammenarbeit (German Technical Cooperation)
H&E	Health & Education (unit)
HID	Human & Institutional Development (unit)
IA	Internal Audit (unit)
IAUP	Integrated Area Upgradation Program
IFAD	International Fund for Agriculture Development
IR	Islamic Relief
IRC	Indus Resource Center
KfW	Kreditanstait fur Wiederaubau (Reconstruction Credit Institute)
KIBOR	Karachi Interbank Offered Rate
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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Annual Report 2008

Pakistan Poverty Alleviation Fund

Contents

Boxes

Figures

Tables

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	Consultant, 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.
Ainullah Khan Kakarr	Former Civil Servant.
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.
Aijaz Ahmed Qureshi	General Manager, Sindh Irrigation & Drainage Authority.
Fazlullah Qureshi	Former Member, National Electric Power Regulatory Authority.
Muhammad Ismail Qureshi	Secretary, Ministry of Petroleum, Government of Pakistan.
Syed Ayub Qutub	Executive Director, Pakistan Institute of Environment Development & Research.
Sadiqa Salahuddin	Executive Director, Indus Resource Center.
M Suleman Shaikh	Honorary Chief Executive, Sindh Rural Support Organization.
Jahangir Tareen	Former Federal Minister, Government of Pakistan.
Fareeha Zafar	Director, Society for the Advancement of Education.

Board of Directors

Hussain Dawood
Chairman

Mueen Afzal

Rafiud Deen Ahmad

Rana Assad Amin

Junaid Iqbal Ch.

Arif Hasan

Aijaz Ahmed Qureshi

Syed Ayub Qutub

Fareeha Zafar

Kamal Hyat
Chief Executive/Managing Director

BoD Committees

Human Resource Committee

Hussain Dawood
Chairman

Aijaz Ahmed Qureshi

Fareeha Zafar

Audit Committee

Mueen Afzal
Chairman

Rafiud Deen Ahmad

Rana Assad Amin

Aijaz Ahmed Qureshi

Company Secretary	Iltifat Rasul Khan
Auditors	A. F. Ferguson & Company, Chartered Accountants
Legal Advisors	Azam Chaudhry Law Associates
Tax Advisors	A. F. Ferguson & Company, Chartered Accountants
Bankers	Royal Bank of Scotland, Allied Bank of Pakistan, Askari Commercial Bank Limited, Bank Al-Falah Limited, Citibank, Faysal Bank Limited, Habib Bank Limited, Hong Kong and Shanghai Banking Corporation Limited, National Bank of Pakistan, NDLC-IFIC Bank Limited, Saudi Pak Commercial Bank Limited, Standard Chartered Bank Limited.
Registered Office	House No. 1, Street No. 20, Sector F-7/2, Islamabad, Pakistan. UAN: (+92-51) 111-000-102, Tel. 265 3304-05, 265 3597 Fax. (+92-51) 265 2246, Email: info@ppaf.org.pk Website: www.ppaf.org.pk

Chairman's Message

It is heartening to see that despite difficult circumstances PPAF's upward drive continued throughout the year 2008. By the end of June 2008, PPAF had disbursed Rs. 34 billion through its regular partner organizations. As in the past, microcredit accounted for a major share of the total funds disbursed (Rs. 25.7 billion). Consequently, PPAF continued to lead the drive for increasing the number of clients in the sector, and, at present, accounts for 45 percent of the active microcredit borrowers in the country.

Physical infrastructure works have continued to expand and disbursements of Rs. 5.5 billion were made in the current year to provide drinking water, irrigation channels and sanitation facilities to the vulnerable in the poorest districts of the country. Sindh Coastal Area Development pilot project was introduced with assistance from Consultative Group to Assist the Poor to address the pressing problems of the destitute that are usually left out of the traditional microcredit facilities.

Similarly, health and education facilities have been well received and there is growing demand from communities to avail these and give their children a chance for a better future. Both the community schools and those which have been adopted by PPAF from the government are doing exceedingly well, and we hope to take these facilities to scale in the future.

The sterling work accomplished by PPAF in the earthquake areas, where it has helped to construct over 90,000 houses, is receiving international attention. Recently, the "Golden Plough" of the World Bank recognized outstanding systems, operational and monitoring features of PPAF. In addition, PPAF executives were invited by the Government of China to share experiences so that they may emulate the same in order to mitigate the hardships of the victims of the recent earthquake in China.

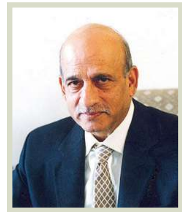
For all these achievements I must thank the very constructive role played by members of PPAF Board and General Body. Following international best practice, two committees of the Board dealing with Audit and Human Resources have been set up and are now regularly meeting to facilitate and guide the management in these important areas of work. I am grateful to them for their time and contribution.

Similarly, I would like to express my appreciation for members of the management team who continue to work with dedication and have developed a reputation of credibility and trust. They must continue to reinvent themselves to meet the new challenges of increased poverty and hunger which threatens the very fabric of the State.

It is a pleasure to report that the Government of Pakistan, whose facilitation and support have been the major reason for the success of this flagship program, have approved in principle the third PPAF project for which a World Bank Mission is due in November 2008.

Thanks is also due to our donors for their strong backing and belief in our ability to deliver effectively at the grassroot level, and for giving us an opportunity to make a difference in the lives of the poor and vulnerable people of Pakistan.

Hussain Dawood



Chief Executive's Statement

The year 2008 proved to be a challenging one. Internal political and social unrest coupled with a fast deteriorating situation on the northern borders ushered in a period of considerable uncertainty. These two factors resulted in macroeconomic instability.

Despite the unfavorable situation, PPAF results were highly satisfactory, and all major targets were achieved well in time. The inbuilt advantage of having a credible resource backed apex institution with in-depth presence in all provinces and regions mitigated the risk factor to a large extent, and ensured steady progress.

Major strides were made in improving communications with all stakeholders, particularly in microfinance where PPAF is a lead player. Arrangements were concluded through support of our donors to help our large partner organizations access funds from the commercial banks.

The support and enthusiasm of the Chairman and Board of Directors continued to play a constructive and positive role in the development of PPAF as a world class institution. The close but professional relationship between the Board of Directors and the management team has contributed a great deal to the success of the program.

The excellent performance of our partner organizations and their ownership of the programs have made it possible to overcome the most difficult of challenges – particularly in the earthquake affected regions of Pakistan where despite great hardship and hazardous conditions, a major transformation has taken place.

Similarly, the role of the PPAF executives and staff was outstanding. Their dedication in the face of mounting odds and difficulties served the institution well. My special thanks to them for their hard work and relentless efforts.

I must also mention two outstanding individuals namely Mr. Praful Patel, former World Bank Vice President, South Asia Region, and Mr. John Wall, former Country Head of the World Bank, whose timely guidence and active support were crucial for the success of the project.

We are indebted to the Government of Pakistan for reposing their trust in us, and their facilitation in developing this exemplary Public / Private Partnership to new heights and international stature. Similarly the role of our donors has been one of a true partnership, with open discussions and an agreed way forward.

As a private sector delivery mechanism of the Government of Pakistan, we are concerned with the extremely difficult social and economic circumstances that have emerged. We will do our very best to assist the government to overcome the prevailing crisis, and move ahead in a manner which will not reverse the gains of the past.

We pledge to serve our vulnerable people with renewed zest and vigor.

Kamal Hyat

Overview

Over the last decade, Pakistan Poverty Alleviation Fund has emerged as the largest private sector initiative for wholesaling development support to civil society organizations in the country. PPAF has played the role of lead agency in strengthening participatory development in the national framework. PPAF has endeavored to mainstream marginalized communities through provision of a broad range of financial and non-financial services leading to better access, improved income and quality of life and sustainable livelihood opportunities at the grassroots, and, simultaneously, catalyzed the enhanced absorption and managerial capacities of partner organizations.

By year end, PPAF had disbursed almost Rs. 34 billion through 73 partner organizations under its four regular windows: lending for microcredit/enterprise (almost Rs. 26 billion), development of infrastructure (Rs. 5.5 billion), health and education (Rs. 312 million), and human and institutional development (Rs. 2.4 billion). These funds have cumulatively financed over 2.3 million loans, 16,450 infrastructure schemes, 180 health and education facilities and over 8,850 training events for participating communities and staff of partner organizations.

By FY 2008, PPAF had emerged as the major financier of microfinance market. Having practically driven the sector's growth, PPAF has initiated steps for further consolidation through mitigating supply side constraints. For this purpose, resources have been generated to facilitate *crowding in* of substantial commercial financing via credit enhancement instruments. While continuing to assist smaller partner organizations with sufficient grant funding in support of microcredit, the overall ratio of grant funding had been progressively curtailed.

While adhering to the *double-bottom line*, and in order to make loan utilization more productive, PPAF has initiated a pilot project aimed at graduating destitute households to mainstream microfinance by developing appropriate social safety nets prior to asset transfers. The pilot will lead to more inclusive targeting strategies and address specific needs of the extremely poor.

Simultaneously, PPAF interventions in physical and social infrastructure development have matured to offer more holistic solutions. The strategy of pursuing stand-alone village level interventions has gradually given way to multiple sectoral programs conceptualized for the benefit of larger communities and collective development needs of less developed areas, especially those in drought affected/water deficient regions.

PPAF has continued to emphasize building institutional and human resource capacities of participating communities and civil society organizations with a view to institutionalizing a sustainable framework for service delivery at the grassroots. Hence the focus is on small/productive subsidies with a clearly articulated exit strategy.

Over the last three years, the Social Sector Development Program (health and education) has expanded to include primary schools and community health centers in private sector as well as adopted from public sector, located primarily in least accessible areas with little or no access to quality healthcare or education.

PPAF's Rehabilitation and Reconstruction Program in the earthquake affected areas, while focusing mainly on the reconstruction of seismically-safe housing units, also incorporated substantive components including capacity building, livelihoods restoration, reconstruction of non-housing infrastructure and focused interventions on disability. To date, PPAF has cumulatively disbursed Rs. 14.5 billion to partner organizations, mostly for facilitating reconstruction of housing and non-housing infrastructure.

Today, Pakistan is faced with the twin crises of food and energy insecurity and its potentially debilitating impact on overall poverty and vulnerability. As a national institution, PPAF is poised to play its part. Reflecting on this role is a track record of responsiveness to national challenges such as the earthquake and drought.

To that end, PPAF is fully geared to securing the future of the country's poor through a strategy of community driven development. This strategy capitalizes on resource backed support and confidence of the Government of Pakistan and international development partners, a strong platform of partner organizations, and most critically, the inherent strength and resilience of poor and disadvantaged communities in the face of extreme adversity.

Credit and Enterprise Development

2

Timely access and steady availability of finance facilitates sustainable livelihoods and sustains marginalized communities through seasonal shocks. It can help build physical and human capital, relieving opportunity constraints that hinder economic growth from being distributed equitably. In Pakistan, the challenge at the grassroots/retail level is sustainable provision of financial services to communities at the lower end of the poverty scale.

The *raison d être* of PPAF was to invest in and capacitate civil society organizations to develop as effective providers of microfinance services and to expand outreach across the country. As an apex intermediary, PPAF has combined the twin role of market developer as well as wholesale financier for the sector. It has fuelled the sector to a level where Pakistan is now recognized internationally as an emerging market for microfinance.

By the end of the reporting period, PPAF had a market share of 45 percent of the over 1.7 million active microcredit borrowers in Pakistan, while its partner organizations collectively accounted for 61 percent share in the sector (see Figure 1). PPAF had cumulatively disbursed Rs. 25.2 billion to 45 partner organizations for microcredit on-lending.

During the reporting period (FY 2007-08), CED unit disbursed a record of Rs. 9.1 billion to 39 partner organizations. Of this, approximately Rs. 8.9 billion were disbursed under the WB financed microcredit window, Rs. 101 million under the Enterprise Development Facility (EDF) funded by WB, and Rs. 40.1 million under the new IFAD financed Microfinance Innovation and Outreach Program (MIOP).

Under microcredit lending, agriculture continues to account for the bulk of PPAF disbursements with a cumulative share of 38 percent. This, together with the 17 percent cumulative sectoral share of livestock during the same period is indicative of the fact that most of PPAF's microcredit beneficiaries are still located in rural areas (Figure 2).

Figure 1: PPAF and POs: Market Share

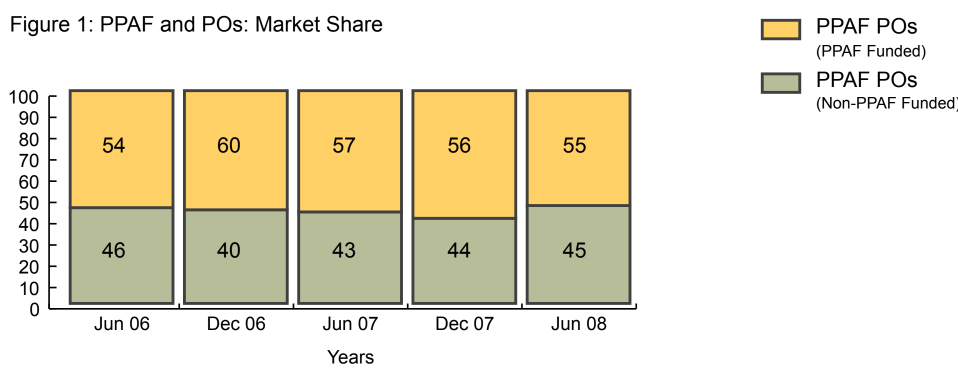


Figure 2: MC Disbursements:
By Sector (FY 2003-08)

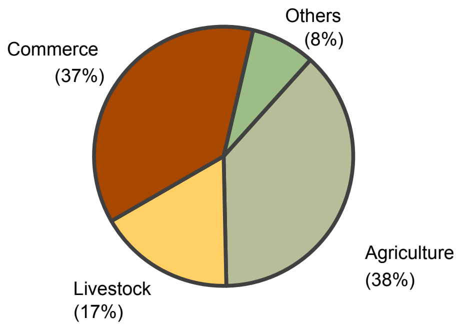
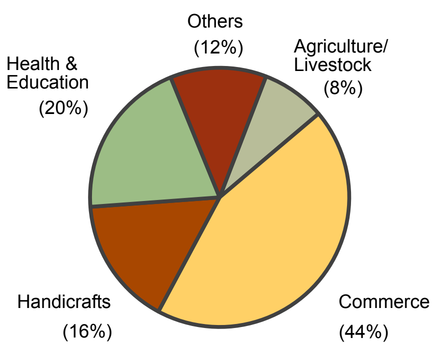


Figure 3: EDF Disbursements:
By Sector (FY 2003-08)



At the same time, with an increasingly substantial portfolio of PPAF's microcredit funds being allocated to microfinance institutions that are predominantly urban/suburban based and have a largely female clientele, the commerce sector's share at 37 percent has increased under this window as well (Figure 2).

Under EDF, with loans ranging from Rs. 30,000 to Rs. 100,000, most funds were utilized in the commerce sector for the establishment or incremental growth of small enterprises and cottage industry which accounted for a major portion at 44 percent (Figure 3). The other sectors under the facility during the reporting period were Handicrafts development 16 percent, Health/Education 20 percent, Agriculture/ Livestock development 8 percent and other small enterprises accounted for 12 percent of the total disbursements.

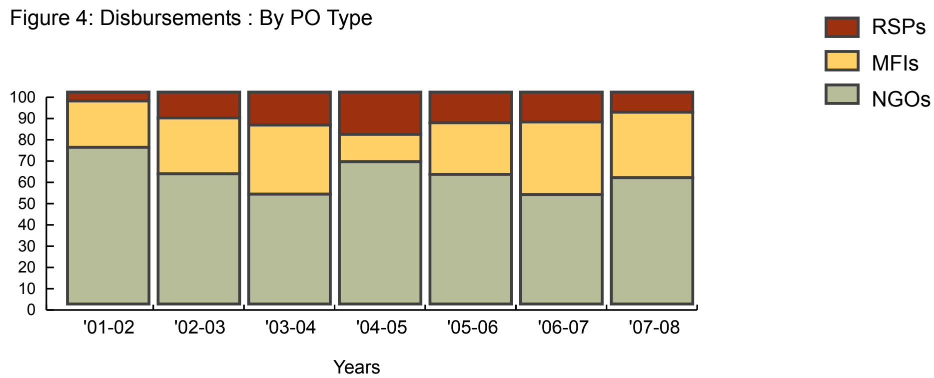
PPAF's commitment to developing the sector on competitive lines is further manifested in its readiness to work with a diverse set of service providers including rural support programs, microfinance institutions, non-governmental organizations and the formal financial sector. Compared to a largely uni-dimensional portfolio predominantly catering to rural support programmes initially, the PPAF has now diversified its portfolio (see Figure 4) to include many medium and small scale partner organizations.

This has spread the risk of PPAF funded exposure across multiple institutional structures and business models. Such diversification has progressively contributed to the sector's maturity and has been instrumental in the continuous development of innovative, more contextually relevant products. It has also enabled PPAF to have more risk adjusted operations amid evolving diversity in operations and increased exposures.

On the low end of the market, a much smaller average loan size, the microcredit window has a higher probability of reaching the poorest households. To date, over two million PPAF supported microcredit loans have been disbursed and the facility continues to account for the major portion of PPAF's credit portfolio.

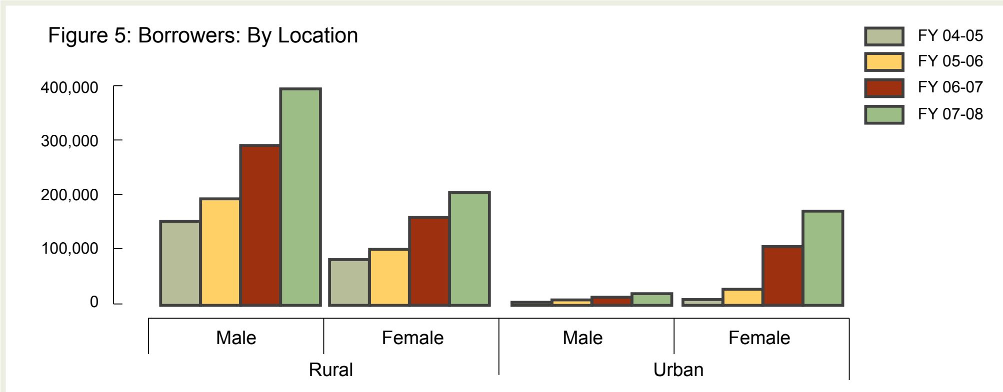
The gradual increase in PPAF's urban loan portfolio has been positively correlated with a reduction in the overall gender gap of PPAF microcredit beneficiaries. Whereas only 5.5 percent of PPAF's approximately 87,000 new female microcredit beneficiaries

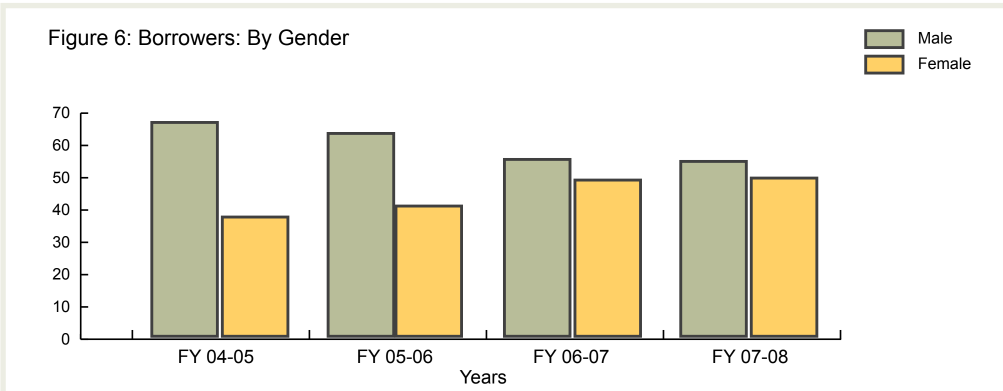
Figure 4: Disbursements : By PO Type



in FY 2004-05 were located in urban areas, approximately 45 percent of the nearly 373,600 new female beneficiaries in the current financial year were urban based (Figure 5). With the percentage of women beneficiaries also improving in rural areas, their ratio in terms of overall microcredit beneficiaries in the reporting period rose to a high of 47.5 percent, up from 35.8 percent in FY 2004-05 (Figure 6).

This has partly been made possible by an increasing focus on partner organizations with exclusively female clients, particularly in urban areas. The number of such POs has increased from one in FY 2000-01 to ten in FY 2007-08. Consequently, the share of microcredit funding for such organizations has increased from a mere 1.6 percent in FY 2000-01 to over 33 percent of total microcredit disbursements in FY 2007-08.





To enable active rural poor to increasingly access a wider range of sustainable financial services and products that respond to their needs the Microfinance Innovation and Outreach Program (MIOP) funded by IFAD was initiated. A strong off-take was registered in terms of approved facilities during the period under review. The US$ 20.8 million Innovation and Outreach (I&O) facility under the program allows partner organizations to pilot test and upscale innovative financial products and delivery models for rural communities.

The facility constitutes two financing windows: a regular window with loans of up to Rs. 100,000 for enterprising individuals, and a private sector linkage window with loans of up to Rs. 300,000 for small enterprises and trading/marketing operations.

During the reporting period, PPAF through its partner organizations initiated five innovative models under the Innovation and Outreach (I&O) facility of MIOP that includes Home Improvement Loans, Cooperative farming for women, increasing outreach through settlement branches, enterprise development loans in rural areas and village banking in mountainous areas.

The Young Partner Program component would expand PPAF's capacity to provide microfinance services to rural areas by helping PPAF develop new partner organizations. Under this component, two partners have been selected as Young Partner Development Initiatives (YPDIs) in rural Sindh and one as International Linkage Partner Initiative (ILPI) in rural Punjab.

With an eye on ensuring long term sustainability of the sector, PPAF is focusing on addressing supply side constraints through strengthening market linkages and putting in place structures to facilitate greater leveraging capacity for partner organizations. Through the Programme for Increasing Sustainable Microfinance (PRISM), an IFAD financed facility designed for meeting these objectives, PPAF seeks to ensure greater access to the commercial sector for partners with sustainable operations by offering Credit Enhancements to banks in the shape of cash collateral, letters of credit and/or direct guarantees.

PRISM further envisions the grant of equity funds to dynamic microfinance institutions to help build their capital and equity position and for leveraging commercial financing, helping them to increase outreach and attain greater sustainability in the future. PPAF partners will simultaneously need more professional assistance to exploit opportunities emanating from the above services. For this purpose, PRISM has set aside funds for technical support in key areas like institutional assessments, financial/strategic planning and management training, training in negotiation, business plan and manual preparation, information systems design and deployment, credit ratings and legal advice. Additionally, funds have been allocated for promoting greater knowledge sharing in the sector and establishing information linkages that would ensure a continuous dialogue process within the sector.

With the focus shifting towards a more market based approach, PPAF's Board of Directors has approved an elevated eligibility criterion requiring greater efficiency in operational/financial mechanisms and governance structures for partners seeking large quantum of funding. The growing focus on entrenching market oriented practices is further evident from PPAF's decision to adjust its lending rates for such organizations with KIBOR in order to discourage reliance on subsidized loans and at the same time offering 12 months grace period in loan repayment, thereby allowing its fastest growing POs greater flexibility and liquidity to expand their microcredit programs.

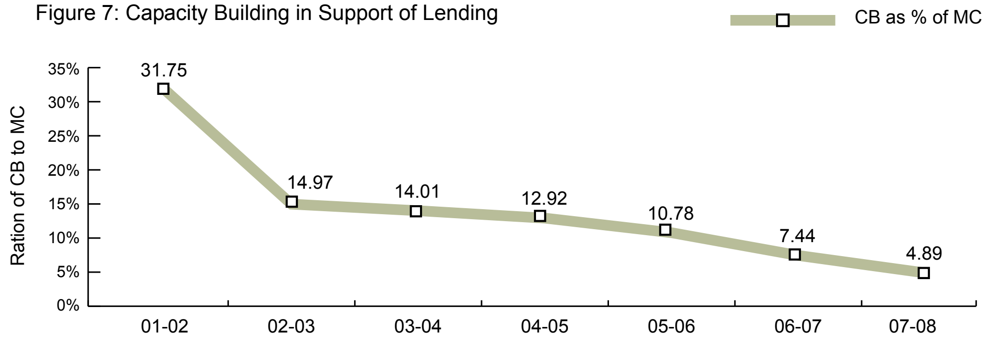
The decision to progressively reduce capacity building grants in support of microcredit operations for large organizations utilizing PPAF's regular microcredit window is another instance of introducing good market practices aimed at minimizing dependency and securing long term sustainability of partner organizations. Such grant funding has declined from 31.8 percent of allocated microcredit funds in FY 2001-02 to a low of 4.9 percent in FY 2007-08 (Figure 7).

In collaboration with CGAP, IFAD and Ford Foundation, PPAF has initiated a pilot project with 1000 chronic poor beneficiaries in developing social safety nets and graduating them to mainstream microfinance over a 30 months period. The program aims at building capacities of target communities through food and health subsidies followed by skill development and asset transfer. The project is expected to facilitate the development of newer products and services that directly address the needs of the poorest and most vulnerable segments.

PPAF's credit operations have grown to include more than 33,000 rural and urban communities across Pakistan. With a large number of beneficiaries graduating to contract additional PPAF financed loans from partner organizations, the impact on a number of welfare indicators at the household level has been visible and borne out through independent assessments by credible third party evaluations. The challenge now is to facilitate the sector to become self sustaining while continuing to address the double bottom line.

The year under review also witnessed increased coordination between the CED unit and other stakeholders in the sector, particularly the State Bank of Pakistan and Pakistan Microfinance Network. In doing so CED endeavors to identify complementarities and develop synergies in further promoting and supporting the microfinance sector in Pakistan.

Figure 7: Capacity Building in Support of Lending



Box 1.1: Policy changes commensurate with market characteristics

With PPAF's consistent support through credit lines and capacity building grants, many of its POs have become leading players in the sector. In changing market characteristics affecting PPAF POs, a study to assess credit and operational risks of PPAF's credit operation was carried out by Shorebank International, Pakistan in 2007. The study focused on assessing credit risks transferred to PPAF through its POs' credit operations depending upon their credit models, geographical & demographical diversity, governance and existing risk management frameworks. It recommended the following policy changes which were implemented during the period under review:

1. POs availing facilities or having exposure of Rs. 500 million or above are classified as "Large" and are required to meet following criteria to avail/ continue funding from PPAF:

- Separate books of accounts and audit of microcredit operations
- An automated loan tracking system to monitor portfolio performance and reporting
- Portfolio at risk ratio (> 30 days) < 5%
- Operational Self Sufficiency > 100%
- Risk Coverage ratio > 100%
- Periodic reports on performance indicators.

Proposed changes will allow PPAF to conduct stringent monitoring of credit operations of its large POs.

2. When the microfinance sector was characterized by weak institutions and limited retail capacity, PPAF played a catalytic role in strengthening not only its POs but contributed immensely to the sector through policy dialogue and knowledge management. With PPAF's financial and non-financial support, some of its POs have emerged as the country's fastest growing and sustainable organizations. Commensurate with this growth was a need to further support PPAF's POs for increased outreach so as to attain the target of 3 million borrowers by 2010. In view of their robust operations and track record, PPAF revised its repayment terms to offer maximum benefit to its POs. Such terms are common with apex organizations in the world (notably PKSF in Bangladesh) and has aligned PPAF to international best practices in terms of its operations.

In line with this and to best utilize PPAF's resources, following repayment terms are now available for financially/ operationally sound POs meeting PPAF's elevated eligibility criteria:

- Grace period of a maximum of 12 months for repayment of principal amount
- Commencement of principal repayment after grace period and not exceeding 15 months
- Servicing of mark-up on quarterly basis

3. PPAF's base rate has always enabled its POs to benefit from opportunities for attaining self-sufficiency. However, in the wake of rising interest rates and to institutionalize a risk adjusted pricing mechanism, PPAF linked its rate to KIBOR for POs availing facilities or having an exposure of Rs. 500 million and above.

Community Physical Infrastructure

3

The Community Physical Infrastructure (CPI) unit provisions development grants for demand responsive small-scale infrastructure projects to marginalized communities. All interventions follow mobilization processes designed to aggregate household preferences into community demands for identifying sustainable and environmentally friendly projects at the grassroots level. Within this framework, community ownership is secured through a cost sharing mechanism where participating community organizations are encouraged to share project costs and arrange maintenance funds.

The unit emphasizes the central role of community organizations in the identification of community needs as well as the selection of project site and appropriate levels of service and technology. A multi-staged process prior to project initiation involves compulsory community participation at different levels to facilitate informed choices deemed essential for long term sustainability of PPAF infrastructure interventions. As a prerequisite for project approval, community organizations have to raise funds sufficient to bear one year of operational and maintenance expenses. To date, 15,804 community organizations have been formed to manage and maintain PPAF supported infrastructure schemes.

In eight years of operations, the unit has accepted community demands for over 14,400 infrastructure projects through 49 POs spanning 115 districts of Pakistan, Northern Areas and AJK, 4 agencies of the Federally Administered Tribal Areas (FATA) and the Islamabad Capital Territory. Of these, 6,854 infrastructure interventions including stand alone conventional schemes as well as composite Integrated Area Upgrading Projects (IAUP) were operationalized under the CPI component of the first WB financed project (PPAF-I: FYs 2000-04), while another 7,543 schemes have so far been initiated under the second WB project (PPAF-II: FYs 2004-08). The above schemes have cumulatively benefitted a population of over 7.5 million in over 12, 800 rural and urban communities throughout the country (Table 1).

Table 1: Geographical Distribution of Infrastructure Schemes by Beneficiaries

	Projects	Beneficiary Households	Beneficiary Population
Punjab	4,918	420,986	2,799,538
NWFP	3,018	224,068	1,637,560
Sindh	2,854	169,019	1,238,987
Balochistan	2,429	157,365	1,149,575
NA	383	33,741	269,357
AJK	580	32,485	245,321
FATA	90	7,885	72,855
ICT	125	8,528	61,909
Grand Total	14,397	1,054,077	7,475,102

Table 2: Geographical Distribution of Infrastructure Schemes by Project Type (FYs 2000-08)

	DWSS	Irrigation	Sanitation	Roads	Flood Protection	IAUP	TIP	DMPP*	Total
Punjab	316	2,412	1,352	768	3	49	18	-	4,918
NWFP	1,131	386	909	422	80	47	43	-	3,018
Sindh	1,884	302	221	340	8	20	79	-	2,854
Baluchistan	856	1,117	178	52	75	5	63	83	2,429
NAs	165	86	13	75	36	7	1	-	383
AJK	412	6	4	157	-	1	-	-	580
FATA	75	5	9	1	-	-	-	-	90
ICT	45	-	46	22	-	12	-	-	125
Total	4,884	4,314	2,732	1,837	202	141	204	83	14,397

* DMPP (Baluchistan includes, 26 DWSS, 45 irrigation and 12 flood protection subprojects

PPAF supported infrastructure schemes focus mainly on four broad sectors: Drinking Water Supply, Irrigation, Sanitation and Communications (Table 2 & 3). Each sector further subsumes a variety of sub categories. For instance, most irrigation sector interventions in Punjab consist of watercourse lining projects, while irrigation channels, Karez rehabilitation and pipe irrigation projects are more common in Baluchistan. Such diversity naturally flows from differences in topographical conditions, varying degrees of water scarcity as well as disparities in the level of agricultural development, all factoring into determining community preferences that guide PPAF's development initiatives.

PPAF supported irrigation interventions have stimulated local economies by facilitating agricultural growth through better utilization of scarce water resources. While such schemes have contributed directly to household welfare through incremental increases in income and consumption levels, equally important long term benefits have accrued from interventions in the sanitation, drinking water supply and communications sectors. For instance, construction of culverts, causeways and link roads within isolated rural localities has improved intra-community movement, providing the facilitative structure necessary for economic growth in the local context.

Figure 8: Sectoral Distribution of CPI Schemes (FY 2007-08)

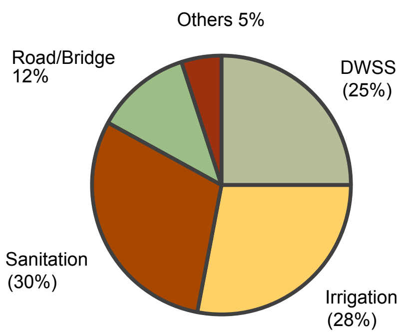
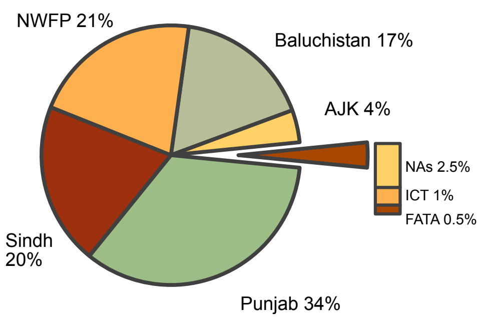


Figure 9: Geographical Disbribution of CPI Schemes (FY 2000-08)



Marginalized communities have further experienced increased real incomes by reaping the health dividend intrinsic to improved sanitary conditions accompanying networks of paved streets, community latrines, drains, and sewers. Similar health benefits are drawn from provisioning drinking water supply schemes to communities that lack easy access to potable water. The latter's impact is even more pronounced in terms of relieving women from carrying water over several miles of at times intractable distances, enhancing their productive potential and increasing economic options for poor households.

In the current financial year, the unit initiated work on 2,685 new infrastructure schemes, of which the irrigation sector accounted for 752 schemes, while 805,671 and 322 schemes were initiated in the sanitation, safe drinking water, and communications sectors, respectively (Figure 8).

To date, the unit has been successful in managing an equitable geographical distribution in the disbursement of funds for infrastructure development, while simultaneously concentrating on the most deprived regions. For this reason, the percentage share of rural Sindh, NWFP and Baluchistan in terms of number of schemes has tended to be much higher than their respective population share in the country (Figure 9).

While stand-alone conventional schemes continue to form the majority of CPI interventions, the unit has increasingly focused on a more holistic approach to infrastructure development with the initiation of a series of IAUP. The latter involves provisioning funds for initiating multiple interventions with a view to facilitating a meaningful change in poor communities. A typical IAUP includes three to six mutually complementary schemes (See Box 2.1) including interventions in drinking water supply, sanitation, communications and irrigation sectors. To date, 141 integrated projects have been initiated at the national level in collaboration with 17 partner organizations, of which 42 IAUPs were initiated in the current financial year.

Similarly, the introduction of better and more context-specific technologies through PPAF's Technological Innovations Projects (TIP) has allowed the poor to address community needs in ways that are more efficient, cost effective and sustainable. For instance, wind and solar energy has been tapped for powering a variety of interventions including reverse osmosis plants for clean drinking water, solar lights for village electrification and solar pumps for irrigation. Simultaneously, the problem of water scarcity in some of the most arid regions of the country is being met through water efficient mechanisms like drip and sprinkler irrigation systems.

Table 3: Distribution of Infrastructure Schemes

	PPAF 1	PPAF 11	Total
Conventional	6,742	7,227	13,969
DWSS	2805	2,079	4,884
Irrigation	2054	2,260	4,314
Drainage & Sanitation	993	1,739	2,732
Roads & Bridges	805	1,032	1,837
Flood Protection Works	85	117	202
DMPP*	83	-	83
DWSS	26	-	26
Irrigation	45	-	45
Flood Protection Works	12	-	12
IAUP†	1	140	141
IAUP	1	140	141
TIP	28	176	204
DWSS	24	21	45
Irrigation	1	82	83
Bio Gas	-	15	15
Electricity	3	57	60
Incinerator	-	1	1
Grand Total	6,854	7,543	14,397

* This pertains to the pilot Drought Mitigation and Preparedness Project (DMPP) in Baluchistan initiated during PPAF-I.
† These do not include sub-schemes initiated under IAUP

The devastation wrought by the October 2005 earthquake also obliterated the existing network of small scale infrastructure including safe drinking water schemes, drainage systems and link roads. No meaningful rehabilitation of affected communities was possible without the restoration of these facilities. Following a comprehensive survey conducted by partner organizations in their respective areas of operation. By the end of the reporting period, rehabilitation work on 395 out of the 669 initiated infrastructure schemes in affected areas has been successfully completed (Table 4). Since the availability of safe drinking water was central to the recovery process, the rehabilitation of Drinking Water Supply Schemes (DWSS), which accounts for approximately 77 percent of rehabilitated schemes, was prioritized.

Easy access to potable water not only ensures a healthy population, it is amongst the most rudimentary of building blocks essential for the existence of vibrant and productive communities that can effectively participate in the national mainstream.

DWSS constitute 34 percent of all CPI conventional schemes initiated to date, followed by interventions in the irrigation (31 percent), sanitation (19 percent) and communication (13 percent) sectors (Figure 10). PPAF's irrigation sector interventions, albeit less numerous than DWSS, account for a larger quantum of funds disbursed (34 percent) compared to a 22 percent share for safe drinking water schemes that have a lesser average per unit cost (Figure 11).

Table 4: Rehabilitation of Infrastructure Schemes in Earthquake Affected Areas

(As of June 30, 2008)

PO	Districts	Projects Initiated	Projects Completed	Cost of Initiated Project (Rs. Million)
SRSP	Battagram, Mansehra	416	196	282
NRSP	Bagh, Poonch	91	80	40
IRP	Bagh	35	7	12.3
WWOP	Bagh, Poonch	76	63	31.2
Sungi	Abbotabad	48	47	30.6
OAKDF	Abbotabad	3	2	1.4
Total		669	395	398

With the aim of reaching the largest possible number of poor communities, the unit has struck partnerships with an increasing number of grassroots development organizations with project areas spread far and wide across the country. The number of PPAF partners in infrastructure development has risen from 10 in FY 2000-01 to 41 in the current financial year. Simultaneously, the unit has diversified its portfolio to include a large number of NGOs, compared to an almost complete association with Rural Support Programmes (RSPs) in the early years. However, owing to their operational capacity, RSPs continue to account for the largest individual share in terms of number of schemes and disbursements (Figures 12 & 13).

Figure 10: Cumulative Sectoral Distribution of Infrastructure Schemes

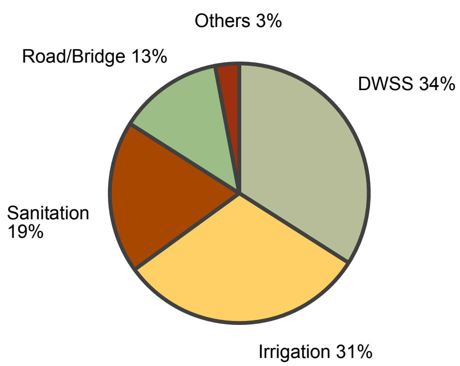


Figure 11: Cumulative Sectoral Distribution of CPI Disbursements

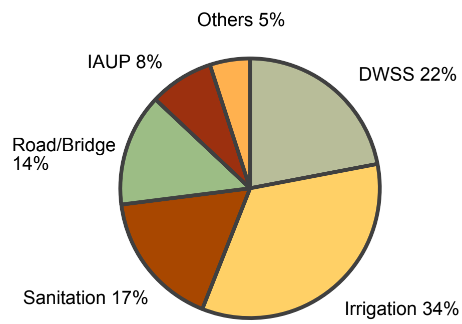


Figure 12: Cumulative Distribution of Schemes by PO

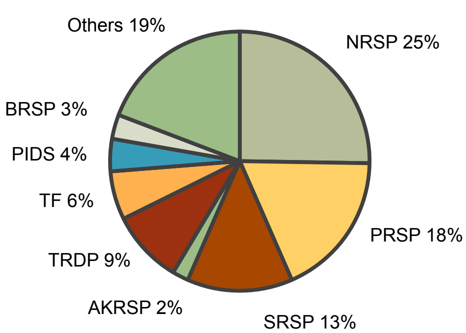
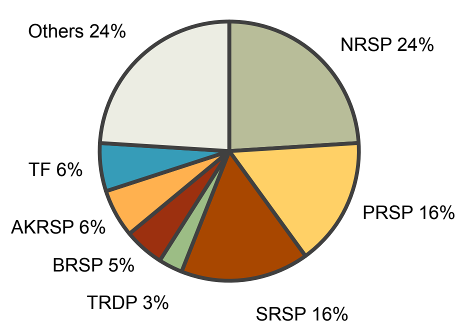


Figure 13: Cumulative Distribution of CPI Disbursements by PO



Box 2.1: Integrated Area Upgradation in Punjab

Basti Punj Khuha is a small village in district Khanewal, Punjab. Before the entry of PPAF into the area, the 214 households in the village lacked access to even the most basic civic amenities: household latrines were nonexistent; streets were un-surfaced and mostly remained inundated with wastewater; and there were no health and education facilities. Malaria, skin infections, respiratory diseases and a host of water-borne diseases were a common phenomenon. The cumulative effect of this state of affairs on the community was colossal in terms of an overburdening health crisis that constantly ate into restricted incomes heavily dependent on irregular daily wages and unpredictable small scale farming.

PPAF sanctioned one of its partner organizations, Village Friends Organization (VFO), to undertake a comprehensive needs assessment of the village in coordination with the community. Subsequently, work on an Integrated Area Upgradation Project was initiated with a number of integrated interventions including street surfacing, household latrines, sewerage system, wastewater stabilization pond, solid waste management, security lights and a playing area for children. With the coming of Basti Punj Khuha IAUP, the approximately 1,300 individuals in the village have experienced an immediate change in their lives, with an even greater transformation expected in the long term. In addition to a reduced health burden, signs of which are already apparent, the workload of women has been significantly reduced, while children finally have the opportunity to play in a much cleaner environment on a piece of land specially designated for the purpose.

During the financial year, the CPI unit disbursed Rs. 1.1 billion to 40 partner organizations. A total of 3,176 additional community organizations were mobilized to take active part in the identification, development and management of PPAF supported infrastructure schemes, while the coverage of PPAF's infrastructure program increased to incorporate 2,055 new villages/localities. The 2,643 schemes initiated during the same period collectively benefitted over 192,000 households across Pakistan. With the extended PPAF-II drawing to a close in the next financial year, the CPI unit is well within reach of its overall targets. Simultaneously, the increased capacity of partner organizations has infused a greater semblance of institutionalized service delivery at the grassroots, giving PPAF the confidence to upscale its infrastructure program in the future.

PPAF Water Management Center

4

In addition to being one of the world's most arid countries in terms of average annual precipitation, Pakistan has in the recent past been severely water stressed with growing levels of aquifer depletion, the accompanying ingress of saline water into heavily pumped ground reserves, and the uncontrolled pollution of water resources. Predicted climatic shifts pose an even bigger challenge by potentially exacerbating the incidence of floods with even worse long term prospects of extended drought periods. Poor water management and the continuing lack of water storage capacity have only added to the status quo, while the deficit in knowledge and preparedness to meet existing and future challenges has cramped space for innovative solutions and sustainable coping strategies.

The impact on the poor and on poverty in general is particularly disconcerting. However, the looming environmental and human disaster can be avoided through putting in place effective policies, strategies and systems for prudent water management, better preparedness and focused generation and dissemination of knowledge. The PPAF Water Management Center (PWMC) was established to address these issues and support PPAF in its long term strategy to address conditions that perpetuate poverty, food insecurity, and vulnerabilities to a host of water related disasters. In pursuit of its objectives, PWMC further strives to evolve into a recognized policy and technological hub in South Asia by 2012.

Following PPAF's participatory development framework, the Center emphasizes the role of community organizations in project identification and implementation. Moreover, keeping in view the larger geographical scope of PWMC interventions, participating communities are organized into correspondingly larger structures varying from single-tier institutional frameworks to those with nested hierarchies of representative institutions, including either a single union council level task force or a federation constituting of several such task forces.

Striving to introduce holistic solutions, all PWMC programs constitute several integrated interventions either in the same village or spanning a large number of villages within an objectively defined geographical area. For instance, the Drought Mitigation and Preparedness Project (DMPP) cover large drought affected areas with each project spanning one to three union councils and constituting approximately a hundred sub-projects on the average. These typically include delay action/check dams for restoring water balance in addition to meeting the community's domestic and agricultural requirements; interventions for rehabilitating crucial aquifers; schemes aimed at more efficient water management for irrigation; and a variety of other interventions for flood protection, land reclamation, rangeland management and the optimization of cropping patterns.

PWMC has to date initiated work on 25 Drought Mitigation and Preparedness

Projects consisting of 1130 water focused interventions with a cumulative investment of Rs. 961 million from funding windows made available by the World Bank and the United States Department for Agriculture (USDA). These projects have collectively benefitted 1,300 communities in 16 drought affected districts, following integrated strategies aimed at recharging depleted aquifer resources and their efficient exploitation through a variety of water efficient irrigation mechanisms and innovative agricultural methods (Box 3.1).

Box 3.1: DMPPs bring Soan Valley back to life

The 1997-2002 drought adversely affected life in Soan Valley, leaving the area's water balance severely disturbed. With reduced recharge and unabated mining of groundwater, the water table fell by 20 to 30 meters over a period of five years. Simultaneously, reduced surface runoff resulted in rapid shrinking of wetlands as two of the three Ramsar lakes turned into salt pans.

PWMC responded by pooling World Bank and USDA funds to implement two DMPPs in partnership with Soan Valley Development Program (SVDP) for the benefit of the approximately 125,000 population spread over an area of 737 square kilometers.

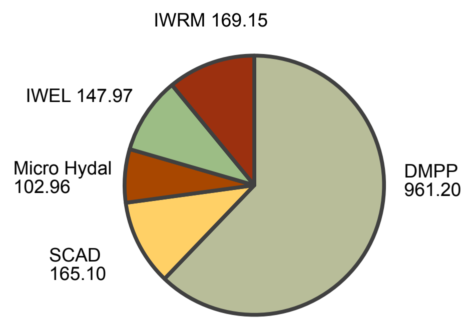
To date, all 108 subprojects under the World Bank funded DMPP, while 127 out of 144 subprojects under the USDA funded DMPP have been completed. These mainly include delay action dams, check dams, pipe irrigation, rain-water harvesting ponds, drinking water supply and natural resource management projects.

Social mobilization assumes central significance with all sub-projects being identified and implemented by SVDP with the help of communities through a representative task force. Additionally, the entire process of project formulation and implementation is overseen by a Steering Committee, which includes representation from PPAF, SVDP and the WWF-P.

Infrastructure interventions implemented under these projects have cumulatively achieved a 30 to 40 percent reduction in water losses due to new efficient water conveyance systems, which have made it possible to irrigate an additional 2,500 acres of rainfed area. Already, communities have saved an estimated Rs. 7 to 10 million in potential cost of diesel engine operated pumps, which have become redundant. The planned second generation of interventions will further lift local economy, while laying out a sustainable framework for market based rural development.

The World Bank funded Sindh Coastal Areas Development (SCAD) Program takes this integrated approach one step forward by complementing infrastructure interventions with logically interlinked interventions in healthcare, education, livelihood support and the provision of financial services, leading towards the development of what have been termed as Rural Growth Centers (RGCs). One RGC has already been inaugurated in Keti Bandar during the reporting period, with 17 other planned for implementation in the program area (Box 3.2). Simultaneously, possibilities are being explored for their successful replication in other parts of the country.

Figure 14: Distribution of Approved Funds by Program Category (Rs. million)



Box 3.2: "Eliminating Poverty in One Generation: A tough but attainable goal for Pakistan"

"So eliminating poverty is not just about lowering the number of people living under dollar one a day or some other arbitrary metric; it is fundamentally about enabling people to have the freedom to pursue the life that they want. I saw both the daunting difficulty of this challenge and the spark of hope that inspires people to reach beyond their circumstances during a recent visit to Keti Bunder, one of the poorest villages of Pakistan located in Thatta district, Sindh. These villagers have suffered several natural calamities in recent years…. But they have grabbed the opportunity offered by a village development program supported by the Pakistan Poverty Alleviation Fund and the Aga Khan Rural Support Programme. They are now investing in their community, improving their schools, health facilities and water supply. With continued help they can provide their children the opportunities that they themselves never had. And therein the hope that I saw…."

"The dream of eliminating poverty in Pakistan is indeed achievable with sustained efforts ... I hope that the people and government of Pakistan will take up this challenge and keep in mind the vision of at least 40 million faces who all have hope, energy and talent way beyond the statistics that mark their status. I met them in Keti Bunder."

Excerpts from an article by Mr. Praful Patel, who last served as Vice President, South Asia Region, World Bank, captioned above in "Business Recorder" (October 2007)

With PWMC leading the effort in the four SCAD program districts of Thatta, Badin, Karachi and Tharparkar, an integrated network of infrastructure interventions has been put in place all along the Sindh coastline, which has repeatedly suffered from a devastating spell of natural disasters spread over a decade. To date, 345 schemes have been initiated in the coastal belt including protection works for reducing vulnerability to sea intrusion, improved sanitation and communication facilities, as well as the introduction of innovative solutions for provisioning safe drinking water and electricity through tapping renewable sources of energy.

Given the scope of the program, PPAF has engaged ten of its partner organizations with clearly defined project areas to join forces for taking the initiative forward. This has simultaneously generated opportunities for building bridges across participating organizations and share knowledge for the common benefit of the target population. With active support from the Center, the Sindh Coastal Areas Network (SCAN) was formally put in place to promote linkages among member organizations through workshops, exchange visits, study tours and regular information sharing. SCAN has developed into a vibrant community of development practitioners with growing networking activities incorporating linkages with other development sector organizations, prominent R&D institutions as well as private sector manufacturers and suppliers dealing in technologies that can be utilized in the program area.

The success of SCAN is another step forward in the direction of evolving a better perspective on securing a viable long term solution for efficient and sustainable management of the country's scarce water resources. With a view to ensuring rapid inter-PO technology transfer and sharing lessons learnt in social mobilization, PWMC is currently working on the establishment of a national level drought management network. The Pakistan Drought Management Network (PDMN) will also provide a forum to deliberate over policy issues impacting drought and other water related disasters at the community level. This is envisioned to lead to the formulation of a national drought management policy.

With a view to learning from the experiences of other water focused and community driven efforts in poverty alleviation, the Center plans to organize conferences on the national, regional and international levels, engaging the best minds and the very best of institutions on the subject.

In the meantime, PWMC has continued to refine program design with more comprehensive solutions to meeting community requirements. The Integrated Water Management Programme (IWMP), a hybrid of DMPP and all other PWMC projects, has been initiated with three projects presently in the implementation phase in Gilgit, Baltistan and Chitral. In conformity with the Center's emphasis on context relevant solutions to water related issues, IWMP in these areas has been adapted to the particularities of the local terrain. Similar adjustments will be made when implementing IWM projects to other areas. The three initiated projects under this category will collectively include 196 interventions with a total cost of Rs. 169.1 million, 20 percent of which will be contributed by the communities. PPAF's successes in infrastructure development in marginalized localities with little access to public services has largely been a function of its ability to mobilize and strike effective partnerships with communities that are made responsible for providing land and maintenance funds for all projects, besides sharing in the project cost. In this way, community ownership is secured for better post-completion management of all projects. Not only has this community centered approach led to a better decision making structure for selecting appropriate need based interventions, it has further allowed PWMC to avoid the pitfalls emblematic of public sector water projects including weak implementation strategies, delays in procurement leading to cost overruns, and a poor maintenance record emanating naturally from hazards associated with large centralized bureaucratic structures following non inclusive development strategies from the outside.

Strong ties with communities have led to the successful implementation of 40 Integrated Water Efficient Irrigation (IWEI) projects. These include a total of 100 sub projects with an overall cost outlay of Rs. 148 million, of which 20 percent has been contributed by communities. IWEI projects cater to the needs of particular communities at the village level for better utilization of water resources for irrigation through the successful integration of four to five interventions involving sprinkler/drip irrigation, water channels, water course lining, and conduits. IWEI projects have further benefitted 4,000 households, minimized water losses, improved yields and added much needed increments to household incomes.

In the mountainous regions of Northern Areas and Chitral, IWEI projects have been successfully integrated with Micro Hydroelectric projects. The latter is an ongoing program initially conceived to meet household lighting, heating and cooking needs through sustainable power generation. In conjunction with IWEI projects, their scope has been extended to include initiatives in water efficient irrigation practices and food processing. The Micro / Mini Hydroelectric projects, both as stand alone interventions for power generation and as part of an integrated scheme including IWEI projects, has further benefitted 3,000 households in 30 isolated mountain villages at a cost of Rs. 150 million, with communities bearing 20 percent of the project cost and taking responsibility for project maintenance.

To date, PWMC led interventions have benefitted 101,133 households in 1,622 communities across the country (Table 5). Through its various program windows, the Center has successfully invested Rs. 734 million for delivering sustainable, need-based water related infrastructure to marginalized communities. In the event, the Center has facilitated in securing livelihoods, increasing income generating opportunities and reducing vulnerabilities to seasonal shocks, while mitigating the sufferings of the poor living in diverse circumstances from low-lying flood-prone coastal areas to water deficient deserts and mountain communities. Simultaneously, the Center has taken vital steps in establishing sector wide linkages, while initiating discussion to generate, accumulate, refine and disseminate knowledge for finding long term solutions to the country's escalating water crisis.

Figure 15: Distribution of Beneficiary Households by Province

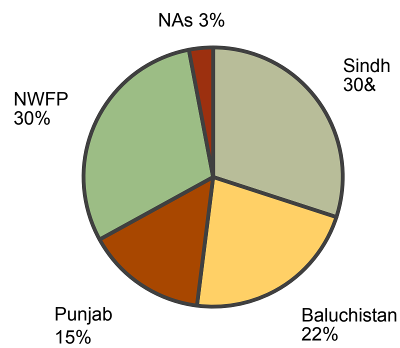


Table 5: Distribution of Projects by Beneficiaries

Programme Category	Number of Projects	Number of Sub-Projects	Coverage (Villages)	Beneficiary HHs
Drought Mitigation and Preparedness	25	1,130	370	66,000
Integrated Water Management	-	196	140	9,406
Sindh Coastal Areas Development	-	345	250	18,727
Integrated Water Efficient Irrigation	40	100	100	4,000
Mini/Micro Hydel	25	25	30	3,000
Total	90	1,796	890	103,133

Box 3.3: Solar Home Systems*

Villages Arab Soomar and Hussaini Faqir are located in a poverty stricken pocket of coastal Sindh on the outskirts of Karachi. The 110 households in the two villages are almost exclusively dependent on off-shore fishing for livelihood support. The communities face problems similar to the ones faced by the residents of Basti Punj Khuha (see Box 2.1), with one additional burden: both Arab Soomar and Hussaini Faqir had no electricity. As a result, the communities were forced to use kerosene oil and firewood for lighting, which not only carried with it severe health risks but was contributing directly to environmental degradation and an erosion of limited incomes.

Keeping in view demands emanating from within the community, it was evident that PPAF had to prioritize the dire need for household electrification in a way that is sustainable as well as consistent with the average income level of residents. Consequently, Indus Earth Trust (IET), one of PPAF's most progressive partner organizations, was handed over the task to initiate two pilot Solar Home Systems (SHS) initiatives.

The pilot projects were based on models designed by two private entities (SMART Technologies and NUST). These differ only in operational details following project completion with the maintenance of one pilot being looked after by a group of three to six households, while the same responsibility being shared by the whole community in the other instance. The total cost of the two projects was estimated at Rs. 2.5 million, of which PPAF contributed Rs. 2.3 million while Rs. 0.2 million was collected by the community.

The projects have directly contributed to household welfare by providing extra working hours at night which households have utilized for running repairs on boats and fishing nets. Previously, precious daylight hours were wasted on these activities. Similarly, women have found more time to engage in productive activities like embroidery, while there has been a significant reduction in the incidence of snake bites at night as movement within and around the villages has become much safer.

* Project undertaken by CPI unit of PPAF.

Health and Education

5

The Health and Education (H&E) unit manages PPAF's Social Sector Development Programme (SSDP) with the objective of providing quality healthcare and education to marginalized communities. In three years of operations, the unit has facilitated civil society organizations in establishing a network of schools and Community Health Centers (CHCs) where such facilities were non-existent, in addition to revitalizing inefficient public sector institutions through injecting requisite funds, better management practices and quality teaching services.

Two of SSDP's three currently operational projects are being financed by the World Bank, i.e. the Health and Education component of Sindh Coastal Area Development Program (SCAD) and the geographically more diffused Health and Education component within PPAF-II. A third project financed by the Committee Encouraging Corporate Philanthropy (CECP) focuses on the rehabilitation of Health and Education facilities in earthquake affected areas.

The design of WB financed projects envisions the development and sustenance of new health and education facilities in the private sector as well as the adoption of poorly managed public sector facilities. On the other hand, CECP financed project in the earthquake zone is conceptualized as a Build, Operate and Transfer (BOT) model, where PPAF partners and community organizations jointly manage facilities with the provincial departments of Health and Education following their reconstruction and rehabilitation in the first phase. In the second phase, which will commence at the end of the second year of operations, these facilities will be handed over to the respected government departments.

All PPAF supported interventions in the social sector prioritize strict quality control, long term sustainability and durable linkages with communities. These objectives become mutually reinforcing within an inclusive management framework that underscores the role of participating communities in decision making. Consequently, while PPAF has put in place a comprehensive monitoring scheme to be strictly regulated by respective partner organizations, it has simultaneously encouraged the formation of community based health and education management committees with the mandate to identify gaps in service delivery and suggest proposals for their redressal.

In many instances, community based health and education committees, in consultation with the implementing organization, have proactively initiated administrative changes and held staff accountable for digression from duty. Such an approach has incrementally led to a culture of accountability and facilitated partner organizations in the better management of a standardized product that is both contextually relevant and responsive to community demands.

In FY 2007-08, 13 health committees and 70 education committees were formed in PPAF supported private sector facilities and

adopted public sector institutions. Given the strategic importance attached to these committees, all PPAF social sector interventions incorporate a comprehensive training module designed to equip community representatives with the skills required for meeting their responsibilities. These capacity building exercises have been shown to pay dividends in terms of yielding a procedurally efficient and substantively rich decision making structure at the community level.

The quality of service delivery is further ensured through capacity building events organized for the staff of PPAF supported schools and CHCs. In the Health sector, these events cover training in subjects like hygiene, counseling, mother-child and reproductive health, balanced diet, family planning, immunization, communicable and non-communicable diseases, safe motherhood and infant care. Similarly, teachers in PPAF supported schools are regularly provided with opportunities to attend subject specific refresher courses. They are further trained in the development of child responsive teaching methodologies, which are complemented by capacity building sessions in syllabus and classroom management, lesson planning, development of teaching material and phonics. In both sectors, additional training sessions on record keeping, planning and management issues are conducted to develop administrative skills necessary for operational efficiency in all PPAF sponsored social sector interventions.

In three years, PPAF's Social Sector Development Programme has expanded to include 51 schools and 27 health facilities in the private sector (Table 6). Without exception, all facilities have been operationalized in marginalized rural areas. For instance, PPAF's financial and technical assistance to the Marvi Rural Development Organization (MRDO) has resulted in the establishment of one CHC and seven primary schools within isolated communities inhabiting the arid wastelands of Tharparkar desert. In other parts of rural Sindh, where decadent social structures and public apathy continues to constrain human advancement, PPAF's partnership with exemplary grassroots organizations like AKPBS (Thatta), IRC (Khairpur, Jamshoro), SAFWCO (Sanghar), and BRDS (Badin) has played its part in mitigating vulnerabilities induced by lack of access to quality health and education services. Similarly, RCDS, NRSP, SOS, FPAP and NRDP in rural Punjab, TF (Bolan, Kachhi) in Baluchistan, and CMDO in FATA have been actively pursuing similar objectives as PPAF partners in their respective project areas.

Table 6: Social Sector Interventions by Province

	Schools		CHC/BHU/RHC	
	Pvt. Sector	Public Sector	Pvt. Sector	Public Sector
Punjab	18	61	9	-
NWFP	2	6	7	3
Sindh	24	18	5	2
Baluchistan	2	-	-	2
FATA	5	-	2	-
AJK	-	6	-	4
NA	-	-	4	-
Total	51	91	27	11

In addition to establishing new facilities, the Social Sector Development Programme has focused on taking over under-performing government institutions in the health and education sectors. In Punjab alone, the unit has facilitated partner organizations in adopting 61 government schools where quality of infrastructure and teaching has verifiably improved. Of these, 55 government schools have been adopted in Mianwali, Rahimyar Khan, and Bahawalpur districts. The latter two districts are amongst the most educationally deprived areas of the province in terms of indicators such as adult illiteracy, children out of school and gender disparities in educational attainment.

Perhaps never in the country's history has a region suffered so much in so little time than the earthquake affected zone in AJK and Northern NWFP. As part of PPAF's multi-pronged response to the calamity, reconstruction and rehabilitation of the region's health and educational infrastructure was considered vital for long-term revival of affected communities. With financial support from CECP, which awarded PPAF US$ 12 million from its South Asia Earthquake Relief Fund (SAERF), the task of reconstructing sixteen facilities – two primary and three high schools for girls, three primary and two high schools for boys, two rural health centers and four basic health units – was initiated in March 2007.

By the end of the current financial year, three facilities have been completed while work on 13 is under progress under the CECP financed project. The three implementing partner organizations have unfailingly adhered to the notion of building back better and worked tirelessly to develop state-of-the-art institutions equipped with requisite equipment and facilities for quality service delivery. CHCs have labor rooms, pharmacies, laboratories, facilities for safe delivery and quality OPD services, while schools are equipped with physics, chemistry, and biology laboratories, computers, tuck shops, playgrounds and other recreation facilities.

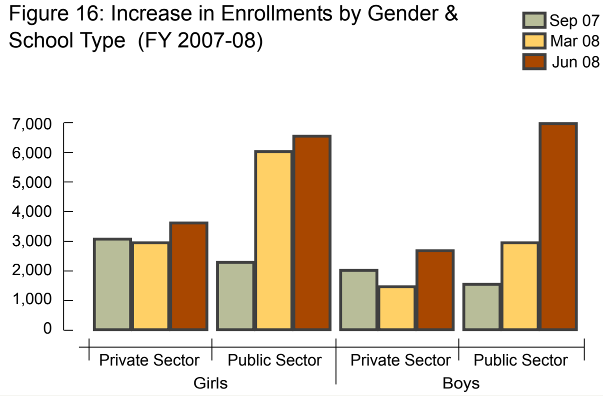
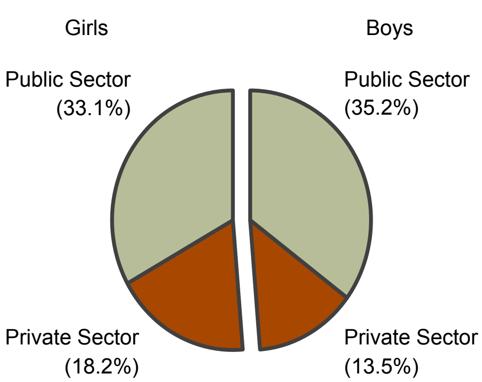


Figure 16: Increase in Enrollments by Gender & School Type (FY 2007-08)

Figure 17: Distribution of Students by Gender and School Type (as of June 2008)



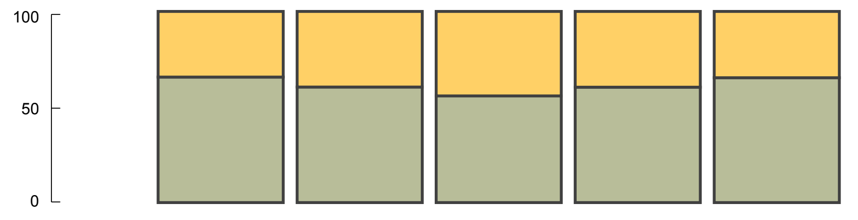
With the increasing number of adopted schools, the share of students benefitting from PPAF sponsored education interventions have increased more rapidly in the public sector (Figure 16). As of June 2008, 3,627 girls and 2,682 boys were enrolled in PPAF sponsored private sector schools, while another 6,576 girls and 7,000 boys were enrolled in PPAF sponsored public sector schools (Figure 17).

In the health sector, PPAF's targeting strategy has been designed to address the widespread gender disparity in access to health facilities, which is particularly acute in rural areas where PPAF health interventions are located. Approximately two-third beneficiaries of all PPAF health sector interventions in the reporting period were women (and girls). Additionally, the trend is consistent across all regions and provinces of the country (Figure 18).

With rural areas of Punjab and NWFP accounting for majority of PPAF health interventions, the number of OPD and maternal care beneficiaries is mostly concentrated in these regions (Figure 19). However, rural Sindh and Baluchistan, where vulnerability to disease is higher in comparison to other regions, account for approximately 65 percent of the nearly 18,900 vaccinations administered during the current financial year.

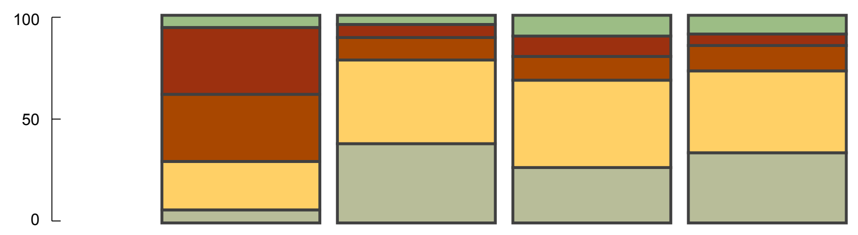
By the end of the reporting year, H&E unit has cumulatively sanctioned disbursements of over Rs. 190 million in the education

Figure 18: Healthcare Beneficiaries by Gender and Province (FY 2007-08)



	Punjab	NWFP	Sindh	Baluchistan	Others
Male	9,343	7,024	664	664	1,120
Female	5,710	6,876	950	950	6,060

Figure 19: Healthcare Beneficiaries by Province and Treatment Category (FY 2007-08)



	OPD (over 18)	OPD (under 18)	Maternal Care	Vaccination
Others	9,343	7,024	664	1,120
Baluchistan	5,710	6,876	950	6,060
Sindh	12,636	8,028	1,628	6,102
NWFP	40,777	29,524	6,068	4,402
Punjab	34,952	18,716	5,746	1,185

sector through 12 partner organizations and approximately Rs. 121 million through 14 partner organizations in the health sector under funding made available by the World Bank. Similarly, another Rs. 13.6 million has been sanctioned under CECP funds for the effective operationalization of reconstructed health and education facilities in earthquake affected areas. The total enrollment in PPAF schools stood at 19,885 (Girls 10,203; Boys 9,682) on June 30, 2008, while PPAF supported health sector interventions have collectively managed approximately 173,558 OPD cases and 15,056 cases of maternal care in the reporting year.

Concerted investments in human capital are significantly correlated with less income inequality and even lesser vulnerability to health and employment shocks in the long run. By striving to rectify regional and gender disparities in access to quality health and education services, PPAF's Social Sector Development Programme targets long term welfare of participating communities through tangible returns associated with greater educational opportunities and good health.

Human and Institutional Development

6

With the mandate to build institutional and human resource capacities of participating communities and civil society organizations, Human and Institutional Development unit is pivotal to institutionalization of grassroots participatory development at the national level. Its multi-faceted operations have yielded a sustainable service delivery framework with exhaustive scope for upscaling, replication and the successful experimentation of newer products, while simultaneously increasing leveraging capacity of partner organizations for maintaining diversified portfolios with multiple funding options.

During the reporting period, the unit approved funds worth approximately Rs. 472 million to partner organizations in support of their credit operations. Approximately Rs. 343 million (72.7 percent) of the above funds were sanctioned for supporting institutional requirements including recurring and non-recurring expenses of partner organizations, while approximately Rs. 129 million (27.3 percent) were provisioned for meeting training needs of PO staff and participating communities.

The unit has remained committed to the development of a skilled human resource base necessary for supporting higher levels of growth in the sector. For this purpose, regular training sessions are conducted for participating communities and staff of partner organizations. During the current financial year, 67,628 community members, including 24,459 women, were trained with PPAF financial and technical support in fields ranging from agricultural and livestock management to enterprise development and vocational skills (Figure 20). Similarly, 3,497 staff members from partner organizations attended PPAF supported training sessions on diverse subjects including community mobilization, credit appraisal, loan portfolio management, delinquency management and interest rate setting (Figure 21).

These achievements have been made possible by the unit's emphasis on diverting

Figure 20: Annual Community Training Beneficiaries

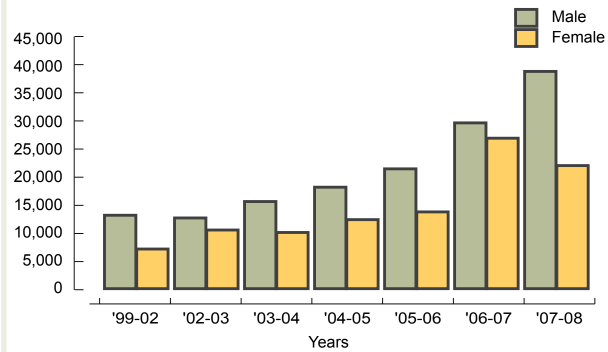


Figure 21: Annual PO Staff Training Beneficiaries

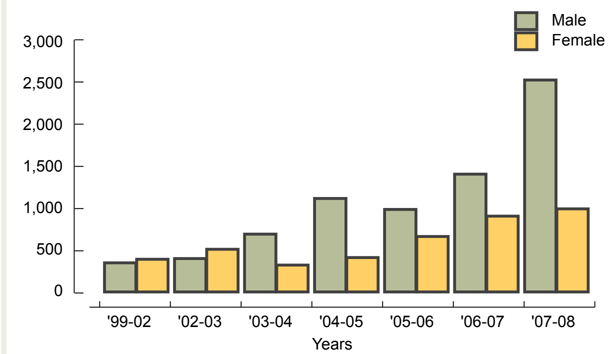
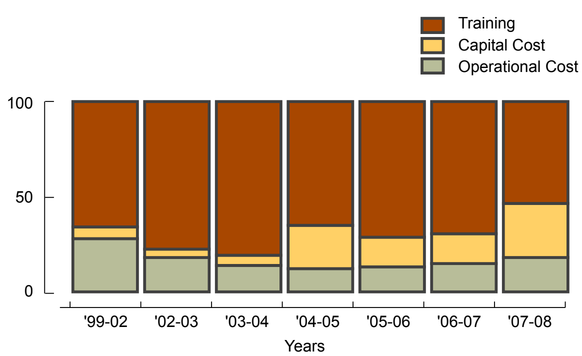


Figure 22: Annual HID Grant by CB Category



substantial funds for activities geared towards building human capital. Substantial time and energy is invested in designing appropriate training modules matching the capacities and requirements of communities and staff of partner organizations. Given PPAF's commitment to building human resource base at grassroots, the quantum of funding for staff and community training programmes has increased from Rs. 76.9 million in FY 2006-07 to approximately Rs. 131.9 million in the current financial year. Additionally, financial resources allocated under this head increased from 20 percent of all capacity building funds in support of POs microcredit operations in FY 2006-07 to 28 percent in FY 2007-08 (Figure 22).

The unit has further designed specific programs to meet the sector's growing appetite for enterprising young individuals, while simultaneously enabling partner organizations to achieve expected growth targets on a sustainable basis. For instance, the unit runs a Junior Professionals (JP) program, which provides funds to partner organizations for training university graduates, who can be inducted at junior posts following a training period of six months with the partner organization. The program involves a three months attachment period with a partner organization following one month of intensive training at HID Center housed within the unit. Similarly, IFAD-funded Young Professionals Scheme (YPS) will provide young people from poor rural households the opportunity to join PPAF's current internship program, with the additional provision for supporting a further eight months attachment with a partner organization on the latter's request.

During the reporting period, 2 batches comprising 24 internees completed the internship program, while a total of 37 JPs successfully completed their training with partner organizations. Similarly, under the Young Professionals Scheme, 2 batches constituting 26 Young Professionals have completed training with PPAF. Under YPS, 96 men and women will be trained in four years, with 15 young professionals graduating for additional 8 months attachment period with POs. Together, these programmes are set to relieve partner organizations burdened by a high turnover rate that has accompanied exponential growth in the sector.

Having played a central role in this growth, PPAF continues to strive for consolidating the gains, particularly in rural areas where most of the country's poor are located. For this purpose, HID unit, in coordination with CED unit, is in the process of implementing US$ 6.3 million IFAD-financed Young Partners Programme (YPP). In addition to the Young Professionals Scheme, YPP constitutes two further initiatives designed to enhance PPAF's ability in developing new microfinance institutions in rural areas: The Young Partner Development Initiative (YPDI) facilitates new or existing partner organizations in setting up sustainable rural finance operations through provisioning funds for on-lending and institutional support covering staff/client training, systems development, capital and operating costs; while The International Linkage Partner Initiative (ILPI) provides young enterprising individuals the opportunity to get hands-on training experience with a renowned regional Microfinance Institution and facilitates them in setting up rural finance operations – Linkage Partner Organizations (LPOs) – operating as independent MFIs eligible to become full time PPAF partner organizations.

PPAF's commitment to develop new partner organizations through sufficient levels of grant funding for operational support is part of a long term investment aimed at ensuring sustainable delivery of financial services to the poor. As many partner organizations have attained maturity, achieving sustainable or near sustainable operational capacity with increased outreach and a large outstanding portfolio, PPAF's operational support has declined. This decrease has been significant with the percentage of grant funding in support of microcredit operations declining from 31.8 percent of disbursed microcredit funds in FY 2001-02 to 12.9 percent in FY 2004-05 to a low of 4.9 percent in the current financial year.

This unprecedented decrease has largely been a function of reduced capacity building support – as percentage of disbursed microcredit funds – to large POs with better resource mobilization potential, deeper outreach and multiple donor options. For instance, although Rural Support Programmes (RSPs) have accounted for approximately 60 percent of all annual PPAF capacity building grants in support of microcredit operations in the last three years, their collective ratio of capacity building grants to disbursed microcredit funds has declined significantly from 11 percent in FY 2005-06 to 9 percent in FY 2006-07 to a low of approximately 5 percent in FY 2007-08 (Figures 23 & 24). Similar ratio for Microfinance Institutions (MFIs) with more competitive structures for income generation has also declined from 4.8 percent in FY 2005-06 to approximately 1 percent in the current financial year.

The cumulative effect of these trends has caused annual HID disbursements to decline in comparison to the previous financial year for the first time in five years (Figure 25). This decline is largely driven by significant changes in PPAF's disbursement pattern to larger POs from amongst the RSPs and MFIs, which collectively account for 84 percent of PPAF's microcredit funds in the current financial year, and reflects a definite push towards the progressive achievement of a sustainable microcredit delivery framework in the sector.

The unit is geared towards consolidating the above achievements through helping small and medium sized service providers in attaining similar levels of sustainability. For this purpose, the unit keeps close linkages with partner organizations to strategize and monitor their progress on a regular basis, in addition to appraising their needs and capacities for ensuring appropriate levels of funding. During the reporting period, 13 monitoring/follow-up visits and 26 appraisal visits were conducted to different partner organizations. Smaller partner organizations have particularly gained from the unit's technical support in the development of efficient systems for securing clear and transparent policies and procedures, in addition to benefitting from the unit's emphasis on building efficient and object-oriented Management Information Systems.

While regular spot checks of selected training events have ensured the quality of PPAF sponsored training events, the unit

Figure 23: Annual CB Grant in Support of Microcredit by PO Type

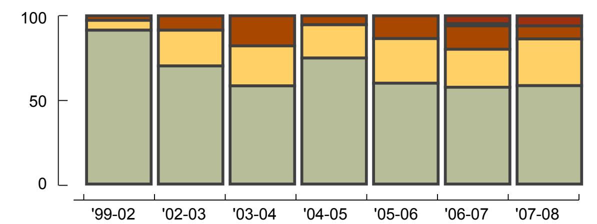


Figure 24: CB Grant as Percent of MC by PO Type

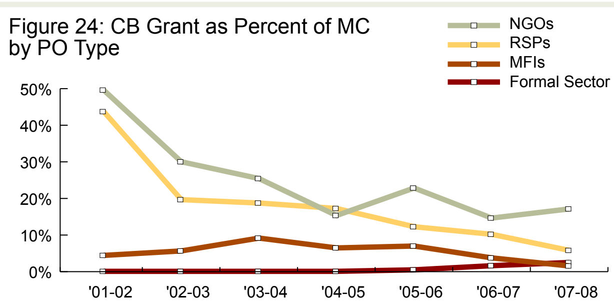
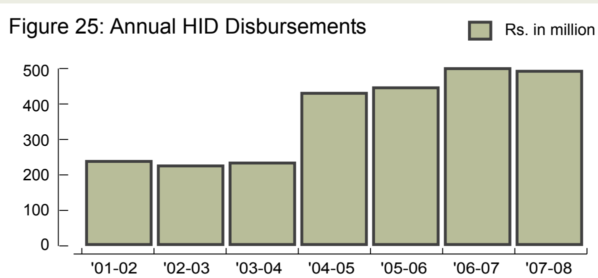


Figure 25: Annual HID Disbursements



has further put in place a continuous feedback mechanism to assess the relevance, efficacy and impact of its training programmes. During the reporting period, follow-up of 2,774 community training beneficiaries was carried out to identify gaps and develop appropriate safeguards for future capacity building exercises.

As the sector expands further to include a proliferation of service providers at the grassroots, the unit is well set to take on future challenges for the benefit of the poor who will need continuous access to a range of financial and technical services.

Box 5.1: Citi-PPAF Microentrepreneurship Awards 2007

The HID unit, having successfully arranged three previous editions of Citi-PPAF Microentrepreneurship Awards, was once again entrusted with the responsibility of organizing the 2007 event. Awarded by an independent jury, the Citi-PPAF Microentrepreneurship Awards are held each year to raise awareness, promote microfinance as a means for poverty alleviation and highlight best practices in the sector by celebrating the achievements of successful entrepreneurs.

This year, 16 organizations were finally short listed for awards: (1) TRDP (2) Help In Need (3) CSC (4) CWCD (5) Kashf Foundation (6) Save the Poor (7) NRSP (8) Swabi Women Welfare Society (9) First Microfinance Bank (10) OPD (11) OWPRA (12) Shah Abdul Latif Bhitaee Welfare Society (13) Narowal Rural Development Program (14) SAFWCO (15) Khushali Bank, and (16) Orix Leasing Pakistan (Pvt) Ltd.

A total of 20 entrepreneurs, along with their respective credit officers, were chosen by an independent and eminent panel of judges from a long list of case studies received from across the country. Out of the 20 selected entrepreneurs, 12 were women (see table below). Rs. 1,310,000 were awarded to 20 loan beneficiary entrepreneurs while Rs. 340,000 were awarded to 20 loan officers.

Category	Punjab	Sindh	NWFP	Baluchistan	Total
Rural Male	1	1	1	-	3
Rural Female	2	1	2	-	5
Urban Male	2	2	1	-	5
Urban Female	5	1	-	1	7
Total	10	5	4	1	20

Gender and Development

Poverty in Pakistan has a pronounced gender dimension manifest in all welfare indicators including access to healthcare, education, and labor markets. Even greater gender disparities are latent at the household level in terms of asset ownership and the power to take independent decisions. No poverty alleviation strategy can succeed without addressing these deep-rooted asymmetries, which are particularly acute at the lower rungs of the welfare ladder.

As the largest source of development finance, PPAF is committed to addressing the prevailing gender biases through making gender concerns an intrinsic part of project design and implementation. The eligibility criteria for partner organizations encourage women participation at all stages of the project cycle. Additionally, partner organizations are required to design services for the benefit of women in all areas of partnership with PPAF including microcredit, rural infrastructure and capacity building.

As a natural corollary of PPAF's commitment to addressing gender asymmetries, the collection of gender disaggregated data is prioritized for prospective program evaluation and impact exercises with an eye on plugging possible gaps in service delivery. Consequently, all partner organizations are bound by mutually agreed upon implementation plans to submit gender disaggregated data for all PPAF supported interventions.

During the current financial year, PPAF formally set up an in-house gender focal point with the mandate to conduct a comprehensive policy review from a gender perspective. In the first phase, PPAF's own policies and procedures were thoroughly scrutinized, resulting in a draft gender policy that will be presented before the Board for approval following consultation with all stakeholders.

Moving beyond the positive approach to gender mainstreaming that the review found to be largely present within the institutional and policy framework of PPAF, a number of areas were identified where, given the organization's potential to influence the development agenda at the national level, a lot can still be accomplished. For instance, in its position as the premier source of funding for civil society organizations, PPAF can leverage a higher level of women participation by facilitating partner organizations in the development of newer products that can effectively address the practical and strategic needs of women.

The IFAD funded Innovation and Outreach (I&O) facility for delivering innovative and need based financial products to the poor aims at achieving the above objective by requiring partner organizations to develop a gender strategy as a necessary condition. PPAF has subsequently worked with partner organizations to develop such strategies. For this purpose, two consultative workshops have already been organized in Karachi and Quetta respectively, with similar activities being planned for other partners as well.

More importantly, there is a paramount need to sensitize development practitioners at the national level. Gender mainstreaming is not possible unless it is instilled within the very organizational ethos and thinking patterns of institutions, even of those with a professedly concentrated focus on women welfare. Central to this is the problem of comprehending the full scope of gender constructs, which also includes a thorough knowledge of all relevant themes, issues, terms and concepts. To address these

concerns, PPAF took the lead in organizing a workshop on gender sensitization for its staff, providing the latter with an opportunity to asses and articulate gender concerns through experience sharing and debate. Facilitated by an internationally renowned trainer and a leading activist on women rights, the workshop went a long way in preparing grounds for arriving at a common understanding of the issues surrounding 'gender'.

Conceptually, PPAF's understanding of poverty has evolved over the years to incorporate and address both vertical inequalities based on degrees of income and consumption levels, as well as horizontal inequalities induced by an inherent structural bias toward particular classes or groups of individuals. Such an ideational progression has allowed PPAF to include gender as an intrinsic part of a more holistic poverty alleviation strategy with better prospects of meeting future challenges.

Rehabilitation and Reconstruction

7

The Reconstruction and Rehabilitation (R&R) unit was established to facilitate PPAF's role in earthquake affected areas with the mandate to lead the reconstruction effort in 34 union councils of Azad Jammu and Kashmir and northern NWFP. In addition to the reconstruction of seismically-safe housing units, substantive components including capacity building, livelihoods restoration, reconstruction of non-housing infrastructure and focused interventions for people with disabilities were built into the program as a holistic and inclusive long term solution to reviving lives and livelihoods. The PPAF effort was supported with generous contributions from the donor community including the World Bank, KfW, IFAD and CECP.

With an overall financial outlay of US$ 298 million, the R&R Project is the largest private sector reconstruction and rehabilitation project of its kind in the earthquake affected region with housing reconstruction accounting for US$ 227.2 million (76 percent) of the funds (Table 7). Another approximately US$ 32 million was allocated for the reconstruction of non-housing infrastructure, including schools, rural health centers, community centers, drinking water supply schemes, link roads and sanitation facilities. Additionally, a sum of US$ 3 million was set aside for provisioning livestock assets to vulnerable households, while another US$ 5 million was allocated for the rehabilitation of Persons with Disabilities (PWDs).

For effective implementation of the R&R Project, PPAF selected and assigned responsibilities to six partner organizations on the basis of clearly laid out criteria prioritizing organizational capacity and pre-earthquake operational presence in the region. Accordingly, National Rural Support Programme (NRSP) in AJK and the Sarhad

Table 7: PPAF Donor-wise Allocation of Funds *(US$ millions)*

	WB	IFAD	KFW	CECP	Total
Housing Reconstruction	198	17.51	11.67	-	227.18
Small Scale Physical Infrastructure	16	1.67	.75	-	18.42
Community Buildings	4	-	-	-	4
Community Health Centers	-	-	-	3.27	3.27
Rural Health Center	-	-	-	1.29	1.29
Schools	-	-	-	4.76	4.76
Livestock Assets	-	3	-	-	3
Operational and Training Support (PPAF)	5	0.72	0.86	-	6.58
Operational and Training Support (POs)	15	1.9	1.42	1.39	19.71
Consultancy	-	-	0.6	0.37	0.97
Contingencies	-	1.57	1.5	0.93	4
Disability Project	5	-	-	-	5
Total	243	26.37	16.8	12	298.17

Rural Support Programme (SRSP) in NWFP were assigned larger project areas than the other four partner organizations, i.e., Islamic Relief (IR), Sungi Development Foundation, Omar Asghar Khan Development Foundation (OAKDF) and Women Welfare Organization-Poonch (WWOP).

The share of funds subsequently allocated to each partner organization was in accordance with the geographical spread and extent of damage recorded in their respective project areas. To date, PPAF has cumulatively disbursed Rs. 14.5 billion to partner organizations as grants for reconstructing damaged housing and non-housing infrastructure, in addition to incremental grants for meeting operational and capacity building requirements (Table 8). Out of the overall disbursement of approximately Rupees 13 billion for housing reconstruction, PPAF partner organizations have successfully transferred over Rs. 11.8 billion to 120,608 affected households by the end of the reporting period (Table 9).

Table 8: Distribution of Grant Funds amongst POs *(As of June 30, 2008)*

	Geographical Area	Housing	Infrastructure	Health and	Operational & Training Grant*	Total *(Rs. million)*
SRSP	15 UCs (NWFP)	5,849.35	243.15	-	364.37	6,456.87
NRSP	12 UCs (AJK)	4,624.95	51.77	44.06	183.10	4,903.89
IR	4 UCs (AJK)	1,498.55	15.36	-	80.90	1,594.81
SUNGI	2 UCs (NWFP)	579.88	40.58	-	43.59	664.05
OAKDF	1 UC (AJK)	506.33	11.78	-	31.75	549.86
WWOP	1 Rev. Village (AJK)	49.40	41.13	-	9.07	99.61
MGPO		-	-	135.79	-	135.79
CUP		-	-	66.39	-	66.39
Total		13,108.46	403.78	246.24	712.77	14,471.25

* This does not include Rupees 16.572 million in additional costs disbursed for fulfilling training requirements in the affected areas, e.g. Disaster Management Trainings, GSPs, etc.

Table 9: Distribution to Beneficiary Households - PPAF Housing Grants *(As of June 30, 2008)*

	Processed Cases			Disbursement to Affectees
	CD	PD	Total	*(Rs. million)*
SRSP	55,475	4,288	59,763	5,573.60
NRSP	35,055	1,925	36,980	3,997.18
IR	11,995	258	12,253	1,247.00
SUNGI	4,124	2,311	6,435	516.43
OAKDF	3,539	1,170	4,709	392.15
WWOP	346	122	468	40.75
Total	110,534	10,074	120,608	11,767.10

The process of transferring funds to communities was initiated following a comprehensive damage assessment exercise carried out by Social Mobilization Teams in 34 union councils assigned to PPAF. Without dedication and resourcefulness of the 110 SMTs, which worked in adverse terrain and circumstances to meet challenging targets, the PPAF R&R Project could never have been as successful. Prior to damage assessment, SMT personnel were provided extensive training for familiarization with local housing structures and construction models, in addition to developing their skills for conducting effective damage assessment.

In all, over 122,000 housing structures were successfully documented for prospective funds allocation with SMTs following a standard criterion, placing each assessed house into one of three categories: Completely Damaged (CD), Partially Damaged (PD) and Non-structural Damage (NSD). The subsequent transfer of funds followed guidelines issued by Earthquake Reconstruction and Rehabilitation Authority (ERRA), with a single installment of Rs. 50,000 for each household with a partially damaged housing structure and Rs. 150,000 for each household with a completely damaged housing structure. For the latter category, funds were transferred in three installments of Rs. 75,000, Rs. 25,000 and Rs. 50,000 each at different stages of housing reconstruction, following spot checks by

qualified engineers ensuring adherence to pre-defined construction designs. By the end of the reporting period, PPAF partner organizations have successfully transferred single installment of Rs. 50,000 to over 10,000 households with partially damaged housing structures, while 110,534 households with completely damaged housing structures have received one to three installments from Rs. 150,000 allocated to each household in this category.

In order to meet the challenge of building seismically-safe housing units, a comprehensive training and awareness program had to be launched simultaneously for staff of partner organizations and within affected communities. A Training of Trainers (TOT) program was initially arranged for indigenous skilled labor, who were subsequently hired to assist SMTs in training sessions conducted for local craftsmen. The latter sessions were conducted by SMTs operating as Craftsmen Training Units (CTUs). While one SMT in each union

council operated as a CTU, others functioned as Mobile Training Teams (MTTs) with responsibility of orienting house owners in earthquake resistant techniques at their doorstep. These orientation sessions were attended by groups of 50 to 100 community members at the village level. The over 2,100 community sessions conducted by MTTs to date have been decisive in spreading awareness as well as readiness to strictly follow earthquake resistant construction codes and designs. In view of these achievements, ERRA requested PPAF to take over the Housing Reconstruction Center, previously run by GTZ, for a period of one year. The Center provides technical training and support to PPAF's implementing partners in the 34 UCs in addition to disseminating information on safe housing reconstruction to communities.

The World Bank has conferred the prestigious "Golden Plough Award" to its team for effective and innovative supervision of PPAF's R&R Project. PPAF Task Team Leader in the World Bank, Qazi Azmat Isa, received the award at an impressive ceremony during Sustainable Development Network (SDN) Week at the World Bank headquarters in Washington. This close supervision has enabled PPAF to consistently receive 'highest' ratings from the World Bank.

The above effort has enhanced competencies for meeting future crises at the grassroots, while helping build knowledge base in disaster management at national level. Simultaneously, R&R interventions have created jobs, increased income levels and facilitated restoration of livelihoods on a sustainable basis. Under IFAD-financed Restoration of Earthquake affected Communities and Households (REACH) project, US$ 3 million have been allocated for building livestock assets for 4,000 poor households through provisioning of one 'basic livestock unit' equivalent to one female cattle\buffalo or a basic herd of sheep and goats of similar value. Under this project, the needs of households that are amongst the most vulnerable including widows, orphans, elderly and the disabled have been granted careful consideration in the project design. This is manifested in the distribution of livestock assets, as well as in the development of participatory Community Action Plans (CAPs) for assisting vulnerable households during housing reconstruction. Additionally, the World Bank financed Disability Project seeks to improve quality of life for persons with disabilities and their families through targeted interventions ensuring better mobility, improved health and increased participation in community life. The project is designed to support a whole range of activities from raising community awareness and provisioning quality rehabilitative services to sensitization and capacity building programs aimed at project staff, communities and service providers.

R&R Project was a monumental undertaking, posing severe challenges at different levels. Every household in the 34 UCs assigned to PPAF had to be documented and level of damage ascertained, while large number of grievance cases inevitably emanating from policy decisions taken at official level had to be expeditiously processed. Every new house constructed had to be checked for compliance with guidelines issued for ensuring resistance to possible future earthquakes. For this purpose, extensive capacity building programs had to be run for project staff, artisans and communities, while all this had to be accomplished at a reasonable pace in adverse weather and topographical conditions. The reconstruction of seismically-safe housing units was only part of the challenge. For a comprehensive and inclusive rehabilitation process to take root, grounds had to be prepared for sustainable livelihoods, with particular focus on the poor and vulnerable.

Given the magnitude of the disaster and scope of project, the cumulative success

achieved by the unit has further strengthened PPAF's faith in commitment, dedication and abilities of its staff and in the idea that given a minimum level of support, there is nothing that organized communities cannot achieve on their own, irrespective of the depth and scale of the disaster. As R&R Project draws near its end, PPAF and its partners stand taller with greater experience and capacity in disaster management, while participating communities have been capacitated to withstand future challenges with better resolve and self assurance.

Evaluation, Research and Development

8

The Evaluation, Research and Development (ERD) unit supports PPAF operations through collecting, consolidating, analyzing and disseminating information on PPAF interventions to all stakeholders, including PPAF Board of Directors, Government of Pakistan, donors, and the civil society. Additionally, the unit has the important responsibility of measuring and quantifying the poverty impact of PPAF interventions.

As a primary source of information for all stakeholders, the Quarterly Progress Reports (QPRs) monitor and document PPAF program activities and progress on a regular basis. The unit diligently compiles these reports through aggregating quarterly progress data received from the network of PPAF POs. With a view to further streamline the data collection and reporting process, the unit is currently implementing a web-based data acquisition and reporting system to expedite the process of data collection and information dissemination. This will enable POs to submit data in real time through a centralized database application. During the reporting period, two data entry modules, one each for PPAF's credit and infrastructure operations, were successfully tested. The system further has the capacity to generate a variety of analytical reports with flexibility and precision.

During the current financial year, ERD organized two training sessions for PO staff as a step towards institutionalization of the system at PO level. A comprehensive training session was organized in Lahore for staff of 17 POs located in the region, while a second training event was organized in Hyderabad for POs based in Sindh. Prior to formal implementation, similar training events are planned for remaining PPAF POs in the next financial year.

Simultaneously, ERD accelerated efforts for collecting baseline socio-economic profiles of beneficiary communities for prospective impact assessment of PPAF sponsored interventions. During the reporting period, baseline studies were completed for CPI conventional projects in Punjab, Sindh and Azad Jammu and Kashmir on the basis of a representative sample of 1,400 beneficiary and comparable non-beneficiary households (Box 8.1). This was followed by a baseline survey of Integrated Area Upgradation Projects comprising 582 households in Punjab and NWFP. Similarly, baseline data on 160 sampled households in two project and non-project villages was collected for PPAF's Solar Lights Pilot Project outside Karachi, while 347 and 340 sampled households each were enumerated as part of baseline surveys for PPAF financed SCAD program and DMPP, respectively, in districts Thatta, Badin, Khipro and Loralai.

The process was further expanded to include PPAF's Social Sector Development Programme. For this purpose, one PPAF financed health facility, two adopted public sector schools and 2 new PPAF supported community schools were selected in district Narowal, Punjab. A set of three different

tools were developed in-house for collecting relevant information on three levels – facility, teachers and students. In addition, simple tests were administered to students of classes 4, 7 and 9 to establish academic performance benchmarks and assess the quality of education imparted at these facilities. Separate survey tools were developed in-house to collect information at the health facility level.

To complement the above efforts, ERD also outsourced important research work to credible institutions and agencies. During the reporting year, the unit worked with Innovative Development Strategies (IDS), which was selected to conduct a study on the Cost of Delivery of PPAF Development Interventions. The study will help in determining the cost effectiveness of PPAF's development interventions, while ascertaining PO efficiency in the delivery of financial and non-financial services to the poor.

In order to perform its role more effectively, the unit continually strives to further enhance and update its capabilities and knowledge for carrying out sophisticated and rigorous impact analysis exercises. During the reporting period, ERD unit staff attended a week long training course on "Impact Evaluation" organized by the Pakistan Institute of Development Economics (PIDE) in collaboration with the World Bank Institute, while individual staff members attended training courses in relevant areas of research at renowned institutions.

Through its efforts to comprehend linkages between poverty alleviation and PPAF interventions, the unit has played an important role in the organization's evolution into a credible resource for participatory grassroots development. In years to come, the unit's inputs will continue to inform decision making for effective policy implementation and poverty targeting at the community level.

Box 8.1: Baselines of conventional infrastructure projects

The ERD unit carried out a comprehensive baseline study of CPI conventional schemes across the country. Household and village level data drawn from a representative sample from Punjab, Sindh and Azad Jammu & Kashmir was collected for the purpose of impact assessment of infrastructure projects in the future. Data collection in Balochistan and NWFP could not be initiated due to the prevailing law and order situation. Information was collected on socio-economic attributes from over 1400 households across three provinces. For each of the 51 (42%) sampled ongoing schemes selected from a universe of 119 PPAF supported schemes in these areas, baseline information was collected from 10 beneficiary households (treatment group) and 5 comparable non-beneficiary households (control group) in nearby localities with no similar intervention.

Baseline survey of CPI conventional schemes

Province	Districts Households		
		Treatment	Control
Punjab	Attock	87	15
	Kasur	40	22
	Khushab	32	15
	Lodhran	77	34
	Mianwali	70	35
	Nankana	64	31
	Rahim Yar Khan	29	16
	Sheikhupura	41	19
Sindh	Sanghar	110	40
	Sukkur	40	20
	Naushero Feroze	50	25
	Ghotki	72	32
	Tharparkar	40	20
	Umerkot	10	5
AJK	Bagh	110	28
	Kotli	77	21
	Poonch	55	9
	Sudhnoti	19	1
Total	18	1,023	388

Media and Communication

9

With the responsibility to deliver PPAF's message to the world, the Media and Communication (M&C) unit strives to build broad-based support for the organization's mission through communication of its objectives and activities. For the effective realization of its objectives, the M&C unit has successfully developed synergies with mainstream media, which has come to recognize PPAF's defining role in positively affecting the lives of millions across Pakistan.

Following a well-defined plan of action, the unit has, over the years, used a full scope of media strategies, tools and products for voicing disempowered communities. With the view to highlighting PPAF's work and helping to mainstream poor communities through focused media attention, the unit has, among other things, arranged immersion visits for journalists from print and electronic media. During the reporting period, such immersion visits were carried out to four PPAF project areas in the interior of Punjab and Sindh provinces (See Box 9.1).

Additionally, the unit has focused on educating a wider audience through leveraging its partnership with mainstream media. This is evident from regular publication of news items and feature articles in leading newspapers highliting PPAF vision in special documentaries and interviews of PPAF core staff on popular news and entertainment channels.

Moving beyond its role of spreading awareness and mobilizing support for PPAF's mission, the unit has contributed to the literature on the scope and potential of grassroots development in a number of important ways. In addition to the regular publication and dissemination of reports, brochures, manuals, flyers and fact sheets highlighting different facets of PPAF activities and interventions, the unit prepares case studies to analyze the latter's impact on individual beneficiaries and communities. The quarterly publication of PPAF's newsletter, Povertyline, has further met the task of keeping all stakeholders abreast of the organization's multi faceted activities.

During the reporting period, the M&C unit designed and printed special flyers showcasing traditional artifacts prepared by PPAF beneficiaries for display in South Asia Rural Livelihood Workshop and Exhibition in Colombo, Sri Lanka. PPAF showcased its experience in forging partnerships between commercial and community organizations at the workshop – "Making Markets Work for the Poor" – aimed at sharing experiences in private\public sector partnerships with the rural poor, while exploring the potential of a market-based approach to generating sustainable income opportunities. Within this context, the workshop investigated various approaches that have enabled community organizations to become viable partners and clients with commercial agri-business franchises, financial services, public distribution and social protection schemes. The workshop facilitated exchange of ideas

emerging in different contexts across the region with potential for effective replication in other locations.

The workshop lasted for three days, which included two days of focused presentations, panel discussions and a Livelihood Exhibit Session, followed by a day-long visit to community projects. A panel of successful business leaders from the commercial sector and CEOs from development sector including CE/MD of PPAF were invited to share their achievements and approaches on the subject. The M&C unit designed a special set of panaflexes and flyers for the occasion, in addition to establishing a booth for exhibiting indigenous handicrafts prepared by PPAF beneficiaries from across the country. The PPAF booth won acclaims and attracted huge crowds from amongst visitors and workshop participants.

In its role as a support unit, the M&C unit is called upon to complement the work of other units on a regular basis. In this capacity, the unit's work in support of PPAF led operations in earthquake affected areas deserves special mention. The unit's persuasive media campaign underscoring the dangers of noncompliance with construction guidelines issued by the Earthquake Reconstruction and Rehabilitation Authority (ERRA) helped reduce the incidence of unsafe construction practices and materials, making life easier for PPAF's Reconstruction and Rehabilitation unit and potentially saving precious lives from future incidents.

Similarly, the unit contributes to the success of all PPAF sponsored workshops, seminars, and ceremonies by providing the necessary media coverage and designing/printing all relevant brochures, leaflets and other support materials.

The M&C unit has contributed towards carrying forward PPAF's objective of mainstreaming poor communities by successfully building on the achievements of PPAF's operational units. In continuing to present the transformation to a global audience, the unit hopes to do justice to PPAF's role as a change agent.

Box 9.1: Immersion visits of journalists

Not only do immersion visits for journalists provide them insight into PPAF's work, they helped in deconstructing urban perspectives on the rural condition in general and on rural development in particular. Deep-rooted stereotypes on prospects of rural development and ways in which it can be achieved are shaken. Prominent amongst these stereotypes are beliefs that meaningful rural development is only possible with massive injection of public funds; that the lack of good education terminally incapacitates rural communities from driving the development process from below on a self-help basis; and that the very hierarchical and deeply stratified rural social structure promotes a value system that perpetually blocks initiative. While there might be a grain of truth in each of these propositions, the immersion visits teach journalists that for the rural condition to improve, drastic changes in neither of the above factors are necessarily a prerequisite.

During their immersion visits to Soan Valley (District Khushab, Punjab), Dhok Tabarak Shaheed and Sereh on the outskirts of Islamabad and to Khan Mohammad Rajar, a 120-year-old village in District Sanghar, Sindh, the urban perspective of journalists was jolted. There was a recognition that poor rural communities can organize and take initiatives despite the lack of education and the ubiquitous chains usually associated with the idiosyncrasies of rural hierarchy. Equally important was the realization that rural lives can be positively affected even in the absence of massive government involvement. In village Khan Mohammad Rajar, for instance, media representatives learnt how with nominal outside assistance, one local community has organized to change their lives by effectively utilizing PPAF funds to build a viable and efficient drip irrigation system for cultivating 17 hectares of hitherto unproductive land, enhancing their coping capacities and impacting a range of socio-economic indicators. They also learnt how the same community has managed to develop sustainable access to safe drinking water through the innovative utilization of renewable energy sources. For journalists, it was a lifetime experience inducing a fresh perspective on the rural condition and how it could be transformed. For PPAF, it was another step closer to changing mindsets.

Human Resource, Procurement and Administration

10

The Human Resource, Procurement and Administration unit works to ensure high professional standards in the management of PPAF's human and physical resources. The unit's three wings are committed to running a well-coordinated operation for promoting organizational and administrative efficiency through the entire spectrum of relevant activities ranging from human resource management to logistical support, procurement of goods and services, as well as the upgradation and maintenance of facilities.

The Human Resource wing follows the unit's objective of maximizing organizational potential through concerted investments in human capital. For this purpose, quality training opportunities in renowned national and international institutions are availed for enhancing skills and competencies of PPAF staff. During the financial year, seventy staff members attended national training courses in relevant fields. Additionally, twenty staff members were provided international training/ exposure at prestigious institutions.

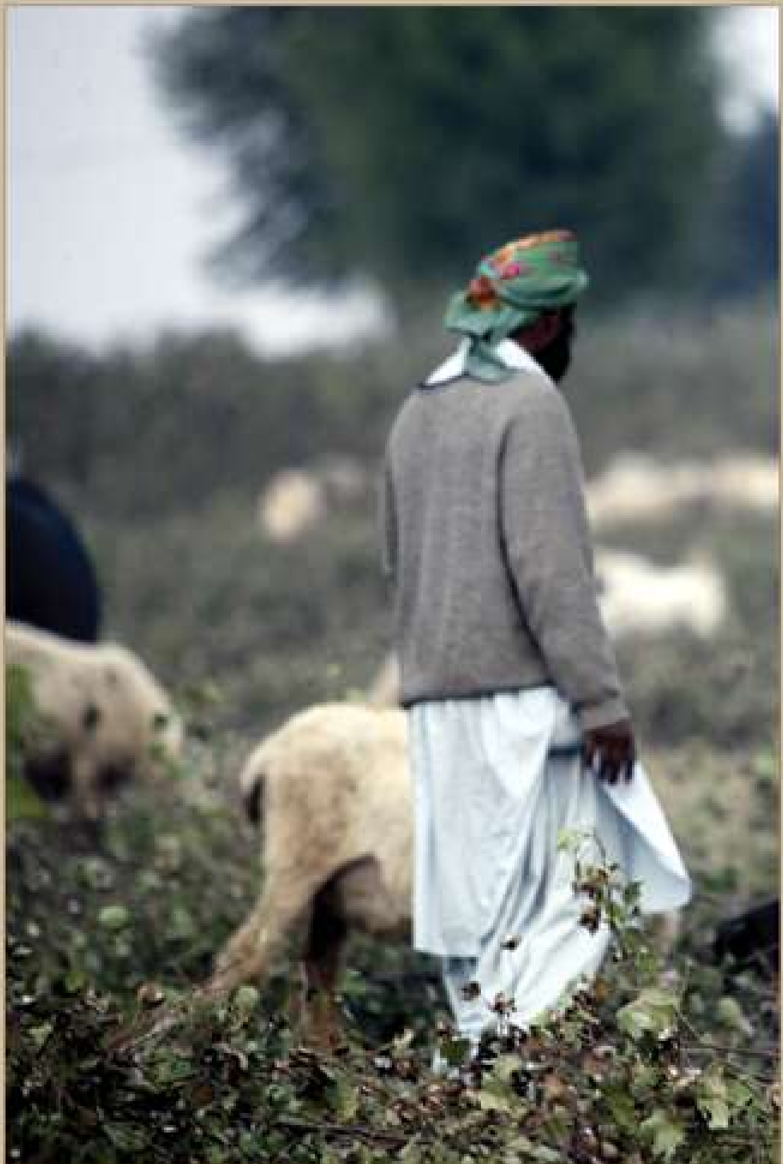
During the financial year, the unit successfully inducted seventy seven new staff members to meet the burgeoning overload consistent with the expanding scope of PPAF operations. In all such cases, the Human Resource wing followed a stringent and transparent recruitment process, which it considers vital for the long term success and sustainability of the organization.

The Procurement wing of the unit follows similar standards in the procurement of goods and services. All procurement procedures are regularly scrutinized to meet donor guidelines and PPAF requirements. During the reporting year, 771 cases of procurement of goods and 258 cases related to procurement of services were processed by the unit. Additionally, the unit actively seeks to upgrade competencies of PPAF partner organizations, ensuring good procurement practices through continuous guidance and monitoring of procurement processes and procedures. The procurement wing has further responsibility of processing cases for outsourced activities.

The unit also provides logistic support to various PPAF units and offices. During the financial year, the Administration wing arranged close to 834 travel arrangements for PPAF staff both within and outside the country. The wing also has the important task of upgrading PPAF premises to ensure an enabling work environment.

The Human Resource, Procurement and Administration unit has continually strived for achieving excellence through strict adherence to international best practices in all aspects of its work. In recognition of the unit's exceptional performance, the last World Bank mission rated the procurement wing with the highest ranking of "highly satisfactory". The unit looks forward to maintaining similar standards in years to come with the objective to facilitating PPAF's continuous growth.

Internal Audit



11

The Internal Audit (IA) unit furnishes a continuous stream of independent information to PPAF management with a particular focus on ensuring high quality in the management of financial and administrative affairs. Following a well-defined scope of activities clearly laid out in a comprehensive manual, the unit scrutinizes all operational aspects of PPAF and its partner organizations with the aim of identifying digressions from standard and agreed upon systems and procedures.

During the reporting period, the unit successfully submitted twelve in-house audit reports to the Chief Executive, covering detailed information on various financial aspects including payments, receipts and general vouching, bank accounts and their reconciliation statements, payroll, investments, petty cash, advances and security deposits. Additionally, comprehensive reviews were conducted of all operational and support units within PPAF. These reviews included, among other things, a scrutiny of existing fixed assets management systems, documentation, as well as adherence to required procedural and policy standards. The presence of provisioned physical assets was verified for all units, while gaps in procedural and record keeping arrangements were identified and suggestions were put forward for their redressal.

The unit conducted four quarterly procurement audits to ensure transparency and adherence to standard operating procedures in the acquisition of all physical assets. Additionally, a comprehensive review of PPAF's Information Technology (IT) facilities was conducted with a focus on gaps in networking and the supporting infrastructure to ensure a steady and continuous flow of information. A number of suggestions were made to improve IT facilities including the development of a suitable IT policy.

The unit reports to the Audit Committee of PPAF's Board of Directors, which meets on a quarterly basis to review/approve annual plans. In addition to incorporating a schedule for conducting timely audits of PPAF's various units, the annual plan is designed to include a thorough scrutiny of all PPAF POs to ensure financial and administrative efficiency. Particular emphasis is laid on building staff capacities and administrative structure of requisite quality.

During the reporting period, the unit successfully conducted audit of all existing POs, documenting procedural and structural weaknesses in each case and reporting its findings to PPAF management on a regular basis. All reports included practical suggestions for rectifying observed gaps with the objective of bringing about efficient and sustainable institutional frameworks. In many instances, the observations and suggestions of IA staff produced results with positive implications for the long-term health of PPAF investments.

The unit's success in achieving a comprehensive systems review of all PPAF units, in addition to undertaking the audit of 65 POs.

Finance and Accounts

12

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 maintains 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 further 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., World Bank, US Agency for International Development, US Department of Agriculture, International Fund for Agricultural Development, KfW Development Bank (Germany) and Committee Encouraging Corporate Philanthropy.

As part of its responsibilities, the unit works closely with operational and support units to ensure adherence to the due process and to 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 to govern the unit's work processes. Books of accounts are kept in accordance with the statutory requirements and agreements with GoP and donors. All documentary records and transactions are subject to strict scrutiny by independent internal and external auditors, as well as by supervision missions from different donors.

In the conduct of its routine obligations, the unit has prioritized true presentation of facts and the timely issuing of all periodic financial statements for management, donors and stakeholders. The relevant internal reports are submitted to management on a monthly basis for facilitating timely decisions on 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, 2008 were audited by its external auditors M/s A. F. Ferguson & Co., Chartered Accountants. In the latter's unqualified opinion, financial affairs of the company were being conducted in accordance with approved accounting standards and requirements of Companies Ordinance 1984, while financial statements prepared by the management present true and fair view of the company's state of affairs. These opinions were based on the inspection and review of company records and the funds released to partner organizations. In addition to preparing financial statements as per statutory requirement, the unit also prepared separate financial statements of a) WB and IFAD Projects for the year ended June, 30, 2008, b) KfW project for the half year ended December 31, 2007 and June 30, 2008, and c) USAID funded EDF project for 15 months ended September 30, 2007. All the above financial statements were audited by external auditors. The annual audited financial statements along with Directors' Report as well as donor specific audited financial statements were submitted to the Audit Committee of the Board for its review. On the recommendations of the Committee, the Board of Directors approved the above financial statements.

Disbursements to PPAF under the WB and IFAD projects were on the basis of Financial Monitoring Reports (FMRs). This report based disbursement is allowed only to institutions with effective and strong financial management systems and procedures. All FMRs and withdrawal applications related to WB and IFAD projects were submitted within the period allowed by donors. These were reviewed by other donors and found to be eligible for reimbursement or replenishment. Information and data submitted were in compliance with disclosure requirements and formats.

The WB Supervision Mission reviewed PPAF's Financial Management System in September 2007 and May 2008. The findings of the Mission were as follows:

- The financial management information system continues to function effectively allowing for the maintenance of comprehensive books of accounts.
- The submission of FMRs by PPAF remained accurate and timely. The mission randomly reviewed supporting documentation for withdrawal applications and found the same in order.
- Financial reporting requirements are promptly and satisfactorily fulfilled, while quarterly FMRs and annual audited financial statements are submitted to the Bank well within the due dates.
- The Designated Accounts under all the operations are running smoothly and replenishment applications are being submitted on regular basis.

On the directives of the Federal Minister for Finance, the Auditor General (AG) of Pakistan conducted a study to assess the effectiveness and impact of PPAF. The AG Team comprehensively reviewed the PPAF program, in addition to focusing on its financial management and procurement systems. The team was of the opinion that sufficient controls exist in PPAF and all financial systems are operating effectively.

The AG team concluded that PPAF is meeting its overall objectives in a satisfactory manner and recommended to the Government of Pakistan to continue its support for PPAF. In view of the performance report submitted by the Auditor General, the Ministry of Finance requested the World Bank to appraise a follow-on project for funding under Phase III of PPAF.

During the reporting period, WB approved funding of US$ 75 million for the Social Mobilization Project. In addition, IFAD approved funding of US$ 35 million for the Programme for Increasing Sustainable Microfinance (PRISM) Project. Legal and financing agreements for both projects have been executed and the projects have been declared effective. The unit was actively involved in finalizing legal and financial modalities during negotiations for these projects.

As a result of the combined efforts of PPAF tax advisors and the unit, the Federal Board of Revenue renewed PPAF's status as a welfare institution. Consequently, there was no tax liability for the year under review.

The F&A unit also plays an active part in the monitoring of financial flows to partner organizations, ensuring adherence to legal covenants. The unit receives audited financial statements from all partner organizations within six months of the close of their financial year in addition to the submission of management letters issued by their respective external auditors. These are reviewed and necessary actions are taken accordingly.

The head of the unit acts as Company Secretary and ensures full compliance with the mandatory secretarial responsibilities as envisaged by the Companies Ordinance, 1984. Additionally, the unit complies with best practices set out in the code of corporate governance. Adequate records evidencing statutory meetings and other formal requirements are being thoroughly maintained while reports to the Securities and Exchange Commission of Pakistan are being 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 professional 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 has thus become a hallmark of the unit.

Directors' Report

The Board of Directors of Pakistan Poverty Alleviation Fund (PPAF) is pleased to present the eighth Annual Report along with audited financial statements of the Company for the year ended June 30, 2008.

During the year under review, PPAF maintained impressive progress with respect to each of its core components of credit and enterprise development; water and infrastructure; education; health; and capacity building services. The Company addressed the needs of the poor by following an integrated approach for effective delivery and impact. In areas of PPAF sponsored interventions, the poor have started reaping benefits of self-reliance and community driven development. They are experiencing increased opportunities for income generation, reduced dependence on external support and enhanced quality of life. PPAF has been particularly successful in its vision of institutionalizing and professionalizing its Partner Organizations (POs) which has helped in graduating a number of small and emerging organizations and taking them to scale as well as empowering their communities.

In addition to carrying out its mainstream programmes, PPAF continued its multi-pronged strategy for the restoration of livelihoods, which has involved reconstruction of housing units; rehabilitation of health and education facilities, community infrastructure schemes and training of individuals on a large scale in 34 earthquake affected union councils of North West Frontier Province and Azad Jammu Kashmir. PPAF's rehabilitation and reconstruction program was guided by two fundamental objectives (i) to assist people in rebuilding their lives by providing safe and seismically appropriate housing and restoring basic infrastructure services through a community driven approach (ii) to build capacities of affectees with the purpose of enabling them to take control of their lives on a sustainable basis.

PPAF has established a demonstrated track record of performance and effectiveness in using financial resources. As a custodian of public resources, PPAF has put in place a rigorous and robust system of due diligence and transparency. It has proven to be an efficient private sector arm of the Government in terms of service delivery, livelihoods and inclusion at the grassroots level. This platform of participatory development has also generated social capital and enhanced the level and quality of interaction between poor communities and their local governments, while at the same time being cost effective and sustainable. Several studies including a third party evaluation has expressed a high degree of satisfaction over the effectiveness of PPAF and recommended enhancement in provision of additional resources to the Company.

PPAF performance and achievements have been regularly recognized by successive

Supervision Missions of the World Bank. The latest such supervision of the Second Project was conducted in September 2007. The Mission reviewed the performance and assessed whether PPAF was meeting its development objectives. The Mission rated the overall project progress as 'Highly Satisfactory' (highest rating). Overall findings of the Mission affirmed that the Second PPAF Project was on track, partnering with the right institutions, and had surpassed most of its targets set at appraisal.

By the end of June 2008, PPAF funding had been disbursed in urban and rural areas of 117 districts of the country (about 100,000 community organizations / groups) through 74 partner organizations of which 12 were focusing exclusively on women. On cumulative basis, PPAF financed 2,300,000 microcredit loans, of which 1,035,000 (45%) were to women. 17,000 infrastructure projects were initiated and 252,000 staff and community members were trained. In earthquake affected areas, PPAF provided financing to 120,000 households to build earthquake resistant homes and also provided training to over 100,000 individuals in seismic construction and related skills.

PPAF financial and non-financial services are estimated to have, on a cumulative basis, benefited (directly or indirectly) over 13 million individuals from its credit program and over 9 million individuals from infrastructure, health and education interventions, across the country.

Operational and Financial Overview

The operational and financial results of the Company, during the year under review, remained satisfactory.

Total disbursements in respect of core operations increased to Rs. 11,026 million (US$ 161.43 m) in FY 2008 from Rs. 7,882 million (US$ 115.40 m) in FY 2007, indicating an increase of 40%. Disbursements of loan (microcredit and enterprise development facilities) rose to Rs 9,075 million (US$ 132.86 m) from Rs 6,228 million (US$ 91.18 m); infrastructure disbursements were Rs 1,332 million (US$ 19.50 m) as compared to Rs 1,127 million (US$ 16.50 m); capacity building disbursements were Rs 471 million (US$ 6.89 m) against Rs 451 million (US$ 6.60 m) and disbursements for education and health were Rs 148 million (US$ 2.16 m) as against Rs 76 million

Table 10: Disbursements – Core Operations

	Rs. million		%
Credit and Enterprise	9,075	6,228	+ 46
Water and Infrastructure	1,332	1,127	+ 18
Capacity Building	471	451	+ 04
Health and Education	148	76	+ 95
Total	11,026	7,882	+ 40

Figure 26: Share of Funds Disbursed - Core Operations

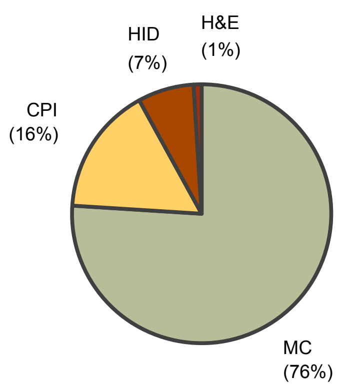
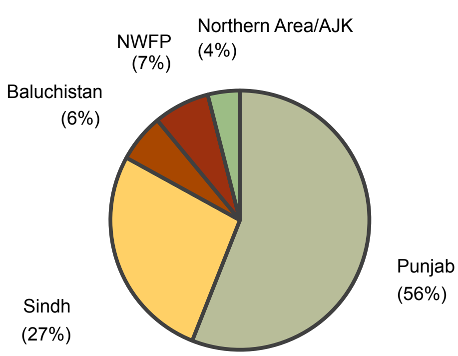


Figure 27: Provincial Distribution of Funds - Core Operations



(US$ 1.11 m) during the preceding year (Table 10). In addition, Rs 5,671 million (US$ 83.03 m) was disbursed during the year for relief, rehabilitation and reconstruction operations in earthquake affected areas.

By the end of FY 2008, cumulative disbursements for core operations stood at Rs 33,875 million (US$ 495.97 m). Credit and enterprise development, the largest component of the PPAF, accounted for 76% of total disbursements followed by community physical infrastructure (16%); capacity building assistance (7%); and health & education had a share of 1% (Figure 26).

In addition, cumulative disbursements for relief, rehabilitation and reconstruction activities were Rs 14,730 million (US$ 215.66 m).

PPAF interventions are being carried out in all parts of the country. Provincial distribution of funding under the mainstream programmes remained consistent with previous allocations: 56% of the resources deployed in Punjab, 27% in Sindh, 7% in NWFP, 6% in Balochistan and 4% in Northern Areas/AJK (Figure 27).

In line with the Subsidiary Financing Agreement executed between Government of Pakistan and PPAF in respect of World Bank financed First Project, the repayment of principal loan amount has commenced with effect from November 15, 2007. During the year under review, Rs 109.617 million (US$ 1.60 m) was repaid to the Government of Pakistan.

PPAF has fully utilized the World Bank funds allocated for microcredit component under Second Project and is meeting its obligations through its own reserves built up from repayments received from partner organizations. During the year under review, PPAF disbursed Rs 8,937 million (US$ 130.85 m) as loan from these reserves.

Total assets of the Company on June 30, 2008 stood at Rs 18,923 million (US$ 277.05 m) against Rs 18,702 million (US$ 273.82 m) as at June 30, 2007. Amount of loans receivable from partner organizations as on June 30, 2008 were Rs 8,301 million (US$ 121.53 m) as against Rs 5,816 million (US$ 85.15 m) as at June 30, 2007. PPAF continued to maintain 100% recovery rate in respect of its lending operations.

The trend of consistent growth in income continued this year in line with previous years. Total income generated during the year increased by 5% to Rs 1,314 million (US$ 19.23 m) from Rs 1,255 million (US$ 18.37 m) in FY 2007. Service charges on loan to partner organizations increased by 55% due to high volume of credit disbursements. Income on investments and saving accounts reduced by 18% due to decrease in the level of investments as funds were utilized for lending to the POs. During the year, capacity building grant increased by 14% due to the availability of financing from Government of Pakistan and donor agencies for PPAF operational support (Figure 28 & Table 11).

In order to support enhanced activity, general and administrative expenses for the year increased by 38%. The main increases were in salaries/benefits, travel and consultancy expenses. The salaries, wages and other benefits increased due to annual increments to existing employees to provide relief against higher cost of living as well as hiring of additional staff for managing expansion in core operations and new activities under different donors' projects. In addition, a higher number of engineers were inducted for management of reconstruction activities in the earthquake affected areas. Travel cost increased due to extensive appraisal and monitoring visits in view of high disbursements and activities. The higher consultancy charges were due to initiation of studies on rural support programmes, cost of delivery, drought mitigation, training of trainers as well as engaging consultants for supervision and monitoring of the projects undertaken in earthquake affected areas.

Figure 22: Annual HID Grant by Category

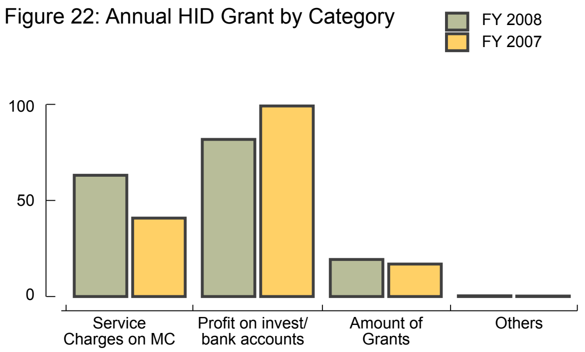


Table 11: Financial Results

(Rs. million)

	2008	2007
Service charges on loans	504	326
Amortization of deferred grant	154	135
Income on invetments/saving accounts	653	792
Other income	3	2
Total income	1,314	1,255
General and administrative expenses	283	205
Loan loss provision	145	51
Financial charges	84	84
Contribution for USAID Program	-	1
Total expenditure	512	341
Surplus for the year	802	914

Loan loss provision was made at 3% of the gross outstanding balances of loans to partner organizations. In addition, as a precautionary measure, specific provision for loan losses was also made against loans which were considered troublesome. The financial charges include commitment and service charges on long term loan and bank charges.

Sectoral and Programme Overview: Since commencement of operations in the year 2000, PPAF has established itself as the lead institution in the development sector. It is today one of the largest World Bank supported institutions of its kind in the world. A major role of PPAF in the national framework of economic development and poverty reduction is focused on financial services to the poor. The integrated approach focusing on provision of credit, infrastructure, health, education and skill development addressed the many facets of poverty and is geared to reducing vulnerability, especially for women. Apart from these core activities, PPAF has been working with communities suffering from natural calamities and disasters such as earthquake, drought and flood. In order to help communities in vulnerable areas to develop preemptive survival strategies, a dedicated Water Management Center has been established. 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.

PPAF has been the main catalyst for exponential growth in the microfinance sector with a market share of 50% of the total microcredit outstanding in the country. PPAF has played a crucial role in driving the industry by increasing its absorptive capacity and fostering the entry of new players. Externally commissioned third party evaluations suggest that on average low income households who borrowed from PPAF funding are better off today that they would have been if they had not borrowed. There is an overall improvement in the income as well as personal and business assets of PPAF borrowers.

PPAF has also piloted a series of initiatives, which aim to develop microenterprise/ entrepreneurship, promote new retail capacity, innovative financial products and attract dynamic and qualified professionals to the sector. It is introducing components of credit enhancement and equity injection into high performing partner organizations with a view to enhancing there bankability and attracting commercial finance. The overall focus of these initiatives is on market based pricing of products and services and building financial sector linkages.

The infrastructure window (administered through Water Management Center and Community Physical Infrastructure unit) has proven to be one of the most productive investments providing high economic returns. The most significant aspect of these schemes is that they are identified, implemented and maintained by the beneficiary communities. These schemes have helped to provide access to basic services at the village level with community ownership, cost effectiveness and sustainability. Besides providing social benefits, and improving the rural environment, these projects have tangibly improved quality of life and provided employment opportunities for local communities.

A pilot program in education and health was launched in 2005 in view of the high correlation between poverty and lack of education and/or health. PPAF supported education programs provide all the basic facilities necessary for a quality primary school. These schools are subject to regular monitoring to ensure quality outcomes. PPAF and its POs lead the monitoring effort while communities are responsible for day to day school affairs and identifying areas that need improvement. Similarly, PPAF supported health program provides a range of healthcare services. Community based health committees, in coordination with implementing POs, ensure participatory feedback for further improvements.

PPAF has designed a series of special instruments to address specific constraints of the most vulnerable and marginalized communities and households. These households constantly struggle with exogenous shocks such as drought, flood and earthquakes. To overcome extreme water scarcity for both drinking and irrigation purposes, PPAF has developed a drought mitigation and preparedness program for communities (especially in Balochistan and Sindh) which are prone to frequent droughts. Under this program, PPAF through its POs, undertook a series of activities involving better water management and conservation policies. PPAF has also initiated a special program for the vulnerable coastal communities of Sindh province. This program focuses on rehabilitating rural livelihoods through upgrading and development of infrastructure, provision of health and education services, capacity building and social mobilization. An innovative social safety net program has also been initiated to target the ultra poor. The program has been designed with the realization that the poorest often get left behind in obtaining access to resources as they do not have necessary skills or productive assets to be able to utilize microcredit efficiently. The program is designed to provide training, income support and asset transfers to poorest households to help them graduate out of poverty.

PPAF interventions are encouraging the communities to invest in innovative schemes for corporate management such as the establishment of collective livestock farming, village banking and marketing enterprises. These ventures afford opportunities to rural poor for moving out of the vicious circle of poverty.

Reporting and Disclosure

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

In addition to preparing financial statements as per statutory requirements, the Company also prepares separate financial statements for different donors' projects which are duly audited by its external auditors.

Board of Directors

The roles and responsibilities of the Board of Directors are governed by The Memorandum and Articles of Association of the Company, the Companies Ordinance 1984, the Code of Corporate Governance and other applicable regulations. The Board comprises of one executive and nine Non-executive Directors, including the Chairman and the Chief Executive/Managing Director of the Company with distinct responsibilities. The Chairman represents the Non-executive directorship of the Company.

Functions of the Board include approving operational policies and procedures;

approving projects of different donors and sponsors; approving financial assistance for partner organizations; reviewing quarterly progress; reviewing and approving annual work plans; targets and budgets; approving the un-audited financial statements; reviewing and approving audited financial statements alongwith Directors' and Auditors' Reports prior to their presentation to the General Body etc. The Board held an aggregate of four meetings during the year, which were also attended by the Chief Financial Officer/ Company Secretary.

Board Committees

The Board places paramount importance on good governance that has always been viewed as the fundamental principle in enhancing the timeliness, accuracy, comprehensiveness and transparency of financial and non financial information. In order to follow 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 comprises four members including the Chairman from the Non-executive Directors of the Board. The head of Internal Audit unit acts as Secretary. The terms of reference of the Audit Committee have been approved by the Board. The Committee assists the Board in overseeing 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.

During the year, three meetings of the Committee were held. The Committee reviewed system of internal controls, risk management and audit process besides recommending for Board's approval, annual work plan of internal audit, appointment of external auditors, annual work plans and budgets for different donors' projects, annual budget of the Company, un-audited condensed interim financial statements alongwith Directors' Reports, audited financial statements alongwith Auditors' and Directors' Reports, project specific audited financial statements as per the requirements of the donors. The Audit Committee meetings were also attended by the Chief Financial Officer. The Committee also held separate meeting with the external auditors.

Human Resource Committee

The Human Resource Committee comprises three members including the Chairman from the Non-executive Directors of the Board. The head of Human Resource unit acts as Secretary. The terms of reference of the Human Resource Committee have been approved by the Board. 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.

During the year under review, the Committee held one meeting. The Committee reviewed and recommended for Board's approval, annual increment for the employees, salary adjustment and benefits for selective employees and additional positions in the existing establishment.

Management

The Company Management is supervised by the Chief Executive/Managing Director to implement policies and monitor procedures adopted by the Board, carry out Board directives under delegated authorities to achieve objectives of the Company and provide feed back on the strategies formulated by the Board.

The Management ensures execution of business operations including adherence to cardinal principles, appraising and monitoring of partner organizations, recommending financing for partner organizations, preparation of annual budgets/work plans and monitoring progress thereof. Management is also responsible for implementation of internal control including segregation of duties, financial and accounting controls for accuracy and completeness of accounting records, authorization, recording and accurate processing of transactions, compliance with statutory and other regulations and timely preparation of reliable financial and non-financial information for circulation to the stakeholders.

Future Outlook

The Company aims to sustain its performance levels by consistently delivering on commitments, and improving the quality of its multifaceted interventions. In doing so, it will be guided by the requirements of its stakeholders.

The Executive Directors of the World Bank on October 11, 2007 approved additional financing of US$ 75 million for PPAF for the Social Mobilization Project. The project aims to mobilize about 5 million people in 25 of the poorest districts of Pakistan and create viable community organizations over the next three years thereby, laying the foundation for the future expansion of PPAF poverty reduction activities. It is estimated that over 5 million people in nearly one million households will be organized into 50,000 community organizations. Many of these will go on to take microfinance loans and community productive infrastructure from the PPAF, through the existing partner organization network, while others will federate into local service organizations at the Union Councils level. A leadership cadre of 250,000 women and men will be trained to develop local support organizations, for sustainable development beyond the project period. Legal Agreements for this project were executed between

Government of Pakistan, International Development Association/World Bank and PPAF. On completion of necessary formalities, the project was declared effective on February 20, 2008.

The International Fund for Agricultural Development (IFAD) approved funding of US$ 35 million for the Programme for Increasing Sustainable Microfinance (PRISM). The project 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. Legal Agreements for the Project were executed between Government of Pakistan, IFAD and PPAF. On completion of necessary formalities, the project was declared effective on May 07, 2008.

As the Company has already committed 100% of World Bank funds allocated under the Second Project and all major deliverables met or exceeded, the Supervision Mission of the World Bank has recommended that there was clear justification for a World Bank Third Project with PPAF. As part of this process, the Auditor General of Pakistan (AG), on the direction of the Ministry of Finance, conducted a comprehensive review of the PPAF program, financial management and procurement as well as desk/field review of three major partner organizations. The AG team concluded that PPAF Project is meeting its overall objectives in a satisfactory manner and recommended that Government should continue its commitment and support to the PPAF. In view of the performance report of the AG, the Ministry of Finance had requested the World Bank to appraise PPAF for the Third Project.

The proposed Project will be designed to reduce poverty and empower the rural and urban poor by providing financial and physical resources, information and opportunities for development. It will focus in particular on increased inclusion of women in community organizations and their heightened participation in all community and civic decision making processes. This will be achieved through a participatory and integrated approach that combines building institutions of the poor, enhancing sustainable livelihoods through skill enhancement, micro-credit, improved access and linkages to markets; community managed grants for social and productive infrastructure and the fostering of stronger links between organizations of the poor and local government bodies. The World Bank would appraise PPAF for Third Project by the end of year 2008.

Auditors

The present auditors of the Company, M/s A. F. Ferguson and Company, Chartered Accountants, have completed their assignment for the financial year ended June 30, 2008 and shall retire at the conclusion of 12th Annual General Meeting. Being eligible, they have indicated their willingness to continue in office as auditors and the Board of Directors, on the proposal of the Audit Committee, recommends their reappointment as auditors for the financial year ending June 30, 2009.

Conclusion

Being a learning organization, PPAF has consciously striven to remain valid in its context by: (i) being demand driven; (ii) undertaking innovative measures to respond to needs of its clients (iii) remaining firm on principles and flexible on procedures; and (iv) by maintaining lean structures. PPAF has been able to deepen the role of civil society in economic development by partnering with the right type of institutions, developing capacities, building systems, creating a blend of professionalism and altruism with the objective of strengthening society's ability to serve the poor on a long term basis.

Obituary

The Board condoles the sad demise of Dr. A. R. Kemal, (Member, Board of Directors and General Body), Dr. Mutawakkil Kazi, (Member, General Body), and Ms. Zari Sarfraz, (Member, General Body) and prays to the ALMIGHTY ALLAH to bless the departed souls and grant them eternal peace - Ameen. The Board also acknowledges their participation and invaluable contribution towards the affairs of the Company.

Acknowledgement

May I express my gratitude for the continued support of my fellow Directors whose consistent efforts and guidance in directing the Company's affairs contributed significantly towards achieving the financial and operational targets. The success we have seen over the years is the product of the Board's vision and commitment towards poverty alleviation. I look forward to working in partnership with them to benefit from their vision and valued experience which I am confident will go a long way in the future growth and prosperity of the Company.

The Board is grateful for the trust and faith reposed by the Members of General Body. Their support gives confidence and encouragement in achieving the targets and strategies formulated by the Board. The Board would also like to commend the partner organizations and their communities for their support which contributed to our present success. The Board 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 also takes this opportunity to thank its other donor agencies – International Fund for Agricultural Development; U.S. Department of Agriculture; KfW Development Bank (Germany); Committee Encouraging Corporate Philanthropy (USA); and U.S. Agency for International Development, for their support and guidance.

The Board is immensely proud of its professional management team and all its employees. They have individually and collectively, through a well coordinated effort, contributed to the outstanding results achieved by the Company during the year. We are confident of our employees' abilities and hard work to attain ambitious corporate objectives.

With renewed dedication and commitment, PPAF will continue to be a responsive and agile institution fully aligned with the changing dynamics of poverty alleviation. We will endeavor to ensure that this growth momentum is sustained and expanded in the years ahead.

Hussain Dawood

August 05, 2008

Financial Highlights

	2008	2007	2006	2005	2004	2003	2002
Outreach - Numbers (Cumulative)							
Partner Organizations	74	70	68	56	42	38	29
Districts	117	111	108	97	95	84	60
Villages	31752	27,578	23,354	19,863	13,054	8,650	4,223
Loans ('000)	2,300	1,513	947	616	370	221	70
Villages	17,000	14,900	11,700	8,900	6,800	2,900	1,900
Disbursements - Rs. in million							
Total Disbursements	16,697	15,806	6,246	4,064	2,436	1,777	1,189
Microcredit/enterprise development loans	9,075	6,228	3,705	3,106	1,462	1,314	655
Grants – Core Operations	1,951	1,654	1,372	958	974	463	534
Grants – Earthquake Rehabilitation & Reconstruction	5,671	7,924	1,169	-	-	-	-
Balance Sheet - Rs. in million							
Total assets	18,923	18,702	13,201	8,747	3,617	2,771	1,707
Microcredit/enterprise development loans receivable	7,982	5,642	3,996	2,598	1,081	1,201	695
Long term investment	1,000	1,000	800	900	700	405	505
Short term investment - spceific to projects	1,050	1,050	-	-	-	-	-
Equity and reserves	3,755	2,817	1,788	1,137	791	710	618
Long term loans	10,770	10,777	10,513	6,482	2,734	1,956	1,054
Operational Results - Rs. in million							
Total income	1,314	1,255	763	305	222	230	145
General and admin expenses - core operations	200	159	108	87	71	63	43
General and admin expenses - rehabilitation & reconstruction	83	46	12	-	-	-	-
Surplus before provisions for loan loss	947	965	572	152	133	149	94
Surplus after provisions for loan loss	802	914	501	196	81	92	59
Financial Ratios							
Surplus before loan loss	72%	77%	75%	50%	60%	65%	65%
Return on equity	25%	34%	32%	13%	17%	21%	15%
Repayment rate (microcredit)	100%	100%	100%	100%	100%	100%	100%
Total general and admin expenses/total disbursements	1.69	1.30%	1.92%	2.14%	2.91%	3.55%	3.62%
Income on loans/general and admin expenses on core operations	252%	205%	164%	101%	97%	89%	68%
Debt/equity	74:26	79 : 21	85 : 15	85 : 15	77 : 23	73 : 27	63 : 37
Current ratio	4:1	3 : 1	13 :1	7 : 1	31 : 1	17 : 1	26 : 1

PAKISTAN POVERTY ALLEVIATION FUND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

A.F. FERGUSON & CO.
CHARTERED ACCOUNTANTS
KARACHI-LAHORE-ISLAMABAD

AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Poverty Alleviation Fund (the Company) as at June 30, 2008 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. The financial statements of the Company as at June 30, 2007 were audited by another auditor whose report dated September 17, 2007, expressed an unqualified opinion on those statements.

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

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

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

   (i) the balance sheet and income and expenditure account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

   (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, income and expenditure account, cash flow statement and statement of changes in fund and reserves together with the notes forming part thereof conform with the 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 Company's affairs as at June 30, 2008 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.

Chartered Accountants

Islamabad   August 5, 2008

PAKISTAN POVERTY ALLEVIATION FUND
BALANCE SHEET AS AT JUNE 30, 2008

	Note	2008	2007
		(Rupees)	
FIXED ASSETS - TANGIBLE	6	53,066,251	38,067,237
INTANGIBLE ASSETS	7	9,962,095	3,481,990
LONG TERM INVESTMENTS	8	1,000,000,000	1,000,000,000
LONG TERM LOANS TO PARTNER ORGANIZATIONS	9	1,115,405,268	496,346,361
CURRENT ASSETS			
Current maturity of loans to Partner Organizations	9	6,867,395,344	5,145,578,946
Short term investments	10	5,441,784,165	6,712,254,108
Short term investments-specific to projects	11	1,050,000,000	1,050,000,000
Advances, deposits, prepayments and other receivables	12	68,353,341	85,445,978
Profit/service charges receivable	13	262,500,096	453,060,640
Cash and bank balances	14	16,862,695	79,408,122
Cash and bank balances-specific to projects	15	3,037,581,500	3,638,723,285
		16,744,477,141	17,164,471,079
		18,922,910,755	18,702,366,667
FUND AND RESERVES			
Endowment fund	16	1,000,000,000	1,000,000,000
Accumulated surplus		2,755,078,994	1,953,072,462
		3,755,078,994	2,953,072,462
LONG TERM LOANS	17	10,769,894,863	10,776,767,410
CURRENT LIABILITIES			
Deferred liabilities - grant fund	18	4,250,413,931	4,701,508,285
Deferred income/(expense) - grant fund	19	(26,292,606)	95,789,603
Current portion of long term loan	17	109,617,378	111,342,020
Service and commitment charges payable	20	60,396,984	52,519,814
Accrued and other liabilities	21	3,801,211	8,320,948
Payable to gratuity fund	22	-	3,046,125
		4,397,936,898	4,972,526,795
CONTINGENCIES AND COMMITMENTS	23		
		18,922,910,755	18,702,366,667

The annexed notes 1 to 33 form an integral part of these financial statements.

CHAIRMAN

CHIEF EXECUTIVE / MANAGING DIRECTOR

PAKISTAN POVERTY ALLEVIATION FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2008

	Note	2008	2007
		(Rupees)	
INCOME			
Service charges on loans to Partner Organizations	24	503,560,944	325,762,082
Amortization of deferred income - grant fund	25	154,509,153	134,628,003
Income on investments and saving accounts	26	653,017,908	792,196,275
Other income	27	3,114,303	1,804,166
		1,314,202,308	1,254,390,526
EXPENDITURE			
General and administrative expenses	28	283,385,376	205,316,642
Loan loss provision		144,563,154	50,902,861
Financial charges	29	84,247,246	84,381,199
Contribution for USAID financing programme		-	60,000
		512,195,776	340,660,702
SURPLUS FOR THE YEAR		802,006,532	913,729,824

The annexed notes 1 to 33 form an integral part of these financial statements.

CHAIRMAN

CHIEF EXECUTIVE / MANAGING DIRECTOR

PAKISTAN POVERTY ALLEVIATION FUND
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2008

	Note	2008	2007
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (used in) operations			
Surplus for the year		802,006,532	913,729,824
Adjustment for non cash items:			
Depreciation		20,046,705	14,099,360
Amortization of intangible assets		3,715,002	1,160,663
Amortization of deferred income		(154,509,153)	(134,628,003)
Provision for gratuity		4,034,824	3,046,125
Loan loss provision		144,563,154	50,902,861
Gain on sale of fixed assets		(1,201,200)	(1,214,017)
Financial charges		84,247,246	84,381,199
		100,896,578	17,748,188
		902,903,110	931,478,012
Working capital changes			
(Increase) / decrease in current assets:			
Advances, deposits, prepayments and other receivables		17,092,637	(25,036,620)
Profit/service charges receivables		190,560,544	(103,692,925)
Increase / (decrease) in current liabilities:			
Accrued and other liabilities		(4,519,737)	3,712,839
		203,133,444	(125,016,706)
Cash generated from operations		1,106,036,554	806,461,306
Recoveries of loans from partner organizations		6,589,658,676	4,531,284,660
Disbursements to partner organizations:			
Loans		(9,075,097,135)	(6,228,046,713)
Grants		(7,623,050,991)	(9,577,816,936)
Financial charges paid		(76,370,076)	(66,129,441)
Payment to gratuity fund		(7,080,949)	(5,617,930)
		(10,191,940,475)	(11,346,326,360)
Net cash (used in) operating activities		(9,085,903,921)	(10,539,865,054)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments		1,270,469,943	(1,666,697,560)
Capital expenditure incurred		(45,552,626)	(33,051,905)
Proceeds from disposal of fixed assets		1,513,000	1,387,001
Net cash generated from (used in) investing activities		1,226,430,317	(1,698,362,464)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts for endowment fund		-	200,000,000
Repayment of long term loans		(109,617,378)	-
Long term loans - receipts		101,020,189	374,550,857
Deferred liabilities - grant fund receipts		7,171,956,637	13,499,276,557
Deferred income - grant fund receipts		32,426,944	155,662,789
Net cash generated from financing activities		7,195,786,392	14,229,490,203
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(663,687,212)	1,991,262,687
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		3,718,131,407	1,726,868,720
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	14&15	**3,054,444,195**	**3,718,131,407**

The annexed notes 1 to 33 form an integral part of these financial statements.

CHAIRMAN

CHIEF EXECUTIVE / MANAGING DIRECTOR

PAKISTAN POVERTY ALLEVIATION FUND
STATEMENT OF CHANGES IN FUND AND RESERVES
FOR THE YEAR ENDED JUNE 30, 2008

	Endowment Fund	Accumulated Surplus	Total
		(Rupees)	
Balance as at June 30, 2006, as previously reported	800,000,000	987,842,638	1,787,842,638
Reversal of provision for taxation - note 5		51,500,000	51,500,000
Balance as at June 30, 2006, as restated	800,000,000	1,039,342,638	1,839,342,638
Receipts during the year	200,000,000		200,000,000
Surplus for the year, as previously reported		828,729,824	828,729,824
Reversal of provision for taxation - note 5		85,000,000	85,000,000
Surplus for the year, as restated		913,729,824	913,729,824
Balance as at June 30, 2007, as restated	1,000,000,000	1,953,072,462	2,953,072,462
Surplus for the year		802,006,532	802,006,532
Balance as at June 30, 2008	1,000,000,000	2,755,078,994	3,755,078,994

The annexed notes 1 to 33 form an integral part of these financial statements.

CHAIRMAN

CHIEF EXECUTIVE / MANAGING DIRECTOR

PAKISTAN POVERTY ALLEVIATION FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

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 the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

3. BASIS OF MEASUREMENT

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.

The preparation of financial statements in conformity with the approved accounting standards require management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent form other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods.

The area involving a higher degree of judgment or complexity or area where assumptions and estimates are significant to the financial statements is loan loss provision (note 9).

-2-

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. 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, related details of which are given in note 22 to the financial statements.

4.2 Taxation

The Company has been granted exemption from income tax under clause 58 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.

4.4 Deferred liabilities - grant fund

Grants specific to Partner Organisations (POs) are stated as deferred liabilities net of related disbursements to POs.

4.5 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 at the rates specified in note 6.

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.

4.6 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.

4.7 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.

-3-

4.8 Loans to Partner Organisations

These are stated net of provision for loan losses.

General provision for loan losses 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.

Specific provision for loan losses is made against loans which are considered doubtful of recovery, as required.

Loan losses (write offs) are charged against the provision for loan losses when management believes that the loan is unlikely to be collected.

4.9 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.

4.10 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.

4.11 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.

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.

4.12 Borrowing costs

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

4.13 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.

4.14 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.

4.15 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.

4.16 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 realize the asset and settle the liability simultaneously.

5. Provision for tax

The Company has not made provision for taxation based on exemption available to PPAF under clause 58 of Part I of the Second Schedule of the Income Tax Ordinance, 2001. The tax provisions made in prior years amounting to Rs 136,500,000 have been reversed. As a result, accumulated surplus at June 30, 2006 increased by Rs 51,500,000, surplus for the year ended June 30, 2007 increased by Rs 85,000,000 and tax liability decreased by Rs 136,500,000.

-5-

6. **FIXED ASSETS - tangible**

	Cost				Depreciation				
	As at July 01, 2007	Additions/ (Deletions)	As at June 30, 2008	Annual rate of depreciation	As at July 01, 2007	Charge for the year / (On deletions)	As at June 30, 2008	**Book value as at June 30, 2008**	**Book value as at June 30, 2007**
		(Rupees)		%		**(Rupees)**		**(Rupees)**	**(Rupees)**
Furniture and fixtures	6,926,745	1,804,757	8,731,502	20	3,747,475	1,441,273 -	5,188,748	**3,542,754**	**3,179,270**
Vehicles	33,394,300	16,043,500 (2,624,250)	46,813,550	20	14,367,907	8,815,980 (2,312,450)	20,871,437	**25,942,113**	**19,026,393**
Office equipment	13,305,190	9,278,616	22,583,806	20	7,229,895	3,874,438 -	11,104,333	**11,479,473**	**6,075,295**
Computer equipment	23,159,153	8,230,646	31,389,799	25	13,372,874	5,915,014 -	19,287,888	**12,101,911**	**9,786,279**
2008	76,785,388	35,357,519 (2,624,250)	109,518,657		38,718,151	20,046,705 (2,312,450)	56,452,406	**53,066,251**	**38,067,237**
2007	50,692,501	28,409,252 (2,316,365)	76,785,388		26,762,172	14,099,360 (2,143,381)	38,718,151	**38,067,237**	

7. **INTANGIBLE ASSETS**

	Cost				Amortisation				
	As at July 01, 2007	Additions	As at June 30, 2008	Annual rate of amortisation	As at July 01, 2007	Charge for the year	As at June 30, 2008	**Book value as at June 30, 2008**	**Book value as at June 30, 2007**
		(Rupees)		%		**(Rupees)**		**(Rupees)**	**(Rupees)**
Satellite imageries	1,136,000	10,160,622	11,296,622	25	284,000	2,824,155 -	3,108,155	**8,188,467**	**852,000**
Other softwares	3,506,653	34,485	3,541,138	25	876,663	890,847 -	1,767,510	**1,773,628**	**2,629,990**
2008	4,642,653	10,195,107	14,837,760		1,160,663	3,715,002	4,875,665	**9,962,095**	**3,481,990**
2007	-	4,642,653	4,642,653		-	1,160,663	1,160,663	**3,481,990**	

-6-

	Note	2008	2007
		(Rupees)	
8. LONG TERM INVESTMENTS - held to maturity			
Pakistan Investment Bonds (PIBs)	8.1	1,000,000,000	1,000,000,000

8.1 Represents investments in PIBs as follows:

Principal (Rupees)	Issue Date	Maturity Date	Profit rate % per annum	Payment terms
200 million	30-12-2000	30-12-2010	14.00	Semi annually
200 million	22-08-2001	22-08-2011	13.00	Semi annually
300 million	29-04-2004	28-04-2014	8.00	Semi annually
100 million	29-04-2004	28-04-2014	8.00	Semi annually
200 million	19-05-2006	19-05-2011	9.30	Semi annually

	Note	2008	2007
		(Rupees)	
9. LOANS TO PARTNER ORGANIZATIONS - secured, considered good			
Microcredit/Enterprise Development Loans - IDA financing	9.1	8,223,548,827	5,711,832,709
Enterprise Development Loans - USAID/Pakistan financing	9.2	38,829,164	104,585,133
Microfinance Innovation and Outreach Programme (MIOP)	9.3	39,478,310	-
	9.4	8,301,856,301	5,816,417,842
Less: Loan loss provision	9.5	(319,055,689)	(174,492,535)
	9.6	7,982,800,612	5,641,925,307
Less: Amount receivable within next twelve months shown as current asset		(6,867,395,344)	(5,145,578,946)
		1,115,405,268	496,346,361

	2008	2007
9.1 Microcredit/Enterprise Development Loans - IDA financing		
National Rural Support Programme	4,045,607,106	2,243,233,828
Punjab Rural Support Programme	266,522,008	555,249,671
Kashf Foundation	1,586,649,999	926,832,045
Sarhad Rural Support Programme	69,000,000	54,333,333
Thardeep Rural Development Programme	408,346,709	396,625,396
Development Action for Mobilization and Emancipation	391,260,319	296,848,209
Taraqee Foundation	10,354,105	30,354,105
Sindh Agricultural & Forestry Workers Coordinating Organization	149,012,000	127,494,000
Balochistan Rural Support Programme	-	2,474,885
Sindh Rural Support Programme	2,375,000	7,775,000
Jinnah Welfare Society	57,941,500	46,783,500
Centre for Women Cooperative Development	92,992,904	78,508,782
Rural Community Development Society	75,995,371	40,541,665
Khwendo Kor Women and Children Development Programme	-	1,468,749
Young Pioneers Society	11,100,000	4,400,000
Women Social Organisation	3,560,000	6,331,100
Anjuman-e- Falah-o-Behbood	1,312,500	4,328,500
Community Support Concern	166,010,626	200,946,874
Balances continued - carried forward	7,338,040,147	5,024,529,642

-7-

	Note	2008	2007
		(Rupees)	
Balances continued - brought forward		7,338,040,147	5,024,529,642
Poverty Eradication Network		2,965,000	4,399,730
Baanhn Beli		6,700,000	9,930,000
Bunyad Literacy Community Council		9,050,000	3,300,000
Indus Resource Centre		12,829,000	11,446,333
Network Leasing Corporation Limited		115,625,000	156,033,538
Organization for Participatory Development		59,727,250	50,542,111
Swabi Women Welfare Society		10,499,998	9,500,002
Women Welfare Organization Poonch		-	2,406,616
Orangi Charitable Trust		63,576,668	28,812,103
Community Development Concern		1,161,759	4,510,026
Karwan Community Development Organization		3,345,000	2,850,000
Kiran Welfare Organization		4,475,001	3,677,781
Narowal Rural Development Programme		15,341,666	12,625,000
Soon Valley Development Programme		9,203,750	8,385,000
Asasah		236,011,916	238,023,145
Baidarie		4,349,445	2,833,670
Orix Leasing Pakistan Limited		89,187,631	74,259,748
Network Micro-Finance Bank Limited		-	21,886,250
Save The Poor		13,100,219	5,040,300
Marvi Rural Development Organization		11,803,653	8,010,306
Sindh Rural Support Organization		53,356,864	24,520,048
BRAC Pakistan		69,984,000	-
Farmers Friend Organization		3,750,000	-
		8,134,083,967	5,707,521,349
Enterprise Development Loans			
Jinnah Welfare Society		11,412,360	4,311,360
Sindh Agricultural & Forestry Workers Coordinating Organization		7,000,000	-
Rural Community Development Society		22,000,000	-
Community Support Concern		7,052,500	-
Centre for Women Cooperative Development		42,000,000	-
		89,464,860	4,311,360
		8,223,548,827	5,711,832,709

9.2 Enterprise Development Loans - USAID/Pakistan financing

	2008	2007
Centre for Women Cooperative Development	22,833,333	59,166,666
Rural Community Development Society	6,666,664	13,055,555
Network Leasing Corporation Limited	-	20,671,245
Community Support Concern	9,329,167	8,741,667
Sindh Agricultural & Forestry Workers Coordinating Organization	-	2,950,000
	38,829,164	104,585,133

9.3 Microfinance Innovation and Outreach Programme (MIOP)

	2008	2007
Community Support Concern	17,280,050	-
Sarhad Rural Support Programme	10,000,000	-
Sindh Agricultural & Forestry Workers Coordinating Organization	5,600,000	
AL Mehran Rural Development and Welfare Organization	3,768,260	-
Orangi Charitable Trust	800,000	-
Khajji Cooperative Society	2,030,000	-
	39,478,310	-

9.4 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 to three years under the respective financing agreements signed between the Company and the POs.

With effect from January 01, 2008, the Partner Organisations, in respect of all lending facilities (credit), defined as large (POs which are approved annual credit disbursements by PPAF of Rs 500 million and above or POs having PPAF credit outstanding of Rs 500 million and above, at any given point in time) will be charged annual markup rate (service charge) equal to 10% or KIBOR (Karachi Interbank Offered Rate) prevailing on first working day of January (applicable on Financing Agreements executed between January 01, to June 30) and first working day of July (applicable on Financing Agreements executed between July 01 to December 31) each year, the KIBOR corresponding with the agreement period will be applicable. The revised markup rate (service charge) will be applicable to all lending facilities contracted on or after January 01, 2008. Repayment of principal amount will commence after the grace period of 12 months and shall continue over a period not exceeding 15 months. Payment of mark up (service charges) will be on quarterly basis.

		2008	2007
		(Rupees)	
9.5	Loan loss provision		
	Opening balance	174,492,535	123,589,674
	Provision during the year	144,563,154	50,902,861
		319,055,689	174,492,535
9.6	Movement of loans to Partner Organizations		
	Opening balance	5,816,417,842	4,119,655,789
	Disbursements during the period	9,075,097,135	6,228,046,713
		14,891,514,977	10,347,702,502
	Recoveries during the period	(6,589,658,676)	(4,531,284,660)
		8,301,856,301	5,816,417,842
	Less: Loan loss provision	(319,055,689)	(174,492,535)
		7,982,800,612	5,641,925,307

10. 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 8.00% p.a. to 12.10% p.a. (2007: 8.60% p.a. to 11.25% p.a.).

11. SHORT TERM INVESTMENTS - specific to projects

Represents investments in respect of United States Department for Agriculture (USDA) project activities, maturing with in one year from the date of investment at annual mark up rates ranging from 10% p.a to 11% p.a (2007: 8% p.a to 8.3% p.a).

-9-

		Note	2008	2007
			(Rupees)	
12.	**ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**			
	Loans and advances - considered good			
	Employees	12.1	926,167	1,173,037
	Suppliers		2,096,995	19,005,992
			3,023,162	20,179,029
	Deposits		1,370,400	1,257,900
	Prepayments		14,557,356	14,480,164
	Income tax refundable		49,384,426	49,384,426
	Other receivables - considered good		17,997	144,459
			68,353,341	85,445,978

12.1 This include advance salary loans and car loans given to the employees of the Company, carrying annual mark up of 3% p.a. (2007: 3% p.a.) and 8% p.a (2007: 8% p.a.) respectively. The principal amount is repayable in 18 equal monthly installments.

		Note	2008	2007
			(Rupees)	
13.	**PROFIT / SERVICE CHARGES RECEIVABLE**			
	Profit receivable on			
	Pakistan Investment Bonds (PIBs)		30,791,792	30,501,918
	Term deposit receipts / saving accounts		109,334,150	323,506,945
	Project bank accounts / investments		3,327,123	18,759,448
			143,453,065	372,768,311
	Service charge receivable on loans to POs		119,047,031	80,292,329
			262,500,096	453,060,640
14.	**CASH AND BANK BALANCES**			
	Cash in hand			
	in head office		21,349	1,884
	in centers		83,288	27,910
	in field coordination offices		56,067	73,655
			160,704	103,449
	Cash at banks - current accounts		649,578	15,668,481
	Cash at banks - deposit accounts		16,052,413	63,636,192
			16,701,991	79,304,673
			16,862,695	79,408,122
15.	**CASH AND BANK BALANCES - SPECIFIC TO PROJECTS**			
	Cash at banks - current accounts			
	Specific to USAID grant		81,842	87,026
	Specific to Kfw		107,192,900	331,710,464
	Specific to IDA		2,070,033,029	2,330,179,583
	Specific to IFAD-MIOP		59,192,170	157,775,952
	Specific to IFAD-REACH		456,578,126	484,589,774
	Specific to CECP grant		236,464,726	-
			2,929,542,793	3,304,342,799
	Cash at banks - deposit accounts			
	Specific to USDA grant		63,477,132	220,243,255
	Specific to CECP		44,561,575	113,006,837
	Specific to USAID grant		-	1,130,394
			108,038,707	334,380,486
			3,037,581,500	3,638,723,285

The balances in deposit accounts carry average mark up of 4.70% p.a. (2007: 5.30% p.a.). These include foreign currency balances aggregating to US$ 727,911 (2007: US$ 1,895,967).

-10-

		Note	2008	2007
			(Rupees)	
16.	**ENDOWMENT FUND**			
	PPAF - I		500,000,000	500,000,000
	PPAF - II		500,000,000	500,000,000
		16.1	1,000,000,000	1,000,000,000

16.1 This represents 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.

		Note	2008	2007
			(Rupees)	
17.	**LONG TERM LOANS - Unsecured**			
	Government of Pakistan - PPAF - I (IDA financing)	17.1	2,453,401,344	2,561,294,080
	Government of Pakistan- PPAF - II (IDA financing)	17.2	8,197,837,189	8,096,817,000
	Government of Pakistan - (IFAD financing)	17.3	118,656,330	118,656,330
			10,769,894,863	10,776,767,410

		For the year	Cumulative to date
		(Rupees)	
17.1	Government of Pakistan - PPAF - I (IDA financing)		
	Opening balance	2,672,636,100	-
	Amount received	-	2,631,238,091
	Amount repaid	(109,617,378)	(109,617,378)
	Foreign exchange translation differences - Net	-	41,398,009
		2,563,018,722	2,563,018,722
	Amount payable within next twelve months shown as current liability	(109,617,378)	(109,617,378)
		2,453,401,344	2,453,401,344

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.

		For the year	Cumulative to date
		(Rupees)	
17.2	Government of Pakistan- PPAF - II (IDA financing)		
	Opening balance	8,096,817,000	-
	Amount received	115,330,979	8,197,837,189
	Foreign exchange translation differences - Net	(14,310,790)	-
		8,197,837,189	8,197,837,189

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.

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.

		For the year	Cumulative to date
		(Rupees)	
17.3	Government of Pakistan - (IFAD financing)		
	Opening balance	118,656,330	-
	Amount received	-	118,656,330
		118,656,330	118,656,330

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.

Ah

-12-

		Note	2008	2007
			(Rupees)	
18.	**DEFERRED LIABILITIES - GRANT FUND**			
	Government of Pakistan - IDA	18.1	2,151,989,364	2,322,422,440
	US Agency for International Development/Pakistan	18.2	126,106,108	179,540,573
	Government of Pakistan - USDA	18.3	1,117,938,769	1,237,959,342
	Government of Pakistan - KfW	18.4	107,192,900	331,710,464
	Government of Pakistan - IFAD (MIOP)	18.5	8,863,170	39,119,621
	Government of Pakistan - IFAD (REACH)	18.6	456,578,126	484,589,774
	Committee Encouraging Corporate Philanthropy (CECP)	18.7	281,745,494	106,166,071
			4,250,413,931	4,701,508,285

Deferred liabilities grant fund represents amounts payable to POs on non-reimbursable basis under respective financing agreements.

		Note	2008	2007
			(Rupees)	
18.1	**Grants from Government of Pakistan - IDA**			
	Community physical infrastructure	18.1.1	(181,749,155)	362,024,575
	Social sector development	18.1.2	(49,840,581)	3,421,872
	Capacity building - POs	18.1.3	(221,898,926)	147,476,438
	Emergency relief	18.1.4	(1,888,594)	(1,261,537)
	Rehabilitation & Reconstruction	18.1.5	1,649,106,620	1,810,761,092
	Grants for Social Mobilization	18.1.6	958,260,000	-
			2,151,989,364	2,322,422,440

		For the Year	Cumulative to date
		(Rupees)	
18.1.1	**Community physical infrastructure**		
	Opening balance	362,024,575	-
	Amount received	563,838,400	4,847,960,642
	Foreign exchange translation differences - Net	654,526	(10,963,122)
		926,517,501	4,836,997,520
	Less: Disbursements		
	Sarhad Rural Support Programme	150,831,221	740,116,223
	National Rural Support Programme	129,292,335	1,078,840,593
	Punjab Rural Support Programme	134,799,765	691,263,173
	Aga Khan Rural Support Programme	30,908,870	276,273,782
	Thardeep Rural Development Programme	32,916,045	203,900,575
	Taraqee Foundation	75,068,532	301,767,955
	Balochistan Rural Support Programme	70,182,956	233,962,668
	Jinnah Welfare Society	7,191,997	32,242,608
	Rural Community Development Society	22,820,633	88,731,433
	Women Welfare Organization Poonch	10,746,238	52,818,256
	Sindh Agricultural & Forestry Workers Coordinating Organization	40,626,217	126,938,284
	Himalayan Wildlife Foundation	4,257,397	7,906,602
	Disbursements continued - carried forward	709,642,206	3,834,762,152

AH

-13-

	For the Year	Cumulative to date
	(Rupees)	
Disbursements continued - brought forward	709,642,206	3,834,762,152
Baanhn Beli	-	21,322,133
Community Mobilisation and Development Organization	-	27,636,170
Ghazi Brotha Taraqiatee Idara	11,227,643	71,372,634
Human Development Foundation	18,009,560	59,040,424
Islamic Relief	17,722,646	62,957,893
Participatory Integrated Development Society	8,955,906	68,760,983
Salik Development Foundation	2,212,791	32,622,626
Soon Valley Development Programme	15,123,868	57,828,741
Sungi Development Foundation	14,956,108	71,542,060
Women Social Organisation	6,145,521	17,498,521
Youth Commission for Human Rights	-	18,436,447
AKPBS-Water and Sanitation Extension Programme	90,078,200	193,593,012
Community Uplift Programme	23,943,000	74,863,742
Human Resource Development Society	-	31,947,075
Balochistan Environmental and Educational Journey	5,767,000	13,441,715
Omar Asghar Khan Development Foundation	1,532,145	4,905,795
Balochistan Rural Development & Research Society	-	5,035,481
SOS Children's Village	2,285,725	15,369,766
Indus Earth Trust	15,448,769	34,153,273
Green Circle Organization	-	4,998,200
Village Friends Organization	5,660,800	14,691,802
Kiran Welfare Organization	957,600	3,849,025
Social Action Bureau for Assistance in Welfare and Organisation Network	4,214,999	11,352,999
South Asia Partnership Pakistan	50,420,953	104,065,482
Strengthening Participatory Organization	15,727,800	31,123,000
Society for Conservation and Protection of Environment	8,987,999	21,612,361
Hazara Development and Advocacy Foundation	34,191,860	38,858,425
Young Pioneers Society	60,000	4,171,460
Sindh Rural Support Organization	13,774,192	28,084,548
Indus Resource Centre	6,470,000	8,255,750
All Pakistan Women Association	3,994,455	5,829,855
Health and Nutrition Development Society	3,146,500	3,587,000
Society for Human Empowerment and Rural Development	-	2,862,715
Badin Rural Development Society	4,770,183	5,475,183
Mountain and Glacier Protection Organization	11,118,227	11,118,227
Sindh Rural Support Program	1,720,000	1,720,000
	1,108,266,656	5,018,746,675
	(181,749,155)	(181,749,155)

18.1.2 **Social sector development**

	For the Year	Cumulative to date
Opening balance	3,421,872	-
Amount received	95,012,795	261,852,335
Foreign exchange translation differences - Net	161,039	-
	98,595,706	261,852,335

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		For the Year	Cumulative to date
		(Rupees)	
	Less: Disbursements		
	AKPBS-Water and Sanitation Extension Programme	8,412,360	20,626,070
	Community Uplift Programme	1,233,050	4,543,754
	Islamic Relief	2,264,731	6,550,269
	National Rural Support Programme	22,425,344	39,241,458
	Sindh Agricultural & Forestry Workers Coordinating Organization	7,986,262	26,819,440
	Sungi Development Foundation	2,579,350	9,689,973
	Taraqee Foundation	295,475	3,395,985
	Indus Resource Centre	11,292,453	20,183,567
	Mountain and Glacier Protection Organization	28,876,747	90,627,440
	SOS Children Villages	29,193,078	43,212,877
	Community Mobilisation and Development Organization	4,907,107	11,328,222
	Rural Community Development Society	4,197,383	8,405,576
	Family Planning Association of Pakistan	8,600,488	10,895,826
	Narowal Rural Development Programme	7,956,699	7,956,699
	Badin Rural Development Society	1,824,200	1,824,200
	Marvi Rural Development Organization	2,710,965	2,710,965
	Indus Earth Trust	3,680,595	3,680,595
		148,436,287	311,692,916
		(49,840,581)	(49,840,581)
18.1.3	**Capacity building - POs**		
	Opening balance	147,476,438	-
	Amount received	71,375,979	2,135,014,826
	Foreign exchange translation differences - Net	23,357	(21,880,499)
		218,875,774	2,113,134,327
	Less: Disbursements		
	National Rural Support Programme	207,570,106	861,683,501
	Punjab Rural Support Programme	5,800,622	265,811,513
	Sarhad Rural Support Programme	-	125,585,287
	Thardeep Rural Development Programme	53,149,684	282,497,952
	Development Action for Mobilization and Emancipation	21,272,024	87,829,588
	Taraqee Foundation	-	122,846,521
	Balochistan Rural Support Programme	1,350,000	26,572,410
	Sindh Agricultural & Forestry Workers Coordinating Organization	17,117,992	73,488,856
	Sindh Rural Support Programme	2,502,080	13,522,003
	Jinnah Welfare Society	5,502,801	29,388,716
	Rural Community Development Society	4,529,773	26,312,635
	Centre for Women Cooperative Development	12,601,846	23,886,085
	Poverty Eradication Network	1,200,000	5,705,070
	Khwendo Kor Women & Children Development Programme	-	3,439,400
	Community Support Concern	28,273,640	63,237,837
	Women Social Organisation	807,894	4,406,050
	Young Pioneers Society	1,168,069	4,874,370
	Anjuman-e- Falah-o-Behbood	685,956	4,346,374
	Aga Khan Rural Support Programme	-	121,069
	Women Welfare Organization Poonch	1,617,598	7,161,135
	Disbursements continued - carried forward	365,150,085	2,032,716,372

	For the Year	Cumulative to date
	(Rupees)	
Disbursements continued - brought forward	365,150,085	2,032,716,372
Kashf Foundation	-	77,016,163
Family Planning Association of Pakistan	-	5,171,862
Baanhn Beli	573,976	7,662,625
Bunyad Literacy Community Council	2,312,288	8,714,813
Ghazi Brotha Taraqiatee Idara	-	984,844
Human Development Foundation	-	6,968,401
Indus Resource Centre	741,276	6,525,304
Organization for Participatory Development	5,693,598	16,529,969
Soon Valley Development Programme	2,180,391	5,440,422
Sungi Development Foundation	-	293,689
Swabi Women Welfare Society	902,768	5,572,148
Youth Commission for Human Rights	-	60,200
Indus Earth Trust	706,750	758,546
Network Leasing Corporation Limited	-	4,814
Orangi Charitable Trust	6,371,667	18,898,079
Participatory Integrated Development Society	442,726	1,566,257
Community Development Concern	434,855	2,539,210
Community Mobilisation and Development Organization	-	1,000,428
Green Circle Organization	-	272,000
Islamic Relief	-	503,238
Karwan Community Development Organization	1,617,209	2,810,547
Kiran Welfare Organization	2,717,593	6,092,961
Narowal Rural Development Programme	9,778,661	17,320,567
South Asia Partnership Pakistan	4,499,039	5,593,854
Salik Development Foundation	-	120,000
Society for Conservation and Protection of Environment	2,219,555	2,777,066
AKPBS-Water and Sanitation Extension Programme	2,802,556	3,560,386
Village Friends Organization	-	457,000
SOS Children's Village	874,000	1,074,000
Asasah	1,692,204	36,429,780
Baidarie	405,879	2,325,980
Balochistan Environmental and Educational Journey	771,517	1,246,421
Human Resource Development Society	-	120,000
Orix Leasing Pakistan Limited	3,203,912	6,915,747
Save The Poor	3,213,138	5,355,974
Marvi Rural Development Organization	8,666,270	13,780,565
Hazara Development and Advocacy Foundation	-	1,941,500
Society for Human Empowerment & Rural Development	23,940	307,167
Balochistan Rural Development & Research Society	1,028,280	2,134,578
Badin Rural Development Society	2,660,964	2,940,964
Health and Nutrition Development Society	3,441,255	3,671,255
Sindh Rural Support Organization	-	1,069,500
Farmers Friend Organization	4,505,350	4,505,350
Direct payments by PPAF for seminars and workshops for POs	1,142,998	11,372,716
Trainers' salary	-	1,909,991
	440,774,700	2,335,033,253
	(221,898,926)	(221,898,926)

18.1.4 **Emergency relief**

	For the Year	Cumulative to date
	(Rupees)	
Opening balance	(1,261,537)	-
Amount received	-	275,301,677
Foreign exchange translation differences - Net	(487,257)	-
	(1,748,794)	275,301,677
Less: Expenditure incurred on relief activities through POs:		
Sarhad Rural Support Programme	-	25,057,200
National Rural Support Programme	-	73,593,082
Omar Asghar Khan Development Foundation	-	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
Expenditure incurred on relief activities by PPAF	139,800	138,431,603
	139,800	277,190,271
	(1,888,594)	(1,888,594)

18.1.5 **Rehabilitation & Reconstruction**

	Note	2008	2007
		(Rupees)	
Housing reconstruction and community buildings	18.1.5.1	1,644,628,596	1,290,301,000
Revitalization of affected communities / rehabilitation of CPI schemes	18.1.5.2	4,478,024	520,460,092
		1,649,106,620	1,810,761,092

18.1.5.1 Housing reconstruction and community buildings

	For the Year	Cumulative to date
	(Rupees)	
Opening balance	1,290,301,000	-
Amount received	4,915,681,822	13,040,487,073
Foreign exchange translation differences - Net	23,535,774	-
	6,229,518,596	13,040,487,073
Less: Disbursements		
Sarhad Rural Support Programme	1,825,000,000	4,136,750,000
National Rural Support Programme	1,650,000,000	4,624,950,000
Omar Asghar Khan Development Foundation	251,340,000	506,327,500
Sungi Development Foundation	176,500,000	579,880,977
Women Welfare Organization Poonch	8,500,000	49,400,000
Islamic Relief	673,550,000	1,498,550,000
	4,584,890,000	11,395,858,477
	1,644,628,596	1,644,628,596

-17-

	For the Year	Cumulative to date
	(Rupees)	
18.1.5.2 Revitalization of communities / rehabilitation of CPI schemes		
Opening balance	520,460,092	-
Amount received	12,568,126	954,776,714
Foreign exchange translation differences - Net	2,134,400	-
	535,162,618	954,776,714
Less: Disbursements		
Revitalization of affected communities		
Sarhad Rural Support Programme	173,985,959	197,604,731
National Rural Support Programme	39,536,929	167,381,967
Omar Asghar Khan Development Foundation	12,408,931	31,792,523
Sungi Development Foundation	16,158,499	43,664,197
Women Welfare Organization Poonch	3,344,657	9,071,808
Islamic Relief	32,507,565	81,055,404
Disaster Management Trainings	14,282,254	15,952,962
	292,224,794	546,523,592
Rehabilitation of CPI schemes		
Sarhad Rural Support Programme	194,237,447	243,151,947
National Rural Support Programme	-	51,765,000
Omar Asghar Khan Development Foundation	-	11,783,500
Women Welfare Organization Poonch	9,661,790	41,133,788
Islamic Relief	10,148,600	15,362,000
Sungi Development Foundation	24,411,963	40,578,863
	238,459,800	403,775,098
	4,478,024	4,478,024

18.1.5.3 Agreement 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 18.1.4 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 agreement 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.

-18-

		For the Year	Cumulative to date
		(Rupees)	
18.1.6	**Grant for Social Mobilization**		
	Opening balance	-	-
	Amount received	958,260,000	958,260,000
	Foreign exchange translation differences - Net	-	-
		958,260,000	958,260,000

18.1.6.1 On December 07, 2007 GOP signed a financing agreement with IDA under which IDA agreed to extend an amount equivalent to 49 million SDRs as additional financing for the Second Poverty Alleviation Fund project to support participatory development through social mobilization.

The project includes mobilization of about one million rural poor house holds into more than fifty thousand multi functional and sustainable community organizations in rural areas of poorest districts in Pakistan, mobilization of existing community organizations to form federations at union council level and to form local support organizations and provision of training to approximately two hundred and fifty thousand people on management of community organizations and federations to achieve long term sustainability.

On January 04, 2008 GOP signed subsidiary financing agreement with PPAF under which GOP agreed to extend an amount equivalent to 49 million Special Drawing Rights to PPAF as grant on non reimbursable basis.

		Note	2008	2007
			(Rupees)	
18.2	**Grants from USAID/Pakistan**			
	Capacity building - POs	18.2.1	(1,479,621)	(1,500,633)
	Enterprise development loans	18.2.2	127,585,729	181,041,206
			126,106,108	179,540,573

		For the Year	Cumulative to date
		(Rupees)	
18.2.1	**Capacity building - POs**		
	Opening balance	(1,500,633)	-
	Amount received	-	19,293,285
	Foreign exchange translation differences - Net	21,012	108,793
		(1,479,621)	19,402,078
	Amount contributed by PPAF	-	1,792,000
		(1,479,621)	21,194,078
	Less: Disbursements		
	Centre for Women Cooperative Development	-	11,908,444
	Disbursements continued - carried forward	-	11,908,444

-19-

	For the Year	Cumulative to date
	(Rupees)	
Disbursements continued - brought forward	-	11,908,444
Rural Community Development Society	-	5,180,870
Sindh Agricultural & Forestry Workers Coordinating Organization	-	1,998,600
Community Support Concern	-	2,208,400
Punjab Rural Support Programme	-	1,377,385
	-	22,673,699
	(1,479,621)	(1,479,621)
18.2.2 Enterprise Development loans		
Opening balance	181,041,206	-
Amount received	-	262,213,473
Foreign exchange translation differences - Net	-	283,885
	181,041,206	262,497,358
Service charges earned	1,835,243	17,987,291
	182,876,449	280,484,649
Less:		
Ineligible costs repaid during the year	55,290,720	152,898,920
	127,585,729	127,585,729

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.

18.2.2.2 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 four years, starting from the date of award i.e. September 30, 2003 through September 30, 2007. The total programme size was US$ 7,098,621 of which USAID/Pakistan contribution was US$ 6,320,000 and PPAF share was agreed to be US$ 778,621. The funds committed under this agreement were disbursed as loans to POs under EDF and as capacity building grant for PPAF and for POs. EDF was 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 created a revolving fund from the repayments and service charges earned on EDF loans and bank account.

	For the Year	Cumulative to date
	(Rupees)	
18.3 Grants from Government of Pakistan - USDA		
Opening balance	1,237,959,342	-
Amount received	-	1,442,100,000
Profit on project bank account	103,798,508	151,884,554
	1,341,757,850	1,593,984,554

-20-

	For the Year	Cumulative to date
	(Rupees)	
Less: Disbursements		
Green Circle Organization	-	1,537,160
Soon Valley Development Programme	10,386,250	37,654,314
Sarhad Rural Support Programme	22,815,424	40,504,424
Taraqee Foundation	12,643,639	56,124,514
Rural Community Development Society	26,261,645	36,332,714
Aga Khan Rural Support Programme	63,568,504	96,591,178
Indus Earth Trust	6,441,708	11,539,708
National Rural Support Programme	-	42,868,224
Sindh Agricultural & Forestry Workers Coordinating Organization	15,147,170	42,588,458
Thardeep Rural Development Programme	-	42,308,624
Balochistan Rural Support Programme	2,443,688	2,443,688
Balochistan Rural Development & Research Society	2,778,000	2,778,000
Community Mobilisation and Development Organization	4,459,000	4,459,000
Participatory Integrated Development Society	15,145,386	15,145,386
Human Resource Development Society	10,201,000	10,201,000
Social Action Bureau for Assistance in Welfare and Org. Network	14,958,050	14,958,050
South Asia Partnership Pakistan	6,972,334	6,972,334
Village Friends Organization	5,235,450	5,235,450
Ghazi Brotha Taraqiati Idara	2,059,833	2,059,833
Sindh Rural Support Organisation	2,302,000	2,302,000
Seminars and Workshops	-	1,441,726
	223,819,081	476,045,785
	1,117,938,769	1,117,938,769

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 2006-07. 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.

	Note	2008	2007
		(Rupees)	
18.4 Grants from Government of Pakistan - KfW			
Housing reconstruction and community buildings	18.4.1	58,918,857	240,918,857
Revitalization of affected communities / rehabilitation of CPI schemes	18.4.2	48,274,043	90,791,607
		107,192,900	331,710,464

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-21-

		For the Year	Cumulative to date
		(Rupees)	
18.4.1	Housing reconstruction and community buildings		
	Opening balance	240,918,857	-
	Amount received	-	748,918,857
		240,918,857	748,918,857
	Less: Disbursements:		
	Sarhad Rural Support Programme	182,000,000	690,000,000
		58,918,857	58,918,857
18.4.2	Revitalization of affected communities / rehabilitation		
	Opening balance	90,791,607	
	Amount received	-	113,521,857
		90,791,607	113,521,857
	Less: Disbursements:		
	Sarhad Rural Support Programme	42,517,564	65,247,814
		48,274,043	48,274,043

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 union councils 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.

		For the Year	Cumulative to date
		(Rupees)	
18.5	**Grants from Government of Pakistan - IFAD (MIOP)**		
	Opening balance	39,119,621	-
	Amount received	-	39,119,621
		39,119,621	39,119,621
	Less: Disbursements:		
	AL Mehran Rural Development and Welfare Organization	1,939,020	1,939,020
	Orangi Charitable Trust	4,670,000	4,670,000
	Disbursements continued - carried forward	6,609,020	6,609,020

-22-

		For the Year	Cumulative to date
		(Rupees)	
Disbursements continued - brought forward		6,609,020	6,609,020
AKPBS-Water and Sanitation Extension Programme		4,900,000	4,900,000
Badin Rural Development Society		4,600,000	4,600,000
Sindh Agricultural & Forestry Workers Coordinating Organization		4,170,000	4,170,000
Indus Earth Trust		4,411,371	4,411,371
Community Support Concern		3,380,580	3,380,580
Centre for Women Cooperative Development		482,490	482,490
Khajji Cooperative Society		1,702,990	1,702,990
		30,256,451	30,256,451
		8,863,170	8,863,170

18.6 Grants from Government of Pakistan - IFAD (REACH)

	Note	2008	2007
		(Rupees)	
Housing reconstruction and community buildings	18.6.1	456,088,552	373,004,043
Revitalization of affected communities / livestock	18.6.2	489,574	111,585,731
		456,578,126	484,589,774

18.6.1 Housing reconstruction and community buildings

	For the Year	Cumulative to date
	(Rupees)	
Opening balance	373,004,043	-
Amount received	133,084,509	1,478,688,552
	506,088,552	1,478,688,552
Less: Disbursements:		
Sarhad Rural Support Programme	50,000,000	1,022,600,000
	456,088,552	456,088,552

18.6.2 Revitalization of affected communities / livestock

	For the Year	Cumulative to date
Opening balance	111,585,731	-
Amount received	-	118,062,131
	111,585,731	118,062,131
Less: Disbursements:		
Sarhad Rural Support Programme	95,099,757	101,576,157
National Rural support Programme	15,996,400	15,996,400
	111,096,157	117,572,557
	489,574	489,574

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18.6.3 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 livestocks (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 SDR 18.35 million to the company as grant on non reimbursable basis.

		For the Year	Cumulative to date
		(Rupees)	
18.7	**Grants from Committee Encouraging Corporate Philanthropy**		
	Opening balance	106,166,071	-
	Amount received	342,839,394	525,393,477
	Foreign exchange translation differences - Net	2,909,730	2,593,843
		451,915,195	527,987,320
	Less: Disbursements:		
	National Rural Support Programme	28,329,284	44,064,034
	Mountain and Glacier Protection Organization	94,086,917	135,787,292
	Community Uplift Programme	47,753,500	66,390,500
		170,169,701	246,241,826
		281,745,494	281,745,494

18.7.1 On August 15, 2006 the PPAF and Committee Encouraging Corporate Philanthropy (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.

-24-

19. DEFERRED INCOME - GRANT FUND

	Note	2008	2007
		(Rupees)	
Government of Pakistan (GoP)			
Capacity Building - IDA (PPAF II)	19.1	(1,658,056)	27,333,262
Capacity Building - IDA (RNR)	19.2	(41,893,273)	10,088,186
Capacity Building - IFAD (MIOP)	19.3	(2,636,073)	53,420
Capacity Building - USDA	19.4	21,284,621	51,779,926
		(24,902,781)	89,254,794
Capacity building - USAID/Pakistan	19.5	(1,794,731)	(305,996)
Capacity building - CECP	19.6	404,905	6,840,805
		(26,292,606)	95,789,603

		For the Year	Cumulative to date
		(Rupees)	
19.1	Opening balance	27,333,262	-
	Amount received	7,824,001	273,643,094
	Foreign exchange translation differences - net	(2,978)	1,485,675
		35,154,285	275,128,769
	Less: Utilization against expenditure recognised as income	36,812,341	276,786,825
		(1,658,056)	(1,658,056)
19.2	Opening balance	10,088,186	-
	Amount received	-	63,773,002
	Foreign exchange translation differences - net	79,642	-
		10,167,828	63,773,002
	Less: Utilization against expenditure recognised as income	52,061,101	105,666,275
		(41,893,273)	(41,893,273)
19.3	Opening balance	53,420	-
	Amount received	-	432,489
		53,420	432,489
	Less: Utilization against expenditure recognised as income	2,689,493	3,068,562
		(2,636,073)	(2,636,073)
19.4	Opening balance	51,779,926	-
	Amount received	-	75,900,000
		51,779,926	75,900,000
	Less: Utilization against expenditure recognised as income	30,495,305	54,615,379
		21,284,621	21,284,621

-25-

		Note	For the Year	Cumulative to date
			(Rupees)	
19.5	Opening balance		(305,996)	-
	Amount received		-	19,768,392
	Foreign exchange translation differences - net		-	38,615
			(305,996)	19,807,007
	Less: Utilization against expenditure recognised as income		1,488,735	21,601,738
			(1,794,731)	(1,794,731)
19.6	Opening balance		6,840,805	
	Amount received		24,319,872	40,201,060
	Foreign exchange translation differences - net		206,406	178,926
			31,367,083	40,379,986
	Less: Utilization against expenditure recognised as income		30,962,178	39,975,081
			404,905	404,905

		Note	2008	2007
			(Rupees)	
20.	**SERVICE AND COMMITMENT CHARGES PAYABLE**			
	Service charges payable	20.1	57,408,730	47,691,500
	Commitment charges payable	20.2	2,988,254	4,828,314
			60,396,984	52,519,814

20.1 Represent service charges payable to GOP at the rate of 0.75% per annum (2007: 0.75% per annum) on the principal amount of long term loan outstanding withdrawn from time to time.

20.2 Represent commitment charges payable to GOP at the rate ranging from 0.10% to 0.20% per annum (2007: 0.20% to 0.30% per annum) on the principal amount of long term loan not withdrawn from time to time.

		2008	2007
		(Rupees)	
21.	**ACCRUED AND OTHER LIABILITIES**		
	Accrued expenses	2,724,257	4,309,318
	Other liabilities	1,076,954	4,011,630
		3,801,211	8,320,948

22. PAYABLE TO GRATUITY FUND

22.1 The movement in liability is as follows:

	2008	2007
Opening defined benefit obligation	3,046,125	5,617,930
Expense recognised based on actuarial recommendation	4,034,824	3,163,190
Contributions	(7,080,949)	(5,734,995)
Closing balance	-	3,046,125

22.2 The details of latest actuarial valuation of the defined benefit funded gratuity scheme carried out as at June 30, 2007 are as follows:

	Rupees
Reconciliation of payable to defined benefit plan	
Present value of defined benefit obligation	12,499,564
Fair value of plan assets	(5,836,707)
Net actuarial losses not recognized	(3,117,259)
Transitional liability not yet recognized	(499,473)
	3,046,125
Expense recognised	
Current service cost	2,581,021
Interest cost	590,507
Expected return on plan assets	(258,075)
Recognized transitional liability	249,737
	3,163,190
Movement in net liability recognised	
Opening net liability	5,617,930
Expense recognized	3,163,190
Contributions	(5,734,995)
Closing net liability	3,046,125

The Projected Unit Credit Method using the following significant assumptions was used for the valuation of the scheme:

Valuation discount rate	10% per annum
Salary increase rate	10% per annum
Expected return on plan assets	10% per annum

23. CONTINGENCIES AND COMMITMENTS

	2008	2007
	(Rupees)	
There were no contingencies as at the end of the year 2008 (2007: nil).		
Aggregate commitments under Financing Agreements with Partner Orgnisations for;		
Loans	2,697,300,000	3,157,125,502
Rehabilitation and Reconstruction	2,153,684,427	93,619,113
Community Physical Infrastructure	287,621,684	517,722,573
Capacity Building	19,445,129	63,557,713
Social Sector Development	273,667	23,046,127
	5,158,324,907	3,855,071,028

24. SERVICE CHARGES ON LOANS TO PARTNER ORGANISATIONS

Represents service charges on loans to POs under respective Financing Agreements at the annual rate ranging from six percent (6%) to ten percent (10%) or KIBOR as given in note 9.4.

-27-

		Note	2008	2007
			(Rupees)	
25.	**AMORTIZATION OF DEFERRED INCOME - GRANT FUND**			
	Government of Pakistan (GoP)			
	Capacity Building - IDA (PPAF II)	19.1	36,812,341	57,739,732
	Capacity Building - IDA (RNR)	19.2	52,061,101	41,759,334
	Capacity Building - IFAD (MIOP)	19.3	2,689,493	379,069
	Capacity Building - USDA	19.4	30,495,305	19,911,521
			122,058,240	119,789,656
	Capacity building - USAID/Pakistan	19.5	1,488,735	5,825,444
	Capacity building - CECP	19.6	30,962,178	9,012,903
			154,509,153	134,628,003
26.	**INCOME ON INVESTMENTS AND SAVING ACCOUNTS**			
	Profit on long term investments		104,905,070	97,586,850
	Profit on term deposit receipts/saving accounts		548,112,838	694,609,425
			653,017,908	792,196,275

26.1 Profit/markup rates are disclosed in the respective notes to these financial statements.

		Note	2008	2007
			(Rupees)	
27.	**OTHER INCOME**			
	Gain on sale of fixed assets		1,201,200	1,214,017
	Markup on loans to employees		32,498	21,763
	Income from training		917,119	380,000
	Others		963,486	188,386
			3,114,303	1,804,166
28.	**GENERAL AND ADMINISTRATIVE EXPENSES**			
	Salaries, wages and other benefits		112,914,245	80,407,533
	Rent		14,764,206	14,223,941
	Repairs and maintenance		5,618,392	3,694,858
	Traveling, lodging and conveyance		31,174,689	23,365,390
	Communication		2,047,831	1,839,110
	Printing and stationery		4,520,139	5,710,501
	Insurance		2,240,317	1,140,814
	Vehicles running and maintenance		6,334,191	4,229,900
	Utilities		1,820,155	1,368,658
	Training		6,474,269	6,237,662
	Consultancy charges		57,556,759	36,638,405
	Legal and professional charges		3,099,800	816,800
	Auditor's remuneration	28.2	2,600,000	1,810,000
	Advertisement		2,363,910	3,346,135
	Media projection		1,496,221	939,532
	Newspapers, books and periodicals		266,681	132,655
	Depreciation		20,046,705	14,099,360
	Amortization		3,715,002	1,160,663
	Seminar and workshops		940,197	1,823,788
	Security services		1,336,038	743,290
	Others		2,055,629	1,587,647
		28.3	283,385,376	205,316,642

28.1 The aggregate amounts charged in respect of remuneration of Chief Executive/Managing Director were as follows:

	2008	2007
	(Rupees)	
Managerial remuneration	6,720,000	4,887,600
Other allowances	120,000	120,000
	6,840,000	5,007,600

In addition, the Chief Executive/Managing Director is provided with accommodation, car, medical insurance and gratuity.

	2008	2007
	(Rupees)	
28.2 Auditor's remuneration		
Statutory and projects' audit	950,000	510,000
Audit of POs	1,650,000	1,300,000
	2,600,000	1,810,000

28.3 Total general and administration expenses include Rs 154,509,153 (2007: Rs 134,628,003) incurred on different programme activities as disclosed in note 19.

	2008	2007
	(Rupees)	
29. FINANCIAL CHARGES		
On long term loans	83,654,399	87,632,038
Bank charges	592,847	344,961
Discount on purchase of PIBs	-	(3,595,800)
	84,247,246	84,381,199

-29-

INANCIAL INSTRUMENTS AND RELATED DISCLOSURES

inancial assets and liabilities

	Note	June 30, 2008 Interest Bearing	June 30, 2008 Non-interest Bearing	June 30, 2008 Total	June 30, 2007 Interest Bearing	June 30, 2007 Non-interest Bearing	June 30, 2007 Total
				(Rupees)			
inancial Assets:							
laturity upto one year							
Current maturity of loans to Partner Organisations	9	6,867,395,344		6,867,395,344	5,145,578,946		5,145,578,946
Short term investments	10	5,441,784,165		5,441,784,165	6,712,254,108		6,712,254,108
Short term investments - specific to projects	11	1,050,000,000		1,050,000,000	1,050,000,000		1,050,000,000
Advances, deposits and other receivables		926,167	1,388,397	2,314,564	1,173,037	1,402,359	2,575,396
Profit/service charges receivable			262,500,096	262,500,096		453,060,640	453,060,640
Cash and bank balances	14	16,052,413	810,282	16,862,695	63,636,192	15,771,930	79,408,122
Cash and bank balances - specific to projects	15	108,038,707	2,929,542,793	3,037,581,500	334,380,486	3,304,342,799	3,638,723,285
laturity after one year							
Long term investments	8	1,000,000,000		1,000,000,000	1,000,000,000	-	1,000,000,000
Loans to Partner Organizations	9	1,115,405,268		1,115,405,268	496,346,361		496,346,361
		15,599,602,064	3,194,241,568	18,793,843,632	14,803,369,130	3,774,577,728	18,577,946,858
inancial Liabilities:							
laturity upto one year							
Deferred liabilities - grant fund			4,250,413,931	4,250,413,931		4,701,508,285	4,701,508,285
Current portion of long term loans	17	109,617,378		109,617,378	111,342,020		111,342,020
Service and commitment charges payable			60,396,984	60,396,984		52,519,814	52,519,814
Accrued and other liabilities			3,801,211	3,801,211		8,320,948	8,320,948
Payable to gratuity fund				-		3,046,125	3,046,125
laturity after one year							
Long term loans	17	10,769,894,863		10,769,894,863	10,776,767,410	-	10,776,767,410
		10,879,512,241	4,314,612,126	15,194,124,367	10,888,109,430	4,765,395,172	15,653,504,602
Iff balance sheet items:							
Commitments	23	-	5,158,324,907	5,158,324,907	3,855,071,028	-	3,855,071,028

-30-

30.2 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's credit risk is primarily attributable to loans to partner organisations, investments and bank balances. The Company is exposed to credit related losses in the event of non-performance by Partner Organisations of micro-credit loans to the extent of Rs 8.05 billion (2007: Rs 5.64 billion) (including loans to two major POs of Rs 5.63 billion (2007: Rs 3.17 billion)). The Company controls the credit risk through credit appraisals, assessing the credit-worthiness of POs, requiring compulsory savings from borrowers and creating lien on the assets of POs. The credit risk on investments and bank balances is limited because the other parties are banks with reasonable high credit rating and government of Pakistan.

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. The Company is not exposed to currency risk as there are no foreign currency assets and liabilities except for financial assets of US$ 727,911 (2007: US$ 1,895,967).

c) Interest / mark–up rate risk

The interest bearing financial assets and liabilities are at fixed interest rates.

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 approximate their fair values except for investments and loans receivable/ payable which are stated at cost or amortised cost.

31. NUMBER OF EMPLOYEES

The Company had 195 employees as at June 30, 2008 (2007: 155).

32. CORRESPONDING FIGURES

Corresponding figures have been restated for reversal of tax provision referred in note 5.

33. DATE OF AUTHORISATION

These financial statements have been authorised for issue by the Board of Directors of the Company on August 05, 2008.

CHAIRMAN

CHIEF EXECUTIVE / MANAGING DIRECTOR

P P A F

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Pakistan Poverty Alleviation Fund
House 1, Street 20, F-7/2, Islamabad, Pakistan.
Tel: 92-51-2653304, 2653305, 2653597, 2653598, 2652731, 2652734 | Fax: 92-51-2652246
UAN: 111-000-102 | Email: info@ppaf.org.pk | Website: www.ppaf.org.pk

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