



Annual Report 2010

Pakistan Poverty Alleviation Fund



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Contents

Chairman's Message	2
Chief Executive's Statement.....	3
1. Overview	4
2. Credit and Enterprise Development	8
3. Community Physical Infrastructure	15
4. Water Management Center.....	21
5. Health and Education	26
6. Human and Institutional Development	30
7. Social Mobilization	36
8. Livelihoods	42
9. PPAF Disability Project	45
10. Corporate Relations Managment.....	50
11. Evaluation, Research and Development	54
12. Media and Communication.....	57
13. Human Resources, Procurement and Administration	60
14. Internal Audit	62
15. Finance and Accounts.....	64
16. Directors' Report.....	70
Financial Highlights.....	89
Financial Statements	90

Boxes

3.1	Mission and Objectives.....	16
4.1	Strategic Framework.....	22
11.1	Evaluation Research and Development Unit - Case Studies and Reports.....	56
12.1	Video Documentaries.....	59
15.1	Findings of the World Bank Supervision Mission.....	69

Case Studies

2.1	Women's Livestock Cooperative Farming.....	14
6.1	A Stitch in Time.....	34
6.2	Beautifying her Life.....	35
7.1	Goth Noor Muhammad - An Inspiring Development Initiative.....	40
9.1	Courage in the Face of Adversity.....	48
10.1	School Milk Program - Healthy Body, Healthy Mind.....	53

Figures

2.1	PPAF Share in the Sector.....	8
2.2	Microcredit Borrowers: by Location.....	9
2.3	Gender Ratio in Microcredit Loans.....	10
2.4	Sectoral Distribution of PPAF Loans (FY 2000-09).....	10
2.5	Annual Average Loan Size by Sector (Microcredit).....	10
2.6	Capacity Building Grants as Percentage of MC Loans by PO Type.....	11
2.7	Percentage Share in MC Disbursements by PO Type.....	11
3.1	Geographical Distribution of CPI Schemes (FYs 2000-10).....	19
3.2	Sectoral Distribution of CPI Schemes (FY 2009-10).....	19
3.3	Sectoral Distribution of CPI Schemes (FY 2000-10).....	19
5.1	Gender Ratio in Beneficiaries.....	27
5.2	Gender Ratio Beneficiaries by Sector and Type of Interventions-Cumulative.....	27
5.3	Health Beneficiaries by Gender and Province.....	27
6.1	Annual Training Grant in Support of Credit Facility.....	32
6.2	Annual Community Training Beneficiaries.....	32
6.3	Annual Staff Training Beneficiaries.....	32
7.1	Distribution of Community/Village Organization by Type.....	39
8.1	Financing Agreements.....	42
8.2	LEP Process Flow Chart.....	43
16.1	Share of Funds Disbursed - Core Operations.....	72
16.2	Provincial Distribution of Funds - Core Operations.....	72
16.3	Total Income.....	74
16.4	Financial Results.....	74

Tables

2.1	Average Loan Size by Lending Facility.....	13
3.1	Distribution of Infrastructure Projects by Category.....	17
3.2	Geographical Distribution of Schemes in Province.....	17
3.3	Geographical Distribution of Infrastructure Schemes by Project Type.....	18
4.1	Distribution of Projects by Allocated Funds and Beneficiaries.....	25
5.1	Beneficiaries of PPAF Health Interventions (FY 2009-10).....	28
5.2	Social Sector Interventions by Province.....	28
7.1	Exposure Visits of POs.....	38
7.2	Field Activities (2009-10).....	39
9.1	Activities for the Year (Gender-wise).....	46
9.2	Training Activities for the Aear.....	46
16.1	Disbursements - Core Operations.....	72

Company Information

Board of Directors

Hussain Dawood
Chairman

Dr. Nuzhat Ahmad

Rafiud Deen Ahmad

Shahid Ahmad

Rana Assad Amin

Dr. Naved Hamid

Dr. Rajab Ali Memon

Dr. Aisha Ghaus Pasha

Asif Qadir

Zubyr Soomro

Kamal Hyat
Chief Executive/Managing Director

BoD Committees

Board Compensation Committee

Hussain Dawood
Chairman

Zubyr Soomro
Member

Shahid Ahmad
Member

Dr. Rajab Ali Memon
Member

Dr. Aisha Ghaus Pasha
Member

Audit Committee

Rafiud Deen Ahmad
Chairman

Rana Assad Amin
Member

Dr. Nuzhat Ahmad
Member

Dr. Naved Hamid
Member

Asif Qadir
Member

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

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, Royal Bank of Scotland, Silk Bank Limited, Standard Chartered Bank Limited

Registered Office

House No. 1, Street No. 20, Sector F-7/2, Islamabad, Pakistan.

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Website: www.pfaf.org.pk

Chairman - General Body

Hussain Dawood Chairman, The Dawood Group

Members

Mueen Afzal Former Secretary General, Ministry of Finance, Government of Pakistan
Nuzhat Ahmad Director, Applied Economic Research Center, University of Karachi
Rafiud Deen Ahmad Consultant, Orr, Dignam & Co.
Shahid Ahmad Additional Secretary, Economic Affairs Division, Government of Pakistan.
Rana Assad Amin Additional Secretary, Ministry of Finance, Government of Pakistan.
Rashid Bajwa Chief Executive Officer, National Rural Support Programme.
Nazrat Bashir Additional Secretary, Ministry of Finance, Government of Pakistan.
Javed Burki Former Civil Servant.
Naved Hamid Director, Centre for Research in Economics & Business, Lahore School of Economics.
Ashraf Muhammad Hayat Former Civil Servant.
Akmal Hussain Managing Director, Sayyed Engineers Ltd.
Ahlullah Khan Kakarr Former Civil Servant.
Shoab Sultan Khan Chairman, National Rural Support Programme.
Rajab Ali Memon Educationist.
Nazar Memon Director, National Rural Support Programme.
Hamayun Murad Managing Director, Orix Leasing Pakistan Ltd.
Kaiser H Naseem Manager, Pakistan Corporate Governance Project, International Finance Corporation.
Aisha Ghaus Pasha Director, Institute of Public Policy, Beaconhouse National University.
Asif Qadir President Engro Polymer and Chemicals.
Aijaz Ahmed Qureshi General Manager, Sindh Irrigation & Drainage Authority.
Fazlullah Qureshi Former Member, National Electric Power Regulatory Authority.
Muhammad Ismail Qureshi Federal Secretary, Ministry of Water and Power, Government of Pakistan.
Syed Ayub Qutub Executive Director, Pakistan Institute of Environment Development & Research.
Sadiqa Salahuddin Executive Director, Indus Resource Center.
M. Suleman Shaikh Chairman, Thardeep Rural Development Programme.
Zubyr Soomro Former Citibank Country Officer & Managing Director.
Jahangir Tareen Former Federal Minister, Government of Pakistan.
Fareeha Zafar Director, Society for the Advancement of Education.



Chairman's Message

The year in review marked a decade of PPAF in service of the nation where we have endeavored to deliver resources, services and opportunities at the doorstep of poor and marginalized across Pakistan as well as respond flexibility whenever confronted by national challenges and emergencies such as we experienced in the 2005 earthquake and the more recent devastating and widespread floods.

The last ten years have seen PPAF expand its outreach to almost every district of the country. This outreach is exemplified by a diverse range of products and services anchored in social mobilization, institutional development and individual empowerment. The emphasis remains on delivering customized solutions tailored to address specific constraints of households and communities and at the same time, be culturally sensitive and contextually relevant.

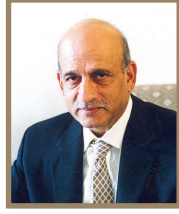
The PPAF's vision has always been that we were not going to be regulators, but facilitators. Our intentions were not to exercise authority, they were to develop and enable the sector to be more efficient and effective. The objective was to synergize already existing capacities and capabilities, bringing them together and weaving them into a coherent delivery system. That is what has been our real achievement to-date.

PPAF has brought about professionalization of the social sector by selecting qualified partner organizations who will have passed a stringent assessment criterion. For us it is never a question of size; it is always a question of presence and the aim is to reach out to the vulnerable in remotest areas of the country.

Poverty can only be alleviated if there is ownership and buy in at all levels with action delivered by equal zeal and determination. By following market principles and yet focusing on inclusion and quality, we have institutionalized as innovative approach to helping the poor and the vulnerable at the PPAF. I am sincerely proud of the facilitation and support extended by all our stakeholders, most notably the Government of Pakistan and the donor community, who continue to repose confidence in our institutional capacity. I would like to thank the management team in particular for proving that given good governance and an opportunity to perform, it is possible to create an organization whose performance is being increasingly acknowledged for international comparison and reference.

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

Hussain Dawood



Chief Executive's Statement

The year ending June 2010 celebrates an important milestone in the history of the Pakistan Poverty Alleviation Fund. The coming to age of an institution that is recognized in its own right and has established a national and international reputation for both effectiveness and transparency.

For this remarkable achievement, there are a host of players to whom credit is due. First of all the role of the Government which has facilitated our work and stood by us in times of need, of equal significance has been the role of the Board of Governors ably led by the Chairman. Similarly, the General Body has provided a platform for constructive dialogue and improvements.

The confidence shown by international and bilateral donors in the ability of the PPAF to meet forecasts and targets resulted in sustained financial support. This enabled continued interaction with our partner organizations resulting in extended outreach to the remotest parts of the country. As a consequence our partners have now matured into world class organizations. The role of the PPAF management team has been outstanding. Their remarkable work in the earthquake areas has won them international recognition, and their rapid response to the recent devastating floods is commendable. It is not surprising that

the program is now being replicated in other countries.

The price of success is even higher expectations from all our stakeholders. The challenge is to meet these expectations, knowing that our principal responsibility is to ensure the welfare of vulnerable people who have shown, that despite the difficult times, they continue striving for a better future for themselves and their children.

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

Kamal Hyat

Overview

The Pakistan Poverty Alleviation Fund (PPAF) has successfully completed a decade of excellence in service of the poor and marginalized. As one of the largest sources of pro-poor funding of development nationally, PPAF has contributed to the evolution of sustainable networks for service delivery through focused and calibrated institutional support to grassroots organizations. Simultaneously, it has been able to mainstream and empower poor communities through effective social mobilization into community groups for collective action and self-help.

With unmatched experience, PPAF's approach to alleviating poverty has matured into a unique model of participatory development subsuming carefully synchronized interventions that are contextually responsive towards the spectrum of basic community needs. Within this framework, each innovation in PPAF's progression towards finding effective, integrated solutions for community issues has been based on empirical research anchored in a culture of continuous learning and improvement.

To date, PPAF has successfully disbursed over Rs. 13,846 million through 87 partner

organizations under various funding windows, i.e. lending for microcredit/enterprise (Rs. 9,048 million), development of infrastructure (Rs. 1,800 million), health and education (Rs. 1,088 million), human and institutional development (Rs. 463 million), social mobilization (Rs. 999 million), and the successfully completed reconstruction and rehabilitation program in earthquake affected areas (Rs. 448 million).

These funds have cumulatively financed over 3.8 million loans, 22,800 infrastructure, health and education facilities and over 11,100 training events for participating communities and staff of partner organizations. Additionally, 120,000 seismically safe housing units were reconstructed in the earthquake affected areas. PPAF's coverage has simultaneously increased to include 80,000 villages/settlements spanning 127 districts across all provinces and regions in the country, making it the largest national operation in community based development.

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Having played a key role by investing in development of sustainable mechanisms for delivering financial services to the poor, PPAF has accelerated efforts to restructure the microfinance sector along commercial lines with less dependence on subsidized funding. To this end, PPAF has facilitated linkages between microfinance institutions and formal financial institutions through successful intermediation, allowing selected partner organizations to leverage funds from the financial sector. At the same time, PPAF has continued to expand outreach of microcredit services with a particular focus on areas with low penetration and high incidence of poverty.

During the year, PPAF management took an important policy decision of systematically increasing penetration of microcredit services in 37 of Pakistan's least served districts. PPAF's support to building community infrastructure assets in a wide range of sectors including drinking water supply, irrigation, sanitation, renewable energy and communications has cumulatively improved hygiene, reduced health burdens and increased market access, while helping to augment and diversify income sources for poor households. The gains for women have been particularly significant in terms of expanding space for more productive use of time and energies.

The strategic shift towards holistic infrastructure solutions spanning numerous interventions has substantively impacted lives and livelihoods, particularly in areas consistently stressed by water scarcity. In dealing with issues of water deficiency, PPAF has moved beyond its traditional focus from ensuring provision of infrastructure assets for efficient water management, towards a broader agenda also incorporating the development of better technologies and stronger institutional linkages amongst various stakeholders. PPAF's Social Sector Development Program (SSDP), incorporating health and education interventions, has received further impetus during the year with inclusion of another 1025 facilities.

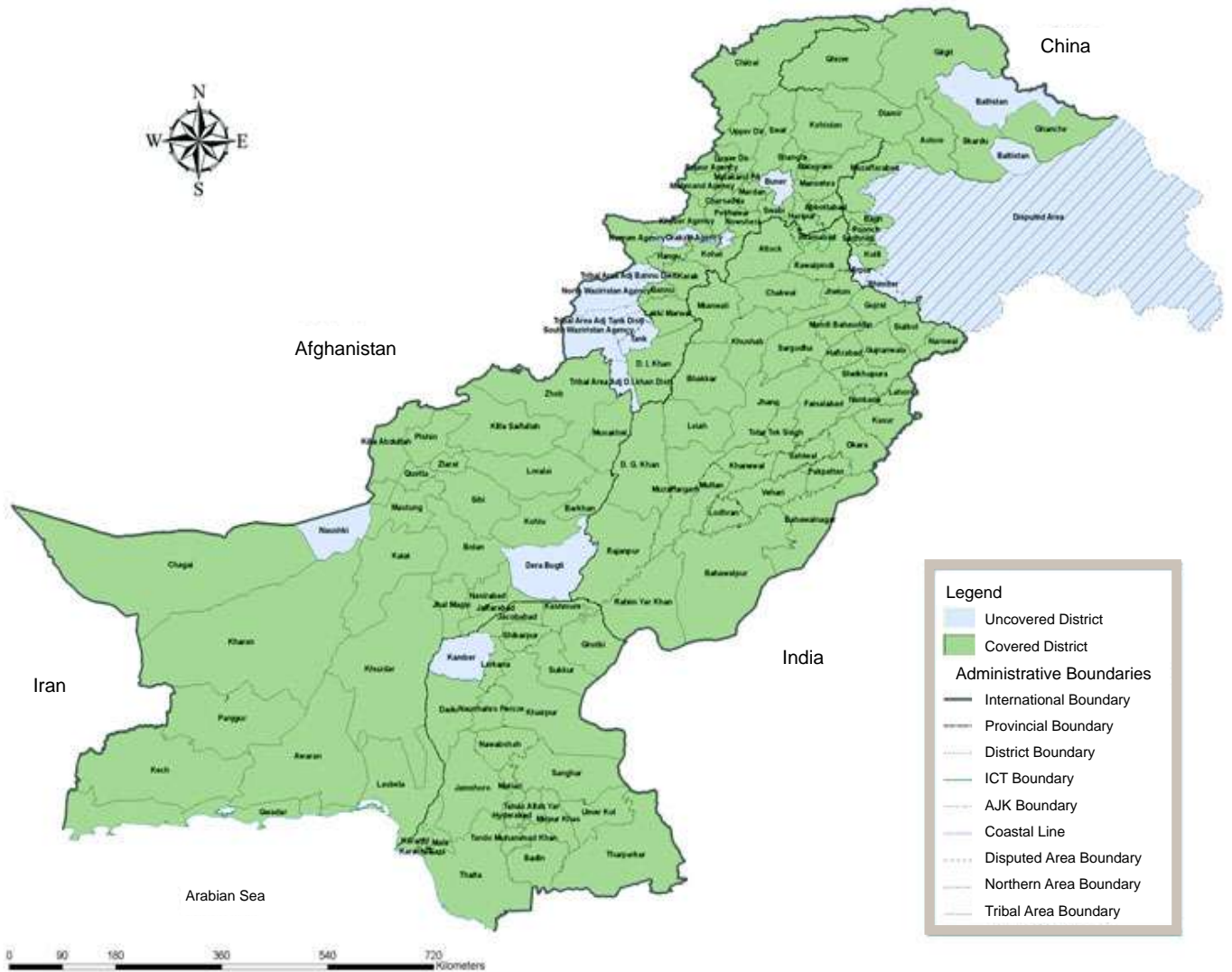
By allowing poor families access to quality health and education services, the program

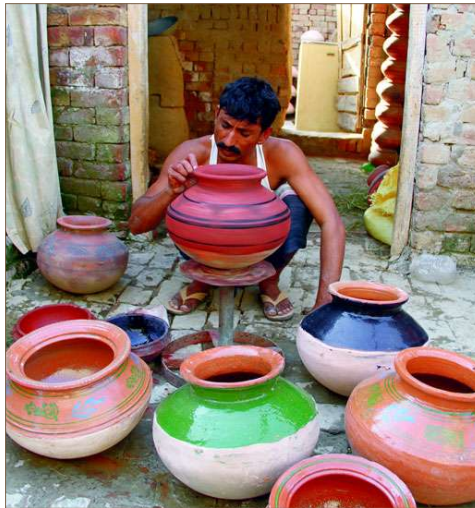
has helped reduce critical gaps in the development process at the grassroots. Through SSDP, PPAF has made valuable contributions in terms of restructuring underperforming public sector schools and health facilities as viable and accountable community services cognizant of user needs and customer satisfaction. PPAF's health and education interventions in the community based sector are structured on similar principles.

Social mobilization constitutes the bedrock of all PPAF interventions. Owing to the importance of organizing disparate communities into active participants with a capacity to effectively guide the development process, PPAF has dedicated a separate unit for this purpose. The social mobilization unit is mandated to form 50,000 new community organizations with substantial representation of women and poorest households. The successes achieved by the unit have already yielded far reaching results in terms of mainstreaming hitherto voiceless communities, through allowing them full participation in the decision making process.

Additionally, the social mobilization unit is playing its part in national integration by paving the way for increased contact amongst citizens from ethnic, linguistic and cultural backgrounds. Through exposure visits for community members across regional and provincial boundaries, PPAF hopes to unravel divisive and isolated elite structures restricting the nation's full

PPAF: District Coverage in 2010





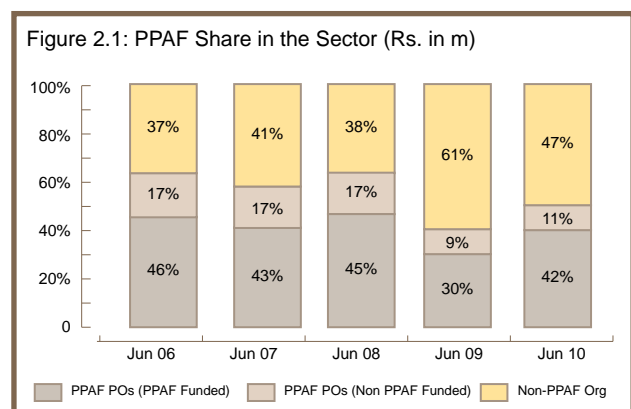
2 – Credit and Enterprise Development

Credit and Enterprise Development (CED) unit facilitates delivery of targeted financial services to the poor, while simultaneously seeking to develop the sector nationally through building institutional capacities and introducing innovative solutions for continued growth. The unit has successfully helped expand coverage and outreach of the microfinance market exponentially through implementing partners exhibiting diverse structures and lending methodologies in various cultural and geographical settings across Pakistan.

In June 2010, PPAF resources accounted for 44.7% market share in active micro credit borrowers, while PPAF POs constituted 45.2% share (Figure 2.1). While the former represents PPAF's direct contribution to the sector currently, the latter exhibits its success in facilitating implementing partners to attain requisite institutional capacities, enabling them to generate resources from other sources including their own.

During the current year, CED unit successfully disbursed Rs. 8.463 billion under its microcredit facility for on lending to 48 partner organizations. PPAF's support to the sector has cumulatively crossed Rs. 40 billion, which continues to constitute the largest single source of private sector microfinance funding nationally. Simultaneously, steady growth in PPAF funding exposure has been carefully calibrated to attain the organization's social objectives and help poor groups break out of poverty.

CED has been able to strategically invest in regions and sectors of the economy that

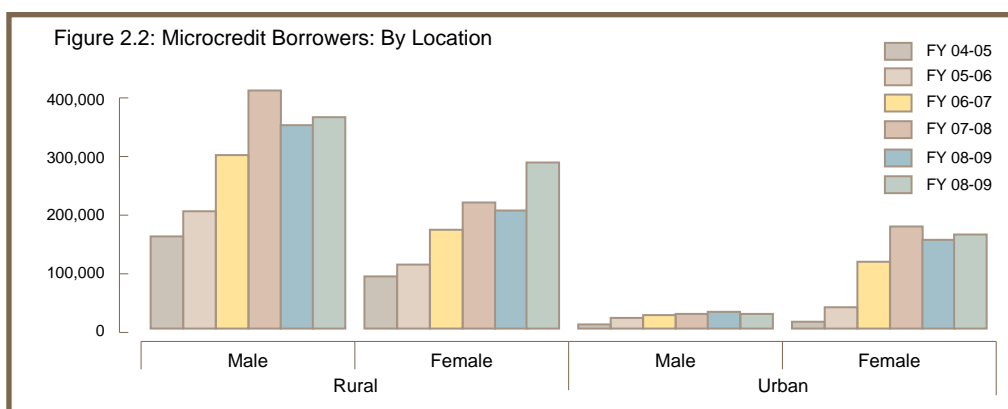


are mostly populated by less affluent and marginalized segments of society. While PPAF's growing urban portfolio has facilitated the poor in generating economic activity through provisioning financial assets in support of small scale enterprises, the unit's rural investments are largely concentrated in agriculture and livestock sectors.

Although PPAF's rural portfolio continues to be substantially large with a 78% share of all new borrowers in FY 2009-10, ratio of PPAF's microcredit beneficiaries in urban and semi urban locations has gradually increased from 3% in FY 2004-05 to 22% in current financial year (Figure 2.2). At the same time, continuous growth in PPAF's urban portfolio has steadily increased share of loans in commerce sector. Overall, the latter constitutes 34% of PPAF microcredit loans distributed to date, while 38% and 17% loans have so far been distributed in agriculture and livestock sectors respectively (Figure 2.4).

In addition to redressing gaps in microcredit outreach through equitable distribution of funds across regions and sectors of the economy, the unit focuses on closing the gender gap in terms of access to financial services. Growth in PPAF's annual female clients from approximately 36% in FY 2004-05 to a high 54% in the current financial year epitomizes a resolve to focus more on marginalized segments at household and community levels, (Figure 2.3). In FY 2009-10, PPAF microcredit support to women beneficiaries crossed 1.63 million loans, with 438,600 women benefitting from PPAF's microcredit facility in the current year alone. Also, the number of PPAF POs catering exclusively to women has increased from 8% in FY 07-08 to 10% in FY 2009-10.

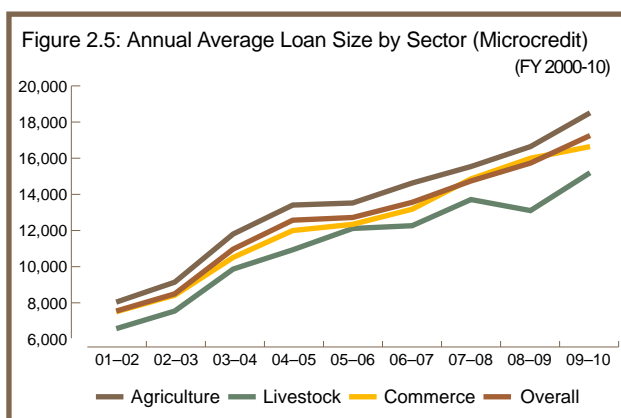
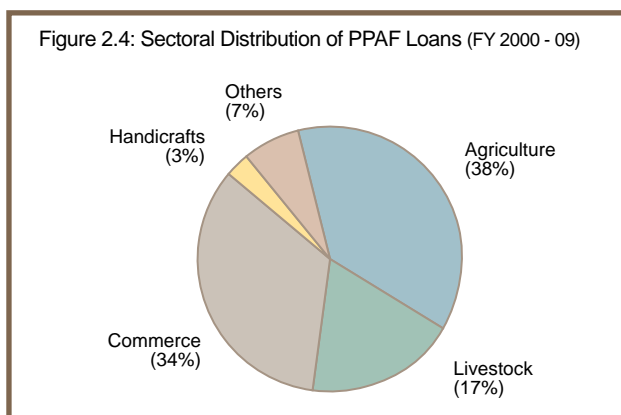
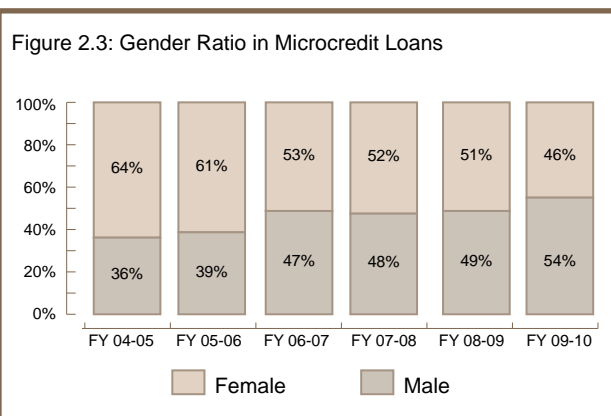
The focus on extending outreach to marginalized communities gained further momentum during the year with the decision to increase outreach services in 37 districts with low microcredit penetration. The unit aims to gradually increase average



penetration of financial services in these districts from 6.2% to 8% while maintaining an equitable gender balance. The selection criterion for districts is based on an analysis of welfare status and involves areas that are amongst the poorest in the country.

Greater diversification in PPAF's loan portfolio in terms of gender, regions and sectors of the economy has helped extend outreach and deepen its loan impact. Growing average loan size has had a similar impact as it reflects a higher incidence of repeat loans (Figure 2.5). Overall average loan size has increased by approximately Rs. 9700 in 8 years from Rs. 8,600 in FY 2002-03 to approximately Rs. 17,300 in the current financial year. Repeat loans are not only significantly proportional to a higher degree of welfare impact on clients, they help organizations in maximizing prospects of financial sustainability by increasingly banking on clients with low risk of default and sound repayment credentials.

In its role as the leading wholesaler of microcredit funds nationally, PPAF has assumed a responsibility to build the capacity of partner organizations through provisioning administrative grants in support of microcredit funds. However, such support has been progressively curtailed to encourage growth of in house capacity within POs and systematically discourage reliance on subsidized funding. Consequently, grants for meeting operational and capital costs of partner

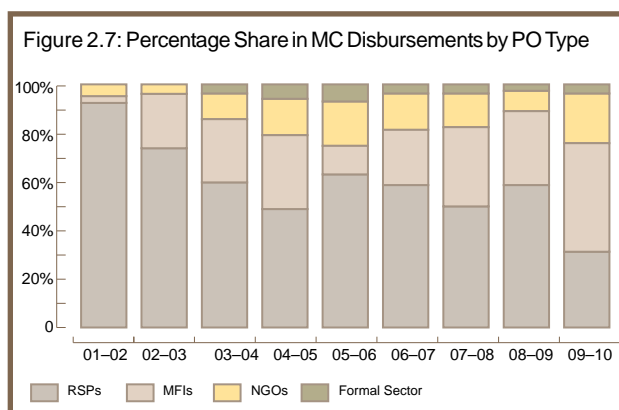
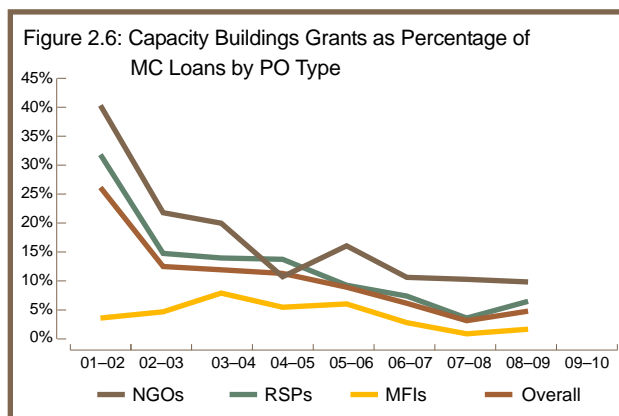


organizations have declined from 26% of microcredit funding for on lending in FY 2001-02 to 4.1% in the current financial year (Figure 2.6).

Over the years, the unit has successfully managed to spread funding exposure to a variegated set of service providers including microfinance institutions, non-governmental organizations and formal sector institutions. Compared to a share of 92% in FY 2000-01 and 74% in FY 2001-02, rural support programs accounted for only 43% of PPAF microcredit disbursements in current financial year. The share of MFIs has grown from 22% in FY 2001-02 to 34% in period under review, while non-governmental organizations account for 23% of disbursed microcredit funds in the current financial year, up from 4% in FY 2001-02.

Progressively decreasing grant funding for enhancing prospects of self reliance and sustainability within POs in long term constitutes an important lever in PPAF’s strategy of facilitating large scale growth in sector. IFAD funded PRISM is consistent with the above strategy and is specifically designed to putting in place effective instruments allowing sustainable partner organizations leverage funds from the commercial sector.

PRISM aims at creating linkages between microfinance institutions and the formal financial sector with an overarching goal to reduce poverty, promote economic growth and improve livelihoods of rural



households. PRISM envisions providing greater leveraging capacity to partner organizations with sustainable or near sustainable microfinance operations through credit enhancement facilities to banks in the shape of cash collateral, letters of credit and direct guarantees. It further seeks to grant equity funds to viable microfinance institutions allowing commercial financial institutions (CFIs) to invest greater resources in the sector. During the year, four major transactions were completed under the credit enhancement facility. Additionally, disbursements would

start from the equity component of the program in the next financial year in support of funding from commercial resources.

Innovations in improving access to financial resources for microcredit on-lending to service providers have been complemented with equally focused efforts to introduce newer, more suitable, products for the poor at the grassroots. MIOP, for instance, aims at enhancing access of poor rural to productive assets, skills, services and improved technologies through new microfinance products and market access initiatives. It supports development and testing of microfinance products including Village Banking, Settlement Branches, Women Cooperatives, Livestock Farming and Social Safety Nets in addition to carefully experimenting with approaches aimed at increasing outreach of existing partners to hitherto low microfinance access areas – hilly areas of Baluchistan, deprived and affected areas of Sindh and Kyber Pakhtunkhwa – through Innovation and Outreach component. In all, 19 innovative products and 8 approaches have so far been introduced in partnership with 19 partner organizations.

Innovations initiated under the program have already started to make a visible difference in the lives of the poor. Social Safety Net (SSN) Project launched as a pilot in the coastal areas of Sindh targets the poorest of the poor who are generally missed out by microfinance service providers owing to low credit worthiness. The project



aims at provisioning grants for asset transfers, subsistence allowance and health interventions and livelihood training followed by carefully sequenced and flexible financial services. The successful SSN pilot project initially undertaken by PPAF with one thousand beneficiaries has since been up scaled. Currently, the SSN project is in various stages of implementation in four district spanning three provinces.

Young Partners Program (YPP) under MIOP is aimed at strengthening PPAF's ability to develop new microfinance institutions in rural areas. The unit is responsible for implementing two sub components under YPP – Young Partner Development Initiative (YPDI) and International Linkage Partner Initiative (ILPI). While the former is designed to help organizations set up sustainable operations through provisioning funds for on-lending and institutional support, the latter allows young individuals to link up with renowned regional Microfinance Institution for gaining relevant experience

in addition to helping them set up rural finance operations – Linkage Partner Organizations (LPOs) – operating as independent MFIs eligible to become full time PPAF partner organizations. During the reporting year, 13 new organizations were enrolled as young partners under YPDI, which currently supports 19 small organizations. Out of these, two organizations have already been graduated to the status of regular PPAF partner organizations.

While microloans constitute the biggest PPAF window for provisioning financial resources to communities, the unit has also successfully experimented with comparatively larger loan products targeting medium sized entrepreneurs under Enterprise Development Facility (EDF). To date, it has benefitted over 7,770 individuals in 759 communities across the country.

During the current financial year, CED unit disbursed Rs. 9.648 billion to 49 POs. Of this, Rs. 8.5 billion was disbursed under microcredit window, while another Rs. 111 million, Rs. 474 million and Rs. 600 million were disbursed under EDF, MIOP and PRISM respectively. These funds have translated into 856,465 loans (Microcredit 790,644; EDF 2,944; MIOP 19,173; PRISM 43,704). By the close of this current financial year, the unit has cumulatively disbursed Rs. 42 billion through 43 partner organizations for on lending to a predominantly poor clientele under its various funding windows. These funds have cumulatively benefitted



3,872,953 individuals across the country (MC 3,784,575; MIOP 38,193; EDF 7,779; PRISM 42,406). The impact of these loans has been independently verified by credible third parties in terms of increase in welfare on a number of important indicators. Continually learning from experience, the unit has worked with stakeholders to evolve innovative strategies for further expanding outreach, deepening penetration and strengthening the capacity of partner organizations for effective and sustainable service delivery at the grassroots.

Table 2.1: Average Loan Size by Lending Facility

	Microcredit	EDF	MIOP
FY 00-02	7,626	—	—
FY 02-03	8,649	—	—
FY 03-04	11,061	—	—
FY 04-05	12,583	68,603	
FY 05-06	12,803	42,385	
FY 06-07	13,578	51,358	
FY 07-08	14,819	50,801	17,001
FY 08-09	15,830	50,885	18,177
FY 09-10	17,294	51,793	17,707

Case Study 2.1: *Women's Livestock Cooperative Farming*

In partnership with International Fund for Agricultural Development (IFAD), PPAF launched Microfinance Innovation & Outreach Program (MIOP) in 2006. The program aims at enhancing access of poor rural women and men to productive assets, skills, services and improved technologies with an emphasis on enhancing productivity through pilot schemes for new microfinance products and market access initiatives. Women's Livestock Cooperative Farming was one such initiative.

A survey was conducted by Orangi Charitable Trust (OCT), a PPAF partner, in 6 villages of Sindh to ascertain the current state of livestock sector. An emphasis was placed on finding possibilities of lending microcredit for goat rearing and making it commercially viable, particularly for rural women. Goats were chosen as they are easy to rear, are adaptive to most environments and can graze in various topologies compared to other small ruminants. Also, most rural households rear 1-2 goats for personal consumption. Survey findings revealed that a minimum of 25 goats aged 6-11 months, placed in one shed and reared through scientific methods would provide maximum output in terms of weight, minimum feed and increased income.

PPAF provided OCT Rs. 5 million (USD 58,140) to introduce the concept in district Khairpur Mirs (Sindh). 100 groups with 5 female members each were formed; a loan was provided for purchasing 25 male baby goats per group for a six month period with bullet repayments. Training was imparted to the group of women to mitigate risk of disease and improve health and weight of the kept animals. The goats were kept in a common shed and raised by the group. Also, experts with the help of Livestock Dairy Board monitored animals on a bi-weekly basis to ensure maximum animal growth. They also trained the groups on dry and green feed and vaccination. The goats having been kept in the shed for 100-120 days were then sold in local markets at an average profit per group member of Rs. 8,000-8,500 (USD 93-99).

A number of lessons were learnt from an average 17% animal loss. It was concluded the baby goats purchased should be over 6-7 months of age. The optimal time to sell the goats was the first week of December with the next flock to be purchased in February to minimize outbreak of disease. Also, veterinary doctors needed to be employed for vaccination of goats and help train the women groups.

The program in itself was innovative and beneficial leading to increased incomes for poor rural women: at an average, the women received additional income of Rs. 2,500-3,000 (USD 29-35) per month. Market linkages were observed with the brokers going on to visit localities directly to purchase goats, minimizing the role of middleman, in turn decreasing transportation cost and time for the villagers. Linkages with government institutions such as the Livestock Department resulted in provision of technical facilities and scientific methodologies being implemented, decreasing animal loss. Trainings provided by the Livestock Department also empowered the women and some of them went on to become trainers.

Given the success of the program, the first phase was up-scaled to 4 new districts (Nawabshah, Nausheroferoz, Sanghar and Matiari). In Phase-II, PPAF provided OCT a loan of Rs.70 million (USD 813,954) and a grant of Rs. 9.72 million (USD 113,023) for capacity building under the Innovation and Outreach Facility. The product was up-scaled to 6,520 female borrowers in 77 localities across five districts with an average loan size of Rs. 11,500 (USD 134).

3 –

Community Physical Infrastructure



Local need-based, demand driven small scale infrastructure has demonstrated a positive correlation to poverty outcomes and has been found to improve the likelihood of better returns to human, capital, financial and natural resources. Infrastructure interventions in critical areas such as irrigation, potable water, electricity, sanitation and roads can transform lives and livelihoods through increasing crop yield, labor productivity and market access, while decreasing the probability of disease, famine and economic shocks. Community Physical Infrastructure (CPI) unit strives to optimize these linkages through a transparent and community driven process of delivering infrastructure assets to poor communities.

Access to infrastructure assets generally varies with location, socio-political status of communities and propensity to pay. Rather than simply being a function of availability, access to infrastructure encompasses entitlement and capacity of the poor to maximize gains from such

endowments. Conscious of these interactions, PPAF's infrastructure allocations are purposively designed to reduce geographical biases and targeted to reach poorest and most marginalized communities. Additionally, PPAF infrastructure grants attempt to reduce the affordability gap with an equally concerted focus on building social capital as a means to discourage elite capture, increase project sustainability and maximize gains for the poor.

As an aggregate of social linkages aimed at common development objectives, social capital nurtures communities and lays foundation for long term cooperation within poor communities. The PPAF model of community mobilization leading towards a layered institutionalized structure of community representation at higher administrative tiers has made it possible for poor and isolated communities to affect change in ways that were inconceivable in the past.

Community organization at the village level is central to planning and management of interventions. All CPI supported infrastructure interventions are preceded by months of intensive activity centered on mobilizing poor communities and organizing them into Community Organizations (COs), which are then capacitated to work as vibrant development institutions at the grassroots. Furthermore, COs receive necessary financial and technical support from PPAF through its Partner Organizations (POs), which facilitate each stage of the development process from project identification to implementation and maintenance.

In addition to equipping community organizations with requisite skills and resources, the unit seeks to underline importance of building capacities for ensuring project sustainability in the long run. Building ownership through compulsory community contribution in the shape of financial and/or labor, and material inputs forms a critical component of this strategy. Project sustainability is further ensured through compulsory collection of maintenance resources sufficient for bearing one year of operations maintenance by a project committee. The committee is empowered to develop an ongoing participatory mechanism for collection of maintenance funds once the asset becomes operational. To date, 17,785 community organizations have been formed to implement and maintain CPI supported infrastructure schemes.

Box 3.1: Mission and Objectives

The Community Physical Infrastructure unit provisions infrastructure grants as a means to developing capacity of rural communities and enhancing income generating opportunities at the grassroots with an aim to;

- Increasing incomes of the poor and providing benefits equitably to men and women
- Building local level infrastructure with a focus on productive needs of communities, especially women
- Building capacity of local stakeholders and involving them in identification, planning, execution and monitoring of physical infrastructure projects
- Ensuring efficient, productive and environment friendly use of local resources
- Creating sense of ownership and responsibility within poor communities

In ten years of operations, CPI has accepted community demands for over 17,000 infrastructure projects through 51 Partner Organizations spanning 121 districts of Pakistan, Northern Areas and AJK, four agencies of the Federally Administered Tribal Areas (FATA) and Islamabad Capital Territory (Table 3.2). Of these, 6,854 infrastructure interventions including stand alone conventional schemes as well as composite Integrated Area Upgrading Projects (IAUP) were operationalized under CPI component of the first World Bank

Table 3.1: Distribution of Infrastructure Projects by Category

	World Bank			Grand Total
	I	II	III	
SSIPs	6742	9846	35	16,623
Sanitation	993	2361	21	3,375
Drinking Water	2,805	2883	5,688	
Flood Protection	85	176	1	262
Irrigation	2,054	3109	9	5,172
Roads & Bridges	805	1317	4	2,126
DMPP	83	-	-	83
Drinking Water	26	-	-	26
Irrigation	45	-	-	45
Flood Protection	12	-	-	12
IAUP	1	141	-	142
IAUP	1	141	-	142
TIP	28	167	-	195
DWSS	24	-	-	24
Irrigation	1	4	-	5
Bio Gas	8	-	-	8
Incinerator	-	1	-	1
Micro Hydrel	3	42	-	45
Reverse Osmosis	-	3	-	3
Solar Lights	-	9	-	9
Solar Water Pump	-	13	-	13
Wind Mill	-	81	-	81
Wind Turbine	-	6	-	6
Total	6,854	10,154	35	17,043

The above schemes have cumulatively benefitted 8.4 urban and rural individuals in 1.2 million poor households throughout Pakistan (Table 3.2).

Table 3.2: Geographical Distribution of Schemes in Province

Province	Projects	Beneficiary Households	Beneficiary Population
AJK	694	32,929	262,791
Balochistan	2,821	121,909	938,049
FATA	90	9,468	99,764
ICT	137	11,251	65,573
NAs	434	40,754	314,379
NWFP	3,299	292,503	2,194,137
Punjab	6,138	501,301	3,300,162
Sindh	3,430	179,097	1,234,616
Total	17,043	1,189,212	8,409,471

financed project (PPAF-I, FY 2000-04), while another 10,154 schemes were completed under World Bank's PPAF-II Project (FY 2004-10). An additional 35 schemes have so far been completed under World Bank's PPAF-III Project (FY 2009-14).

The above schemes have cumulatively benefitted 8.4 urban and rural individuals in 1.2 million poor households throughout Pakistan (Table 3.2).

The unit mainly approves resources for infrastructure interventions in the irrigation, sanitation, drinking water supply and communication sectors (Table 3.3). Each sector further constitutes a number of sub-categories. For instance, irrigation sector interventions include a variety of schemes focused on efficient management of water resources ranging from watercourse lining and pipe irrigation projects to irrigation channels and karez rehabilitation. All participating communities are empowered to select the appropriate set of interventions from the above range of options in conformity with their specific needs.

CPI strives to ensure equitable distribution of resources across the country's geographical milieu, while simultaneously focusing on most deprived regions. For this reason, geographical distribution of CPI interventions is consistent with the magnitude of regional needs in specific sectors. For instance, while 92 percent of Pakistan's overall population has access to

a comparatively safe drinking water supply source (tap water, hand pump, motor pump, dug well), there are marked variations across provinces with Punjab (96%) much better placed than Sindh (93%), KPK(84%) and Baluchistan (61%). Understandably, majority of all CPI interventions in drinking water supply have to date been initiated in the latter three provinces. Similarly, overall percentage share of rural Sindh, NWFP and Baluchistan in terms of total number of schemes has tended to be much higher than their respective population share (Figure 3.1).

Results of these well targeted resource allocations have been proven to have improved livings standards among marginalized communities. An approximate 5,172 irrigation schemes completed to date have helped increase agricultural growth through efficient management of water resources, while diversifying income and employment opportunities for the poor.

Similarly, CPI led interventions in drinking water supply and sanitation have critically decreased the incidence of mortality and morbidity, enabling backward rural communities in far flung areas to enjoy a much healthier and productive life style.

In the current financial year, CPI completed 1,756 new infrastructure schemes, of which safe drinking water projects accounted for 551 schemes while 476, 399, and 255 schemes were completed in the irrigation, sanitation, and communications sectors respectively.

Safe drinking water for poor communities represents the largest concentration of infrastructure interventions in cumulative terms: DWSS constitute 34 percent of all CPI conventional schemes completed to date, followed by interventions in irrigation (30%), sanitation (20 %) and communications (12 %) sectors (Figure 3.3).

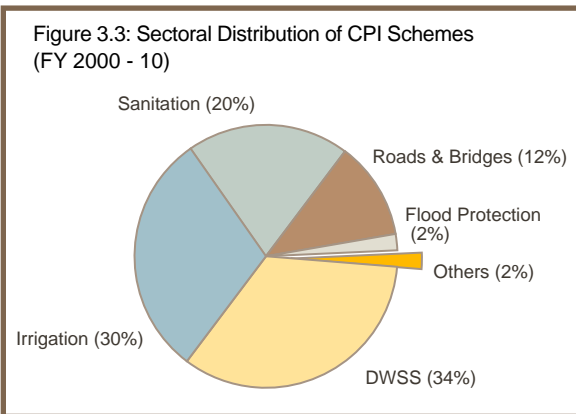
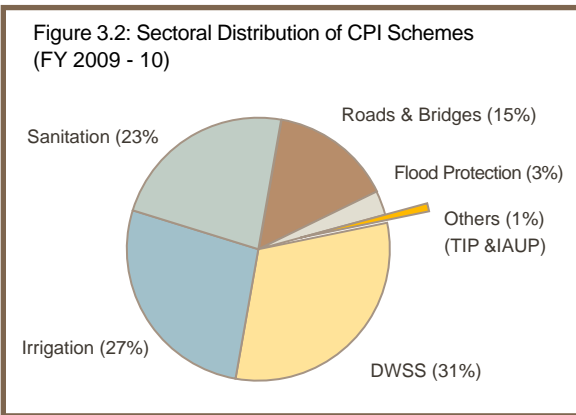
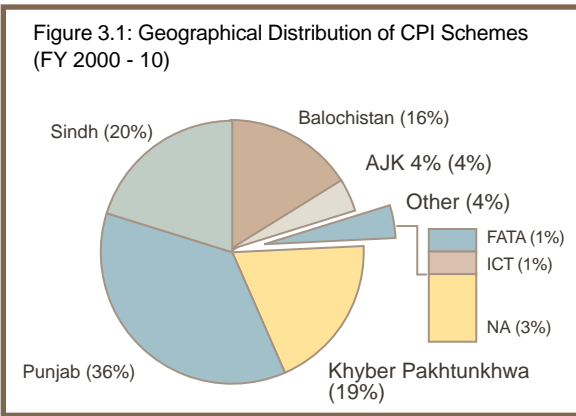
While CPI interventions are constantly

Table 3.3: Geographical Distribution of Infrastructure Schemes by Project Type (FY 2000-09)*

Province	Sanitation	DWSS	Flood Protection	IAUP†	Irrigation	Roads & Bridges	TIP	DMPP*	Grand Total
NWFP	1,016	1,223	85	47	417	467	44	-	3,299
Punjab	1,710	384	3	49	3,065	917	10	-	6,138
Sindh	321	2,302	3	21	297	413	73	-	3,430
Balochistan	247	990	127	5	1,270	32	67	83	2,821
AJK	5	479	-	1	6	203	-	-	694
FATA	9	75	-	-	5	1	-	-	90
ICT	54	49	-	12	0	22	-	-	137
NAs	13	186	44	7	112	71	1	-	434
Total	3,375	5,688	262	142	5,172	2,126	195	83	17,043

* The table include the 83 schemes initiated under the Pilot DMPP of PPAF-I in district Pishin Balochistan.

† These projects do not include sub-projects initiated under IAUP.



increasing in volume and size, the unit continues to focus on finding cost efficient and sustainable strategies for meeting community demands in areas where scarcity and/or inefficient utilization of water has been a constant problem. 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 county’s most arid regions is being met through water efficient mechanisms like drip and sprinkler irrigation systems. In mountainous areas, PPAF has financed a large number of micro hydel projects as a sustainable solution for providing electricity to poor isolated communities not connected to the national grid. Such Technological Innovations Projects (TIP) have been successfully operationalized in 281 communities at a

cost of over Rs. 165 million, of which the communities have borne approximately 19 percent of the cost.

In addition to stand alone conventional schemes, the unit has introduced an Integrated Area Upgrading Program (IAUP) to implement a larger number of infrastructure schemes at village level for dealing more effectively with multiple deprivations. A typical IAUP includes three to six schemes including interventions in drinking water supply, sanitation, communications and irrigation sectors. To date, 142 integrated projects have been completed at the national level in partnership with 18 partner organizations at a cost of over Rs. 403 million with participating communities contributing 20 percent of cost.

CPI has made a visible and verifiable difference in the lives of poor communities in relation to increasing income opportunities, productivity and empowerment at a national level. Simultaneously, the unit has facilitated transfer of community assets to the poor, ensuring greater access with better entitlement and improved prospects of long term project sustainability.



4 – Water Management Center



The future of Pakistan's agro-based economy is critically reliant on the development of a holistic water management regime incorporating a series of interventions at different levels. The solutions could range from erecting well designed and environment friendly mega structures for storing and diverting water to building efficient and self sustaining interventions at a community level. Simultaneously, the traditional bricks and mortar approach focused on building hardware needs to be supplanted with an approach that is equally focused on generating, disseminating and using knowledge through institutionalized processes as a basis for progress.

PPAF's Water Management Center (PWMC) was established to play a proactive role in deploying effective policies, strategies and systems for prudent water management, better preparedness as well as focused generation and dissemination of knowledge. The center is thus pivotal to PPAF's long term strategy of alleviating poverty and reducing food insecurity and

The center utilizes PPAF's conventional bottom up approach to development by allowing communities to play a key role in selection, design, implementation and maintenance of all interventions (Box 1). Grassroots community organizations, which form the centerpiece of all PWMC operations, are systematically equipped with requisite knowledge and capacity through technical and administrative training, enabling them to make informed choices for collective good of the community.

Conceptually, the center's raison D'etre was driven partly by intent to treat water management more holistically through designing interventions for spatial entities larger than small villages that had till now been the primary focus of PPAF infrastructure projects. This strategic shift has allowed the introduction of better and more efficient water management practices and interventions covering larger administrative units with similar characteristics and problems. Simultaneously, the shift has further allowed purposive formation of

larger community organizations populated by a greater number of poor households sharing common interests.

The integration of different types of water relevant interventions within larger projects constitutes the center's standard approach and is manifested in all its programs. The Drought Mitigation and Preparedness Program (DMPP), for instance, cover large drought affected areas with each project spanning one to three union councils and constituting approximately a hundred sub-projects on 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 optimization of cropping patterns.

By the end of the current financial year, 25 DMP projects consisting of 1,657 water focused interventions have been operationalized with financial resources from World Bank and the United States Department for Agriculture (USDA). These projects have to date benefitted 1,300 communities in 16 drought affected districts. In each case, the projects have revitalized local economies in several ways including among others, reducing water losses through efficient water conveyance systems, rejuvenating depleted aquifers through building strategically located water storage facilities and increasing the ratio of irrigated land through building water channels where none existed before.

Sindh Coastal Areas Development Program (SCAD) has further built upon the strategic shift towards greater integration by complementing infrastructure projects with interventions in healthcare, education,

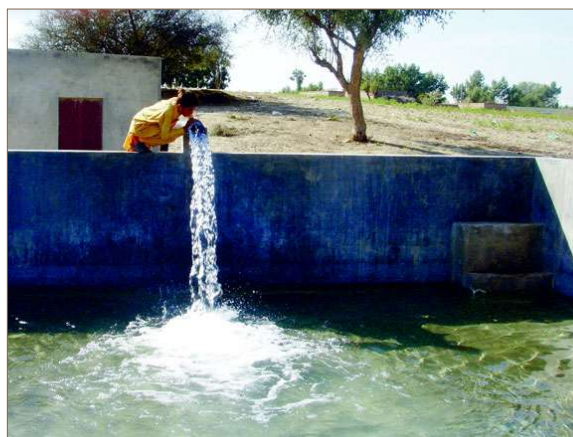
Box 4.1: Strategic Framework

WMC's strategic framework has evolved on a basis of 'learning by doing' and consists of the following;

- Placing partner organizations in the driving seat and enabling them to play a key role in sub-project identification, project formulation and implementation
- Assigning social mobilization a central place in all interventions. Depending upon the complexity of the program/project, implementation mechanism varies from a single tier (Community Organization) institutional framework to one encompassing a nested hierarchy of representative institutions, such as a UC level 'task force' or a federation of numerous task forces
- Providing integrated technical services and project management support to POs
- Integrating science, policy and local wisdom in sub-project identification and project design
- Evolving and disseminating cost-effective and environmentally clean technological solutions
- Building alliances with local, national and regional organizations
- Encouraging and facilitating inter-PO coordination

livelihood support and provision of financial services. These carefully sequenced interventions along Sindh's coastline are particularly important in the background of several disasters that have frequented the area in its recent past. Under SCAD, 561 schemes have so far been initiated in the region including protection works for reducing vulnerability to sea intrusion, improved sanitation and communication facilities, as well as introduction of innovative solutions for provisioning safe drinking water and electricity through tapping renewable sources of energy.

Owing to the area's continued vulnerability to natural disasters, PPAF has systematically facilitated formation of a long term institutional response through forging meaningful partnerships amongst partner organizations operating there. The Sindh Coastal Areas Development Network (SCAN) brings ten organizations participating in the program together on a single platform with a purpose of promoting linkages among member organizations through workshops, exchange visits, study tours and regular information sharing. The network has gradually expanded to include additional members from Sindh Irrigation and Drainage Authority (SIDA), Sindh On-farm Water Management Project, Sindh Water Sector Improvement Program, and the World Wide Fund for Nature in Pakistan (WWF-Pakistan). During the year, in addition to holding regular meetings on



a wide range of issues of mutual concern, SCAN successfully organized a national conference on Integrated Water Resource Management to address climate change in collaboration with the Freshwater Action Network South Asia (FANSA). This conference attracted participation from a wide range of stakeholders including important donor groups.

This successful experiment with SCAN has encouraged the center to develop similar networks in other program areas. The establishment of Pakistan Drought Management Network (PDMN) for instance, brings together another 15 PPAF partner organizations currently entrusted with implementation of DMP projects across Pakistan. PDMN functions as a useful forum for generating and sharing knowledge on current practices in drought mitigation as well as deliberating on the potential of a wide ranging set of possible field related innovations.

While large integrated projects like DMPP and SCAD are essentially driven by a need for provisioning holistic infrastructure solutions to a large number of villages within a logically defined geographical space, the latter can sometimes be confined within narrower boundaries of one or more isolated villages or settlements. In such cases, integrative infrastructure development could best be achieved through a smaller number of interventions. For instance, Integrated Water Efficient Irrigation (IWEI) projects are implemented at the village level for better management of community water resources by combining four to five interventions including sprinkler/drip irrigation, water channels, water course lining, and conduits. To date, a total of 100 such projects constituting 243 schemes have collectively benefitted over 8,200 households with an overall cost of Rs. 198.7 million, of which 20 percent has been contributed by communities.

Similarly, the center has contributed immensely to the lives of isolated mountain communities in Northern Areas and Chitral region through a series of small scale Microhydel Projects (MHPs) addressing household cooking, heating and lighting needs through sustainable power generation. These projects have benefitted 8,000 households in 48 mountain villages at a cost of over Rs. 308 million. The latter investments have revolutionized the lifestyle of beneficiary households that were previously without electricity.



Sustainable power generation through clean technologies like microhydels has also allowed PPAF to access additional funding sources by leveraging the so called carbon finance within the framework of the Kyoto Protocol. PPAF has authorized one of its implementing partners, AKRSP, to act as the proponent for “Community Development Carbon Fund-CDCF” solicitation, based on renewable energy projects in Northern Areas and Chitral. Accordingly, a project design document-PDD has been developed, encompassing the construction of 103 micro hydro projects, with an aggregated capacity of 15 MW. These projects are estimated to result in the reduction of 612,342 tons of carbon dioxide equivalent in the first seven year crediting period (2009 to 2015). Based on an elaborate validation process, the World Bank appointed independent validator (DNV) and rated the on-going renewable energy project as ‘satisfactory’ from a technical, environmental and social

point of view. This allowed AKRSP, World Bank and Netherlands Government to sign a “Modalities of Communication (MOC) Form” as the last step before the project is registered with the CDM Executive Board in UNFCCC. It is expected that US\$ 8.33 million in carbon revenue will be generated by the project till 2015, which is the first 7 year crediting period.

Simultaneously, the center works to ensure efficient implementation of environmental safeguards for all PPAF assisted interventions. For this purpose, an independent environmental and social management group has recently been established with a view to closely monitor PPAF sponsored interventions for social and environmental safeguards. Similarly, a PPAF Panel for Social and Environmental Management (PPSEM) has been constituted with representation from all concerned units as a common platform for deliberations on issues pertaining to environmental and social concerns.

To date, PWMC interventions have benefitted over 300,000 households in approximately 4,700 communities across

Pakistan (Table 4.1). DMPP and Integrated Water Resource Management (IWRM) projects constitute the largest share in WMC beneficiaries. IWRM projects are a hybrid of DMPP and all other WMC interventions and cover a large number of communities spread over several villages. Together, DMPP and IWRM intervention constitute approximately 42 % of allocated WMC funds, 50% of WMC supported (sub) projects and participating communities, and 67% of the households benefitting from WMC interventions.

The center has strategically contributed to finding long term solutions for efficient management of water resources through integrated programs within appropriately defined spatial boundaries. Simultaneously, it has actively pursued the goal of developing requisite knowledge and linkages for a better institutional response to water scarcity at a national level. These contributions will go a long way towards creating a viable framework for evidence based water focused interventions cognizant of the geographical, social and environmental context of delivering goods and services at the grassroots.

Program Category	Funds Disbursed (Rs. Million)	Number of Projects	Sub Projects	Coverage (Villages)	Beneficiaries HHs
DMPP/IWRM	978.38	25	2,260	2,042	213,959
IWEIP	198.91	108	323	108	10,072
MHDP	305.44	43	43	129	9,700
SCAD	808.35	1,737	1,793	1,614	77,530
SGI	51.16	7	73	195	6,361
Grand Total	2,342.24	1,920	4,492	4,088	317,622



5 – Health and Education

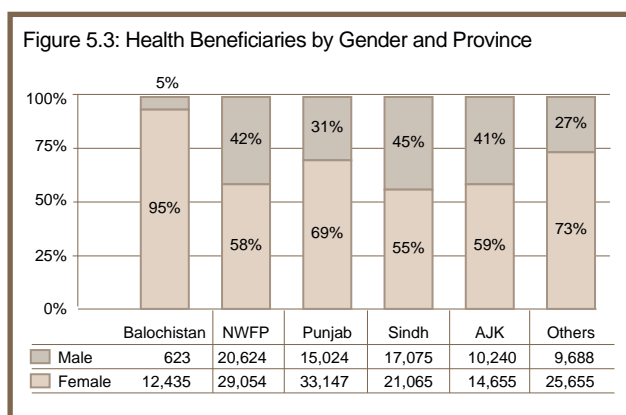
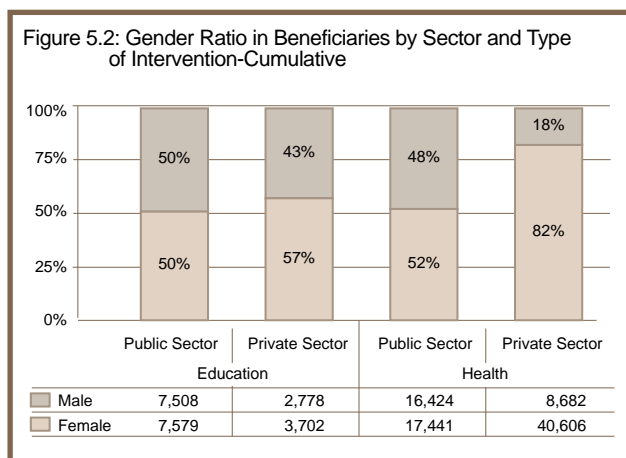
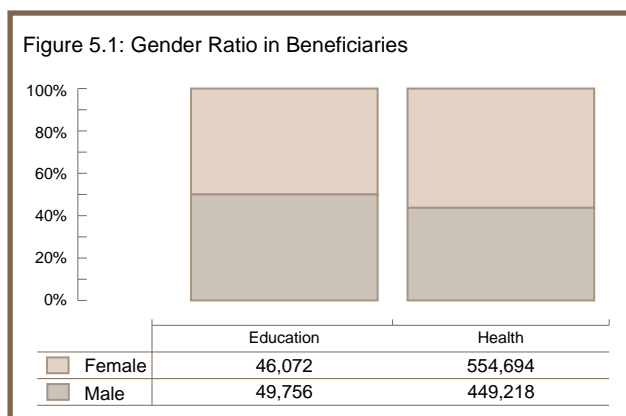
Health and Education (H&E) unit seeks to deliver quality health and education services through PPAF's Social Sector Development Program (SDPP), which incorporates establishment of schools and community health centers for the poor in addition to adoption of underperforming H & E facilities in the public sector. PPAF's social sector initiatives are conceptually entrenched in the idea of holistic grassroots development, access to better health and education being a necessary condition for progress.

The unit's health and education interventions are complementary and interdependent in terms of maximizing potential gains within each sector. Educational attainment of mothers has been observed to affect the health and wellbeing of children. Similarly, a higher ratio of female literacy reduces the incidence of maternal and child mortality, early marriages and unwillingness to use contraceptives and medical services. The gender differential in health and education indicators is markedly biased

against women in all regions and these differences have been observed to increase with higher levels of poverty. PPAF interventions in the health and education sectors prioritize the need to bridge this divide. During the current financial year, approximately 55% of PPAF's health sector beneficiaries and 48% of currently enrolled children in PPAF financed schools were female (Figure 5.1).

Even in highly conservative areas where the mobility and interaction of women is generally restricted, PPAF has managed to increase female access to better healthcare. For instance, 95% beneficiaries of the 81 community health centers in Baluchistan province were female during the current financial year (Figure 5.3).

During the current financial year, PPAF supported health facilities in private and public sectors administered over 800 vaccinations, dealt with over 500,000 cases of maternal care and provided OPD services to approximately 290,000 adult patients



and almost 195,000 patients under the age of 18 (Table 5.1).

Overall, PPAF is currently provisioning technical and financial support to 722 schools (public sector 561; private sector 161) and 303 health facilities (public sector 205; private sector 98). All of the above facilities are situated within marginalized communities with little or no prior access to quality education and health services (Table 5.2).

While continuing to support the delivery of health and education services to poor communities across Pakistan, H & E unit has also contributed immensely towards implementing similar projects in disaster areas. With financial support from CECP, PPAF has successfully completed the reconstruction of sixteen health and education 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 (BHU's) – equipped with requisite equipment and facilities for quality service delivery. BHU's have labour 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. Communities have played a vital role in ensuring the quality of services in all PPAF social sector interventions through health and education management committees,

which are mandated to identify gaps in service delivery. These committees have ensured transparency and accountability in a sector that has traditionally lagged behind in developing a persistent commitment to customer satisfaction.

During the year, 303 health committees and 722 education committees were formed in PPAF supported private sector facilities and adopted public sector institutions. Keeping in view the importance of their functions, PPAF has been committed to building health and education committees' capacity through concerted efforts aimed at transferring appropriate skills and knowledge for better outcomes.



Additionally, PPAF has ensured quality of service delivery through designing need based capacity building sessions for health and education facilities staff. In the health sector, these events cover training in subjects

Table 5.1: Beneficiaries of PPAF Health Interventions (FY 2009-10)

	OPD (Over 18)	OPD (Under 18)	Maternal Care	Vaccinations	Total
Punjab	13,360	8,016	32,064	205	53,645
Sindh	105,389	70,259	175,648	310	351,606
NWFP	52,898	101,932	254,830	100	509,760
Balochistan	13,777	8,266	33,065	50	55,154
AJK	8,090	4,854	19,415	65	32,423
FANA	-	-	-	-	-
FATA	-	-	-	-	-
Federal Territory	410	308	1,230	122	2,070
Grand Total	293,923	193,635	516,252	852	1,004,662

Table 5.2: Social Sector Interventions by Province

	Education		Health	
	Public Sector	Private Sector	Public Sector	Private Sector
Punjab	65	52	11	39
Sindh	199	80	50	21
NWFP	119	-	71	27
Balochistan	154	10	71	10
AJK	4	0	2	-
FANA	19	12	-	-
FATA	-	-	-	-
Federal Territory	1	7	-	1
Total	561	161	205	98

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, lessons 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.

To date, H&E unit has cumulatively sanctioned disbursements of over Rs. 905.17 million in the education sector through 30 partner organizations and approximately Rs. 577.17 million through 24 partner organizations in the health sector under funding made available by the World Bank. Similarly, another Rs. 655.03 million has been sanctioned under CECP funds for the effective operationalization of reconstructed health and education facilities in earthquake affected areas.





6 – Human and Institutional Development

PPAF's Human and Institutional Development (HID) unit has evolved into an apex capacity building outfit with the objective of building human and institutional capacities for effective long term poverty alleviation at a national level. The unit has been restructured to provide technical and financial assistance to a broad set of stakeholders including non governmental organizations, technical institutes and a host of other service provider as well as individuals and communities.

In addition to enhancing capacities for effective resources and services mobilization, HID facilitates communities in developing sustainable frameworks for identifying and implementing development interventions. Simultaneously, the unit strives to develop efficient mechanisms for service delivery through assisting supply side actors with increased technical and financial support. Support to such actors is aimed at strengthening their ability to better facilitate communities through provisioning relevant, cost effective and efficient services. Also, the unit places special emphasis on building

strategic capacities through institutionalizing relevant approaches, methodologies and development tools for entrenching an equitable and inclusive development process at the community level.

The unit continues to focus on strengthening PPAF's internal learning structures. For this purpose, HID unit has successfully implemented innovative ideas including short seminars and distinguished speaker series. The latter provides staff of PPAF and partner organizations with valuable opportunities to meaningfully engage and interact with eminent speakers from diverse fields and of varied expertise on a host of relevant issues.

During the year, the 'distinguished speaker series' included eminent individuals from different walks of life and professions who spoke on different relevant and interesting themes: Mr. Sartaj Aziz (Food Security for the Poor), Mr. Shoaib Sultan Khan (Development Experience in Northern Areas), Mr. Shafiqul Haque Choudhury

(Standardized Delivery of Microfinance), Mr. Fazle Hasan Abed (Innovative Approaches to Development) Prof. Mahmood Hasan Khan (A perspective on Rural Support Programmes in Pakistan). Similarly, the unit initiated a series of short seminars with an aim to update PPAF staff on newest trends, approaches and methodologies in the sector. During the year, short seminars were organized on a diverse set of subjects including Livelihood and Enterprise Development, Process Improvement Strategies,

Disaster Preparedness and Response, Corporate Social Responsibility, World Water Day, Motivation and Social Audit. Also, a monthly e-magazine – Know Bites – has been developed to disseminate information on a range of topics directly or indirectly related to PPAF’s scope of work including Food Security for the Poor, Livelihood in Microenterprises Development, Process Improvement Strategies, Disaster Preparedness and Response, Corporate Social Responsibility, Motivation, Coaching and Mentoring and Social Audit. These have in turn impacted institutional norms by creating space for a continuous learning process through constructive dialogue and debate.

The unit’s objective of alleviating poverty through changing mindsets involves a constructive engagement with a broad set of stakeholders including partner organizations, government agencies and

departments, universities, regulatory financial sector institutions, corporate sector entities and the media. HID has signed Memorandum of Understanding (MOUs) with a number of renowned professional services providers for provisioning training, consulting services, in addition to conducting surveys and research for PPAF and its partners.

During the year, HID organized academic sessions in collaboration with PSPs and other units of PPAF covering a range of topics including Effective Communication Skills, Gender Mainstreaming in Project Cycle Management, Environmental and Social Management, Seven Habits of Highly Effective People, Finance and Accounts for Non-Financial Managers, Presentation Skill, Training Cycle Management, Project Management, Operations Management, and Essential Skills for Microfinance and Social Mobilization.

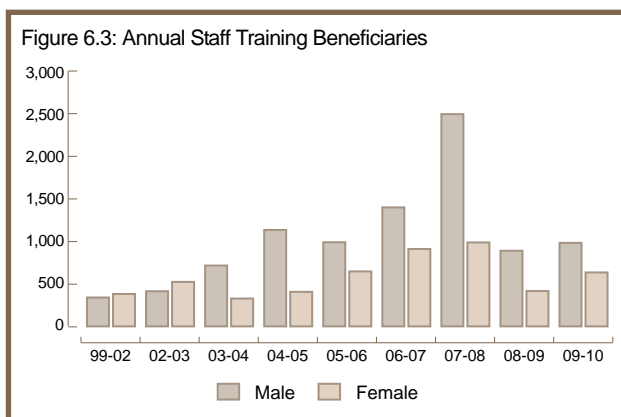
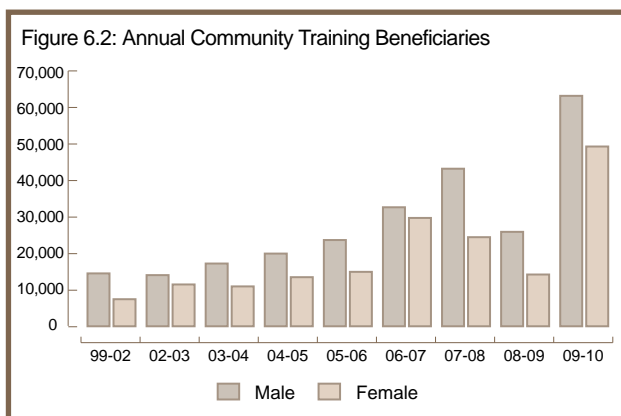
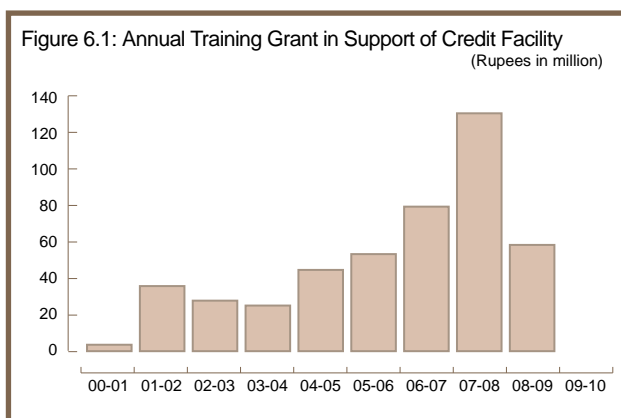
As part of its routine activities, HID continued to appraise training needs and facilitate disbursement of grant funds to partner organizations. During the reporting year, the unit disbursed approximately Rs. 50 million in grant funds to partner organizations for community and staff training in support of credit facilities (Figure 6.1).

During the year, 112,424 community members including 49,199 women were trained with PPAF financial and technical support in fields ranging from Community

Management Skills and Agricultural and Livestock Management to Enterprise Development and Vocational Skills (Figure 6.2). Similarly, 1,623 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 6.3).

To date, HID has disbursed Rs. 1339 million in cumulative training grant to partner organizations. These funds have collectively benefitted 432,766 community members and 14651 staff of partner organizations. In addition to capacitating participating communities and PO staff, the unit has put in place a regular mechanism for focused capacity building of enterprising individuals through routine internship programs. The unit continues to run a successful internship program for young graduates who receive field attachments with POs, following an intensive one month training within HID.

The IFAD-funded Young Professionals Scheme (YPS) provides young people from poor rural households the opportunity to join PPAF's current internship program, with an additional provision for supporting a further eight months attachment to a PO on recommendation/request. Under YPS, four batches constituting 93 internees have completed training with HID unit during the year, with 63 Young Professionals successfully moving to complete field



attachments with POs. Such assistance greatly facilitates POs suffering from a high turnover rate resulting from industry growth.

In areas currently suffering from heightened militant activities, lack of adequate opportunities has increased the susceptibility of unemployed youth to extremist propaganda, while allowing non state actors greater space and acceptance. Keeping this in view, the unit has planned special programs for young men and women from FATA and Balochistan, to be implemented in the next financial year. Additionally, the unit plans to initiate a capacity building program for a number of community based organizations and small NGOs working in the region.

HID unit stands at the forefront of PPAF’s efforts in provisioning quality services to poor communities, while simultaneously seeking to increase their capacity for optimal utilization of human and physical resources. HID initiatives have built up a critical mass of skilled manpower both at the community level and within service providers with the potential to transform lives of millions around them.



Case Study 6.1: A Stitch in Time

Momin Hussain belongs to union council Chohaana Laiti Mazari, District Dera Ghazi Khan. A father of two, he was working on negligible wages at a tailor's shop in lower Chotti. His monthly income was approximately Rs. 3000. He admits that his skills back then, were minimal. Economically challenged, limited by skills and educated till middle school, he had no solution but to trudge through what life had to offer.

Things became rosey when women of Mazari locality formed a Village Organization (VO) in March 2009 in Basti Mazari, with assistance from National Rural Support Programme (NRSP), a PPAF partner, Momin Hussain also became a member in February 2010 and began participating in meetings.

One of the best and earliest advantages of this, he recalls, was that he began to save money on a regular basis. His family benefitted from this and it also enabled him to make some decisions about future. When NRSP initiated a vocational skill training programme for CO members, men and women alike, Momin was nominated by his VO friends for a tailoring course. They realized that he required skills that came with technical training, not only to earn more for his family but also to achieve a sense of pride in his work.

Momin was excited: the training lasted for one month in Islamabad. He found the trainers to be encouraging and responsive to participant needs. Momin and his fellow participants were encouraged to interact in an open learning environment. They were, in fact, so involved during this process that they never felt tired. "We were like a family," he states.

The results of this training were phenomenal for Momin. Having professional tailoring skills, he managed to acquire a loan from some friends and set up his own tailoring shop within a month. His villagers were more than happy. Previously, they would make a trip to the nearby locality lower Chotti for all their tailoring needs and now, a professional tailor had set up a shop in their own village. Momin's monthly income rose to Rs. 12,000, sufficient to meet his household expenditure of about Rs. 5,000. He enrolled his children into a good school, repaid his friends' money and invested in a Rs. 2000 a month committee.

His plans? The questions brought smile to his face. He wanted to have his own shop. He is already a successful and responsible community members and he offers special discount to poor customers and proactively attempts to transfer his skills to the youth and poor.

"I am grateful to NRSP and PPAF for their efforts to build skills for better economic condition of poor and unemployed," he concluded.

Case Study 6.2: Beautifying the Life

Nasreen Altaf, 30 years old and educated till secondary level, belongs to a joint family system of ten individuals which includes her husband and their three children. She hails from a village and union council Pir Adil, district Dera Ghazi Khan and is currently a manager of Tehzeeb, a Community Organization.

As a housewife, she feels that she had little importance at home before she joined Tehzeeb. Her husband works in Saudi Arabia as an unskilled laborer. He would send his family a monthly Rs. 7,000 to make both ends meet.

“Being women, we have restrictions on our mobility,” she explains her initial inability to contribute to the family’s economic crisis. Despite the limitations, she applied to National Rural Support Programme’s (NRSP), a PPAF partner, beautician training courses for CO members. Much to her delight, she was selected for training to be held in DG Khan. She grabbed the opportunity and is now the proud certificate holder of a two months beauty parlour training course.

Upon training completion, she setup a beauty parlor at home. This was the start of something new and exciting. She manages to earn Rs. 15, 00 per month and her clientele is increasing by the every passing day. Women who had to travel to the city for routine treatments now have the convenience of beautification closer to home. Nasreen is now a master trainer in beautician training and girls from her locality benefit from her expertise.

Today, Nasreen’s children are studying at a reputable school. She is thankful to PPAF and NRSP and enjoys newfound recognition for her work.

“My whole family including my husband, father-in-law and mother-in-law are happy with my business,” she says.



7 – Social Mobilization

Social Mobilization constitutes the core of all PPAF interventions, conceptually entrenched in a belief that poor marginalized communities, given an appropriate enabling environment, possess an inherent capacity to change their lives for the better. While minimal outside assistance is essential to initiate such change through raising awareness at the grassroots, communities alone can guide and sustain this transformation by realizing the full scope of their latent capabilities.

In essence, social mobilization aims at providing incongruent communities with essential tools to promote sustainable joint action, through organized forums for planning and deliberation in the shape of community organizations. Members of community organizations, irrespective of their level of welfare and degree of interaction with the outside world, are systematically capacitated to make informed choices at a local level. Within this framework, outside help assumes the role of a facilitator by encouraging people to

strive for their common good and helping to realize community demands through provisioning an appropriate mix of requisite financial and non financial support.

The above scheme circumvents deep rooted problems inherent in public provisioning of goods and services, which predominantly relies on imposing development solutions from the outside. By centralizing the role of communities in design, implementation and maintenance of projects, the latter are liberated from political biases, bureaucratic delays and the culture of corruption that accompanies a persistent lack of accountability in the public sector. Subsequently, PPAF follows an inclusive development strategy which seeks to prioritize community needs within an inclusive framework of community mobilization. This framework is followed in all PPAF supported initiatives with appropriate adjustments to suit the peculiarities of terrain, socio-cultural environment and type of intervention.

In view of an overwhelming need to upscale social mobilization processes with greater outreach and coverage at the grassroots, PPAF successfully launched a focused project on social mobilization with assistance from World Bank. The latter has channelized US\$ 75 million for the purpose, while a new Social Mobilization (SM) unit has been successfully initiated with a mandate to appraise partners, allocate funds and monitor progress against clearly laid out objectives.

The project focuses on formation of 50,000 additional community organizations, with their subsequent organization into higher order institutions at village and union council level. It is adequately facilitated and capacitated to manage need based development initiatives through a transparent, equitable, inclusive and accountable process of community development. Approximately one million households (rural/semi-rural) will be organized into community organizations in 25 of the poorest districts of the country.

The project envisions supporting these COs and enabling them to participate in PPAF's microfinance and community infrastructure programs along with developing proactive linkages with local government and rural development programs of provincial and federal governments and micro-finance organizations. The project further envisions development of a leadership cadre of 250,000 women and men, adequately

trained to manage their COs and actualize linkages with service providers and local governments.

The unit has carefully selected geographical areas for the project from amongst districts with lower scores on a number of welfare indicators. Additionally, since meaningful change through grassroots participatory development processes has been seen to accrue more effectively from a higher concentration of organized activity at and beyond village levels, the rationale for incorporating a small group of underperforming districts becomes a necessary condition.

Elite capture of community organizations, albeit rare in the history of grassroots development, can potentially reverse benefits resulting from this approach. In order to guard against such risks, the project has made it mandatory for 50% membership of community organizations to constitute of poor households. Similarly, the project requires a compulsory 40% participation of women.

When realized, the goal of increased female participation in community organizations will potentially increase their in decision making at the grassroots. Additionally, the project seeks to educate all members in their constitutional rights as citizens. Such steps are intended to create increased momentum towards realization of an informed citizenry with capacity to demand

their legitimate rights: rights that have a higher probability of being denied under conditions of apathy and ignorance.

During the year, SM unit organized a TOT on 'State-Citizen Relationship in the Development Context' in addition to conducting four training events on this subject in different cities across Pakistan. These events were attended by staff of eighteen partner organizations from twenty eight districts. Within the context of communicating different aspects of state-citizen relations to communities, the events focused on special themes including vulnerability, human rights, spatial planning and environment. Participants were encouraged to devise action plans as practical tools for disseminating knowledge on such subjects at the grassroots. In Pakistan, the growing migration towards urban areas, which cuts across provincial boundaries, has in some cases created a potentially explosive situation. This has impacted development outcomes by diverting scarce resources towards strengthening security apparatus of the state. Within this context, grassroots development has to take into account the determinants of lingering cultural and racial stereotypes, and provide opportunities for increased interaction between different communities with divergent perceived interests.

The unit is doing its part in trying to break the above stereotypes by organizing

exposure visits for communities with special focus on youth in all four provinces of the country, as well as the Gilgit-Baltistan and AJK regions. By providing people from different cultural, linguistic and ethnic backgrounds the opportunity to interact as citizens, the unit hopes to infuse a sense of unity, mutual respect and shared struggle towards a common destiny, especially amongst the youth. To date, POs participating in the program have successfully arranged exposure visits for around 15,000 community members to different parts of the country (Table 7.1).

While striving to develop a critical mass of organized communities at the grassroots, SM unit is also mindful of putting in place an effective performance monitoring

Name of PO	Number of Participants	
	Target	Achievement
BEEJ	1,500	1,155
BRDRS	1,500	892
TF	1,000	928
BRSP	2,500	1,805
NRSP	1,500	1,171
PIDS	1,500	456
AKPBS	1,000	916
SRSP-Sind	1,000	1,002
BRDS	1,500	897
AWAZ CDS	1,000	795
FDO	1,200	957
CMDO	2,000	1,742
SPO	1,500	421
SRSP	2,000	1,837
Total	20,700	14,974

framework to measure progress against clear indicators. For this purpose, the unit has developed a customized Management Information System (MIS) to routinely track a comprehensive list of indicators important to project success. Following concerted efforts to institutionalize the process through focused workshops with all POs at different locations, the unit has successfully handed over the system to implementing partners.



During the year, the unit matched and in some instances surpassed, annual targets against most indicators. For instance, a total of 40,416 community organizations and 3,216 village organizations were formed during the year against an annual target of 21,333 community organizations and 2,755 village organizations respectively (Table 7.2).

By the end of this reporting period, the unit has successfully disbursed more than Rs. 1,072 millions to 20 partner organizations. A total of 16,584 new community organizations have been formed to date, of which 54% are constituted of women (Figure 7.1). Additionally, a large number of these community organizations have been federated into village organizations: 411 such village organizations have so far been formed of which 15% had women participation either completely or partially.

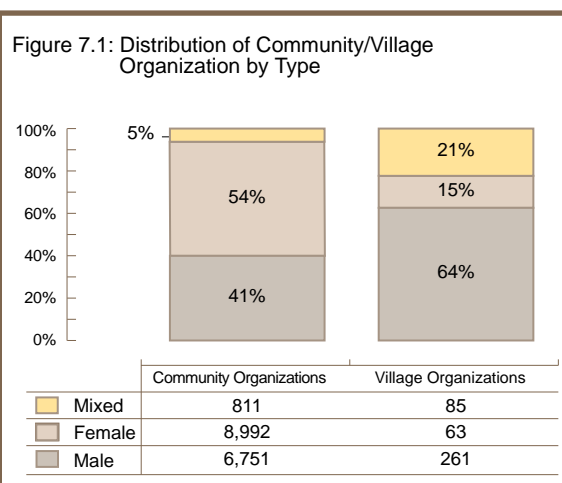


Table 7.2: Field Activities (2009-10)

No of formation	Targets	Achievements
COs	21,333	40,416
VOs	2,755	3,216
ISOs	116	93
Community Trainings	3,170	2,187
Staff Trainings (Pos)	53	53
Total	27,427	43,725

Case Study 7.1: Goth Noor Muhammad – An Inspiring Development Initiative

Located 25 kilometers away from busy, bustling Karachi, a small hamlet called Goth Noor Muhammad embodied the squalor that comes with being an unofficial dumping ground for a big city's garbage and waste. The land here was donated by Raees Ghulam Rasool, who named it after his grandfather Haji Raees Noor Muhammad. Founded over twenty years ago by residents of rural Sindh who moved to Karachi in a bid to escape poverty, this hamlet comprises 70% Hindus and 30% Muslims. The struggle for a better tomorrow unites them as one.

The inhabitants earn a living by requesting Karachi Metropolitan authorities to drop garbage nearby so they can sift through it within their homes. Their source of income results in illness and malnutrition: yellow fever is rampant while infant/maternal mortality rates are alarmingly high. Their only source of healthcare is a facility 14 kms away. Housing approximately 110 men, women and children, the hamlet is located on the foothill and accessed by a single side through a winding road.

Approximately 5 percent of the residents of Goth Noor Muhammad are barely literate. They cannot send their kids to school as there is no educational facility available nearby. They lack the facility of potable water and store rainwater in uncovered tanks, using this badly polluted water to quench their thirst, bathe, and wash clothes and utensils. There is no latrine facility in any of the 'houses' so that men, women and children use nearby fields for defecation.

A walk down the winding road that leads to Goth Noor Muhammad is a depressing journey.

An unbearable stench greets you. Children are found rummaging through the garbage heaps in sight, looking for metals or such items that their parents can sell. Stray dogs are a common sight, splattered with mud and enveloped in houseflies.

The residents live in very small huts made of bamboo with roofs of dried palm leaves and salvaged cardboard. They have built a mosque, independently: a functional one used not for shelter but worship. Some residents have 'grocery shops' where fruits and vegetables are sold.

As the village is situated at the foot of a mud hill, heavy rains wash away their 'houses'. Unpaved streets, no electricity: survival here is a challenge indeed. A look at some of their lives tells a sad tale.

There is Sunil, entering his home with sand sifting through his toes, in broken plastic chappals. He reaches down to throw to a side a broken piece of plastic lying in the house: the remnants of a broken CD, perhaps. There is a large pile of garbage inside his house, and his wife and children are swiftly picking through it for metal scraps.

Sunil's neighbor, Vikram, and his family have the same source of income. Vikram smiles, proud that they are not beggars: he was previously tilling at a zamindar's (land owner) place but chose this life instead.

Pakistan Poverty Alleviation fund (PPAF) entered into a public-private partnership with Shell Pakistan for a self-sustained and integrated

development project to transform Goth Noor Muhammad's plight into prosperity. This project aimed at improving residents' living conditions through the provisioning of better housing, healthcare and education facilities. The program also entails social mobilization and community empowerment with formation of village committees for men and women. The project was implemented by a PPAF partner: Health and Nutrition Development Society (HANDS) and envisioned integrated housing facility, green belts, recreational areas, schools and a health care facility along with the provision of electricity, paved roads.

The project included housing reconstruction supported by indigenous technology and materials and energy efficient techniques. Each family has been allocated a plot of land. Streets were to be paved, proper sewage and drainage systems laid out. Rain water drainage will be utilized. Furthermore, electricity would be provided and parks, green belts added to the dreary landscape.

A dispensary has been set up to provide basic healthcare facilities to the residents where medicines are being provided at a nominal cost. A community healthcare system is being planned where patients can be provided with emergency health care. Traditional birth attendants called Dais will be provided with proper training to ensure safe deliveries in order to reduce maternal and infant mortality rates.

Traditional water filtration techniques were introduced at Goth Noor Muhammad. The residents now use larger pots to store water for

future consumption. Smokeless stoves were provided to the women, ensuring that they cooked food without suffering from harmful health effects.

House members have been registered and older residents have been provided with Computerized National Identity Cards (CNIC), assisted by NADRA (National Database and Registration Authority).

The issuance of CNIC's to adults over 18 has instilled a sense of pride and belonging as legal citizens of the state of Pakistan. This social and constitutional empowerment of the poor is of core importance to the development program of PPAF, HANDS and Shell Pakistan.

The residents have donated a piece of land for the construction of a school and two teachers have been identified for training in early childhood development and education. Educational facilities will be available not only to children and adults alike, in the areas of basic health and hygiene practices. The school will also serve the function of a recreational spot and promote sports in the community.

Goth Noor Muhammad's residents are being empowered through community mobilization. They have formed Community Based Organizations (CBOs) and meet every month to discuss and resolve their problems independently. Their present is better than the past and the future will certainly be brighter and clearer than ever before.



8 – Livelihood Enhancement and Protection

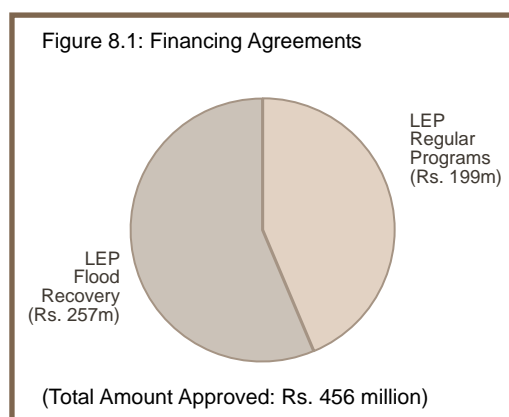
Livelihood Enhancement and Protection (LEP) unit seeks to enhance productivity of poor individuals and communities through focused interventions aimed at developing skill sets and assets for greater income generating opportunities and better livelihoods. In pursuit of these objectives, the unit encourages savings and internal lending within organized communities, while striving to introduce efficient mechanisms for identifying and supporting innovative micro-enterprises.

LEP was inducted as an operational unit under PPAF III during the current year and has been set several targets including formation and capacity building of at least 2,300 community groups, imparting livelihood trainings on 460,000 individuals and providing wage compensation and assets to 142,857 and 57,143 ultra poor households respectively.

The unit's newly inducted staff went through a comprehensive orientation process, which included several in house

capacity building sessions aimed at introducing them to various livelihood approaches and models successfully practiced in Pakistan and elsewhere.

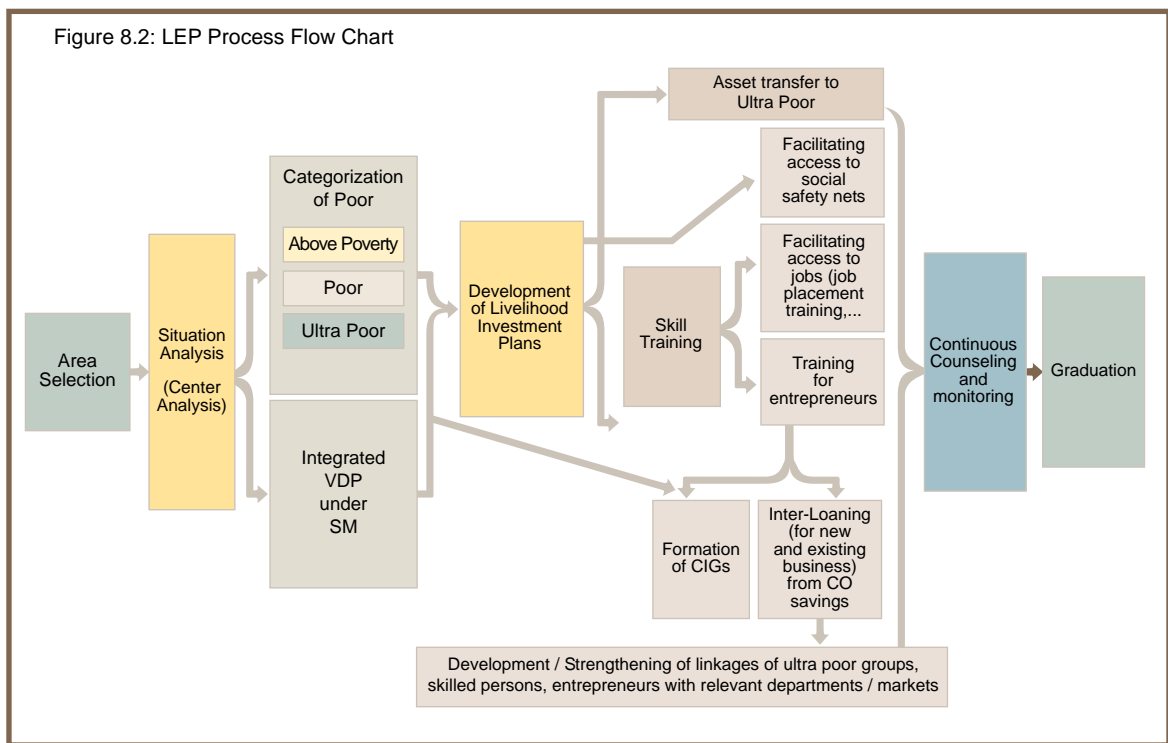
LEP is guided in its activities by a comprehensive Implementation Manual, which clearly presents methodological and operational synergies at various levels of the implementation process. The conceptual and strategic framework sets out the methodology for livelihoods enhancement in targeted areas, in addition to describing



critical links at different tiers of the community organization. The manual further delineates guidelines – procedural details, reporting requirements, PPAF’s roles and responsibilities, implementing partners and community organizations – for implementing livelihood initiatives, asset transfers, skills and vocational trainings and livelihood investment plans.

Program design requires members of community organizations to develop Livelihood Investment Plans, which will be developed with the assistance of and in coordination with PPAF’s implementing partners and community organizations. These will in turn form the basis of livelihood

loans from community organizations and possibly, commercial banks. The unit will provide grants to support asset transfers to ultra poor and vulnerable households and cover investments under the proposed Community Livelihood Fund. This fund will constitute a one-time grant to community organizations meeting standard criteria for on lending to members at interest rates sufficient to sustain the process. The proposed mechanism is expected to build sound financial management practices, saving and inter-loaning discipline, enabling the poor to become credit worthy and bankable clients for commercial banks and other financial intermediaries.



Eligibility for asset transfers to ultra poor and vulnerable will be ascertained through the national poverty score card survey and participatory appraisal methods, while the selection of asset transfer type will be strictly on basis of ability, knowledge and skills relevant to the asset proposed to be transferred.

The unit, in coordination with implementing partners will further seek to build the capacity of community organizations and their federations in key aspects of institutional development including governance structures and record keeping, while provisioning funds for meeting requisite capital expenditures and operating costs of federations. Additionally, funds would be made available for provisioning appropriate vocational and technical training to community members following rigorous needs analysis by partner organizations.

For maximizing participation of poor and vulnerable households, this program envisions to provide appropriate wage compensation in the form of training allowance for the duration of the training. Additionally, each ultra poor trainee (eligible for asset transfer) will receive a tool kit relevant to the skill/ vocation for which he/she has been trained. The above trainings will be imparted chiefly through the existing network of technical and vocational training institutes. Simultaneously, local skilled

workers and craftsmen will be trained as trainers, providing further opportunities for skill development through apprenticeship at the village level. While undertaking skills enhancement, the MIS will ensure that duplication in training and trainees does not take place.

For the efficient implementation of the program, PPAF will build on its existing MIS to include necessary information on each beneficiary including her/his photograph, localisation information and GPS reading of the house/ shelter. Such measures will improve governance, prevent duplication and reduce the possibility of fraud at different levels. Also, bio-metric devices will be used for identification and maintaining transaction records and implementing partners will be required to submit regular reports on agree formats.

During the year, LEP unit appraised seven partner organizations for livelihoods interventions. Thorough field and desk appraisals were conducted for seven partner organizations – SERVE (*DI Khan*), Thardeep Rural Development Programme (*Tharparkar*), Awami Development Organization (*Layyah*), Salik Development Foundation (*Mardan*), Human Development Foundation (*Islamabad*), Khawendoo Kor (*Peshawar*) and SOS (*Kasur*) – for Livelihood interventions. Four of these POs were approved for financing by the Board and are in the process of signing Financing Agreements.

9 – Disability Project



PPAF's disability project in earthquake affected areas was initiated with financial assistance from the World Bank and constituted part of a larger earthquake reconstruction and rehabilitation effort. Following the project's success, PPAF has been encouraged to elevate its work with People with Disabilities (PWD) and continues to perform in this regard.

Earthquake Disability Project

PPAF's earthquake disability project was unique in its structure and implementation. In addition to achieving its set targets, the disability unit successfully managed to broaden its scope of operations through incorporating new interventions in project design. The disability project aimed at identifying Persons With Functional Limitations (PWFLs) suffering from permanent or temporary physical/ mental limitations and requiring either assistive devices, home modification, or skill training to earn a living. For this purpose, a carpet survey was undertaken in 34 UCs leading to the identification of four broad categories

of functional limitations: Physical, Mental/Sensory, Visual, Hearing and Speech. The project was implemented through three of PPAF's regular partner organizations, which played a vital role in identifying PWFLs, establishing linkages with specialized organizations and undertaking social mobilization as well as in conducting needs assessment and follow-ups.

Given the project's nature and scope, PPAF involved specialized partners with known expertise in working with PWFLs including Handicap International (HI), Pakistan Institute of Prosthetic and Orthotic Sciences (PIPOS), Rising Sun Institute and Hamza Foundation in implementation of project activities. These specialized partners were instrumental in building requisite capacities at PO level, as well as that of PWFLs and their families. In addition to assisting POs in identifying the target group and conducting needs assessment, they facilitated community organizers in development of individual rehabilitation plans.

Project activities included a whole set of initiatives including medical camps, trainings, workshops and seminars. Workshops were organized for building capacity of Community Rehabilitation Workers (CRWs). Additionally, hundreds of PWFLs were enlisted in medical camps for prospective provisioning of training and assistive devices covering a range of accessories including crutches, white cans, walking frames, wheel chairs and cushions, toilet seats, tripods, orthotic and prosthetic devices, glasses, hearing aids and laryngo phones. Further, special arrangements were made for referring PWFLs with general medical problems to different hospitals at the local and national level. In all, 3,970 PWFLs were referred to different hospitals under the project.

PWFLs were also imparted useful skill and enterprise development trainings to enhance their employability and reducing their dependence on others. Additionally, seminars were arranged to raise awareness within communities with an aim to bring about a positive change in societal attitudes towards PWFLs (Table 9.1).

Workshops conducted for PO Staff helped CRWs in understanding important issues relevant to disability and project implementation. Experts from Bangladesh and India were invited to conduct workshops on CBR Model and Livelihood Opportunities. Speech Therapists trained 62 children and their parents. Similarly 52

children were guided by experts after fitting of Orthotic and Prosthetic devices. Also, recreation events were organized for CWFLs in AJK and NWFP with active involvement from a large number of CWFLs.

The survey conducted to identify PWFLs emphasized that a predominant majority of such people were illiterate and mostly confined to their homes. Keeping this in view, this project undertook the task of training primary school teachers on a focused theme of Special Needs and Inclusive Education with the view to increase literacy amongst PWFLs and promote inclusive education (Table 9.2). Similarly, a survey of local DSPs revealed the absence of an Audiometry facility in AJK, while only one relevant laboratory was reported in Abbottabad. Such facilities are crucial in reducing the risk of complete hearing

Table 9.1: Activities for the Year (Gender-wise)

Activities	Male	Female	Total Events
Workshops (PO Staff)	33	34	13
Medical Camps	3366	2980	31
Awareness Raising	-	-	93
Skill Trainings & EDT	773	971	90
Attendant-ship Training	275	255	33
Speech Therapy	-	-	4
C-ARP Children/ Amputee Rehabilitation	-	-	3
Sports Day for CWFLs	-	-	4

Table 9.2: Training Activities for the Year

Activity	Total Participants
Training on Special Needs & Inclusive Education	160 (Teachers)
Training of Audiology Equipment Utilization	4
Inclusion of PWFLs in COs	1,434

impairment. In the light of these findings, PPAF took the decision to establish two audiometry laboratories each in AJK and NWFP.

In addition to efforts aimed at facilitating PWFLs to participate in the education system, disability project tried to mainstream them through participation in community organizations as well as encouraging them to form self help groups. The *Deaf Association, Rawalakot* is one example of a local self-help group formed by individuals with hearing limitations.

The project covered approximately 24% household of 34 UCs in the earthquake affected areas and facilitated approximately 6500 beneficiaries with assistive devices and trainings.

Nationwide Disability Program

Under PPAF III, the newly formed disability unit has assumed a national scope. The program has initiated operations in 6 districts with a focus on Persons with Disabilities (PWDs). Following a comprehensive survey in selected districts, the unit plans to initiate a series of interventions including independent living trainings, home modification and business incubation.

With the aim to infuse self confidence and belief in PWDs and assist them in leading independent lives, Independent living trainings are designed to focus on minor routine activities where dependence on



others can be easily reduced. Similarly, activities under the business incubation component will seek to encourage and support existing businesses run by PWFLs. These trainings will assist existing small businesses in light of market demand. PWDs are generally impeded in accessing goods and services. Not only do structural barriers prevent their mobility by cutting off easy approach to different rooms inside the house, they regularly come across limitations outside homes at parks, hospitals, schools and markets. The home modification component is designed to deal with such issues by allowing engineers to find innovative engineering solutions to specific situational problems. At the same time, the project will engage HI to train PPAF and POs staff in carrying out structural modifications that make homes and public buildings universally accessible.

In order to mainstream PWDs as functional members of society the unit, in close

coordination with PPAF's Credit Enterprise Development (CED) unit, has launched a new product for delivering financial services in three districts of Quetta, Khairpur and Swabi under IFAD funded *Microfinance Innovative Outreach Program (MIOP)*. The initiative will provide PWDs with micro loans on same mark up as paid by non-PWDs, followed by effective business incubation and enterprise development training. The unit's efforts to further the cause of mainstreaming PWDs are also reflected in its emphasis on encouraging partner organizations to hire a percentage of their employees from amongst such individuals. As an incentive supporting PPAF's policy of making 2% PWD representation compulsory amongst PO staff, the unit has selected partners from amongst those organizations fulfilling this criterion.

As a concerted program aimed at PWDs, disability unit directly works with the most marginalized segments of society with an objective to improve their mental, emotional and material state through carefully targeted and well designed interventions. The unit meanwhile seeks to increase awareness on a subject that needs continuous reflection on an increasingly broader scale.

Case Study 9.1: Courage in the Face of Adversity

Twelve years ago, Sarfraz Hussain met a train accident while crossing the Lahore railway lines. His both legs were amputated; a consequence severe enough for a fifteen year old school boy who was living at his brother's house and searching for a job. He recalls the incident with poignant sadness: "I don't know how to express those horrible days and nights during that time."

Today, he is twenty seven years old: a pleasant, quiet man with a trimmed beard. He lives in village Bermong Khurd in UC Dhamni. Bermong Khurd is far away from the road. After the accident, he had returned here wishing to continue his education but inaccessibility got in his way. The accident had taken away his belief in himself, in life – it took him years to recover physiologically and psychologically from the trauma. He lived with nine bothers and two sisters at the time, was hospitalized for two months and after checking out and would return to get his wounds dressed for two more years.

It took him six years to recover from the accident. He began tailoring work: he was not professionally trained so he got only a few jobs and earned as little as Rs. 1000 a month. This situation persisted for another two years. Circumstances took a turn for the better when NRSP, a PPAF partner, workers approached his for a training needs assessment and found that he was inclined to enroll in a tailoring program.

As a result, Sarfraz Hussain received training in Islamabad for one month in 2008. The program was jointly run by NRSP and PPAF. Not only does he appreciate the technical expertise that it provided him with, resulting in more clients, he mentions that this training came at a time when he was experiencing great uncertainty and esteem issues regarding his career. “Community rehabilitation workers counseled us to address our issues and take action to work towards them,” he recalls.

Within three months, Sarfraz’s was changing for the better. He was ready to move to a city and join a tailoring shop – and he did it in 2009. He was actively cutting, stitching and managing for the shop’s expenses for his employer, who eventually gave him full charge of it to open up another in the same city.

His family and community rehabilitation workers took Sarfraz to a PPAF medical camp where he was taught physiotherapy exercises and referred him to an orthopedic workshop at Pakistan Prosthetic and Orthotic Sciences Bagh, working in collaboration with PPAF. He went there and received prosthetic support. Soon after, PPAF/NRSP gave him equipment – a wheelchair and walker, to enable his movement to a maximum.

Sarfraz is successfully running this business with the help of three more employees. His family is proud of him and his mother no longer worries constantly about his move to the city. The



assistive devices that he received – a wheelchair and walker have enabled him to manage his functional challenges well. He earns Rs 9000 a month and sends money back home. His ambition and confidence has grown so much that he wants training in embroidery now. He has friends and his family looks forward to getting him married.

Sarfraz Hussain says that for people with disability, architectural support and physiological aid are very important. “We can do anything,” he asserts, happy with his life.



10 –

Corporate Relations Management

The Corporate Relations Management (CRM) unit was established with an aim to diversify PPAF's funding resources by soliciting funds from national and international corporate sector organizations, international trusts and foundations for poverty focused interventions. The unit seeks to mobilize national and international corporate sector entities and leverage funds set aside for initiatives under Corporate Social Responsibility and Corporate Philanthropy programs. In pursuit of these objectives, CRM unit has established contacts with several corporate sector organizations at national and international levels.

In its capacity as the largest national wholesaler of development funds in the private sector covering 127 districts through a network of 87 grassroots organization, PPAF represents the most viable institutional framework for undertaking grassroots development initiatives in Pakistan. Corporate sector entities have been quick to respond to the unit's efforts to strike partnerships that will benefit poor through jointly implementing projects at grassroot levels.

During the year, CRM unit has signed MoUs envisioning allocations amounting to approximately Rs. 700 million with leading corporate sector organizations including Engro Corporation, Agritech Industries, Shell Pakistan, TetraPak Pakistan and Shakarganj Food Products for implementing a range of interventions in various sectors including health, education and rural infrastructure. MoUs have also been signed with Islamabad Chamber of Commerce & Industry (ICCI), Rawalpindi Chamber Of Commerce & Industry (RCCI), Rotary International Kahkashan Karachi (RI), Site Association of Industry Karachi and Karachi Chamber Of Commerce & Industry (KCCI).

During the year, CRM unit was pivotal in launching a pilot School Milk Program in 50 schools managed by PPAF's partner organization in District Rahim Yar Khan with the collaboration of TetraPak Pakistan and Shakarganj Foods Products. Tetra Pak contributed packaging material at special rates to Shakarganj Food Products Limited, which in turn supplied 200 ml packs at

discounted price. The process was also aided by other partners at various stages including JDW Sugar Mills. Under the project, 7000 school children received milk on a daily basis for six months. In addition to improving child nutrition, the project was observed to improve academic performance, increase attendance and enrollment in project schools.

CRM unit is in the process of finding new partners for project upscaling and replicating success in other geographical areas. For this purpose, PPAF organized an international conference on the School Milk Program, which was widely attended by a broad set of stakeholders and dignitaries including Federal Minister for Education, diplomats and representatives of multinational companies and donor agencies.

The conference was successful in attracting support from relevant stakeholders. Similarly, the unit has successfully facilitated negotiations between PPAF and Engro Foundation resulting in a four year partnership for the implementation of basic infrastructure, education, health and social sector services in 16 selected villages of districts Ghotki and Sukkur. PPAF and Engro has since expanded their partnership to include further interventions in Community Physical Infrastructure, Livelihood, Environment, Education, Health and Social Sector development in addition to undertaking Research/Feasibility studies. The

project area has also been expanded to include Tharparker, Sahiwal and Sheikhpura districts.

PPAF has further partnered with Pak-American Fertilizer Ltd (PAFL), part of AZGARD-9 Group to complement PPAF activities, starting with a 'School Development Program' in district Mianwali.

The program aims at improving quality of education services through a varied set of interventions including enhancing knowledge and skills of teachers, principals and management staff, enriching curriculum to promote holistic development of students, developing student morals and social wellbeing, enhancing physical learning environment of schools, providing teaching and learning materials to supplement teaching, strengthening primary sections of existing schools and ensuring parents' participation in school related decision making.

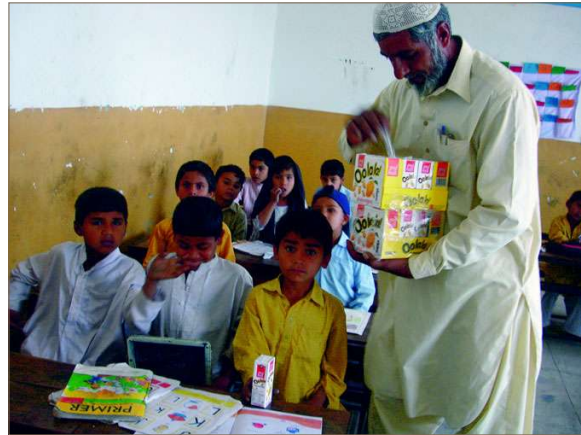
To date, the following activities have been carried out under the project:

- English language enhancement courses, capacity building sessions for parent support groups, planning sessions with teachers for developing scheme of studies;
- Leadership and management trainings for school leaders, pedagogical skills enhancement training for teachers, ECCD training for pre- primary teachers;

- Developing webpage / intranet page and library automation system for one school;
- Appointment of support teachers and other staff;
- Improvement in the physical environment of schools.

Under PPAF's *Adopt a Village* strategy, corporate sector partners are encouraged to invest in the integrated development of model villages subsuming multiple interventions in health, education, communications, sanitation, and housing sectors. During the current financial year, PPAF has successfully partnered with Shell to implement an integrated village development project in a village located in the suburbs of Karachi. Shell has agreed to provide funds for developing housing infrastructure, while PPAF will provide additional technical and financial support for a series of integrated interventions in the village.

The unit has facilitated PPAF in further enhancing its capability to achieve its social objectives through forging effective partnerships with the corporate sector. Simultaneously, it has provided the latter an effective framework for undertaking development interventions that are financially efficient and effective in improving the socio-economic status of poor communities.



Case Study 10.1: School Milk Program – Healthy Body, Healthy Mind

As the school day progresses towards 11:30 a.m. students of district Rahim Yar Khan have something to look forward to. Those students, that is, who are attending school regularly and in public institutions all over this UC. Pakistan Poverty Alleviation Fund's School Milk program is the sole reason behind this.

In early 2010, PPAF partnered with NRSP, Tetra Pak Pakistan and Shakarganj Food Products Limited to supply 200 ml milk packs worth Rs. 22 million in 50 schools across Rahim Yar Khan on a daily basis. In a country where estimates by United Nations Food and Agriculture Organization (FAO) suggest that 37.5 million individuals do not have access to proper nourishment and where 24% of Pakistanis are malnourished, this program had a multi-faceted objective. Overall children's health was of course the main one. The other was to encourage children to consume healthy products and in the longer run, attempt to increase their attendance and academic performance.

Rubina Kausar, a student at one of these schools, smiles and tells us that the milk "makes us healthier." Her fellow student, Saba Parveen, chimes in to say: "Now we drink milk which keeps us fresh all day long." Another student: their senior Nasreen, explains to them: "That's because milk energizes us with Vitamins A and D." The atmosphere is filled with a sort of hopefulness as these young girls speak to the media crew for PPAF's documentary on this program. They are confident, healthy: they are Pakistan's future.

The program's pilot phase lasted six months. It is nevertheless a pleasant surprise to hear from a class teacher, Saadia Kausar, that her students' laziness and ratio of sick leave has actually declined. Another school teacher, Munir Ahmed, says that previously his students would leave school earlier to have food at home.

The community is equally satisfied with the program's progress. Abdul Rauf, a community member, contemplates the benefits of the program for his own and other children: "What's happened is that kids are attending school more often now. Their health has improved and so has their interest in studying." Another community member and a mother, Kaneez Bibi, agrees that her children are more motivated to get to school on time now.

During the first visit to these schools, the children were weighed; their heights measured and blood tests taken after parental consent. Six months later, the same exercise was undertaken to indicate some positive changes in these indicators. The results are positive enough for PPAF to scale this program to a nationwide level. The smiles of these children as they choose from chocolate, vanilla or strawberry flavoured milk every day are certainly incentive enough.



11 – Evaluation, Research and Development

Evaluation, Research and Development (ERD) unit seeks to generate a constant stream of evidence based knowledge for continued learning and progress within PPAF and its partner organizations. The unit has successfully designed and implemented an effective monitoring and evaluation framework with an aim to regularly measure and verify program outputs against clearly set targets. Additionally, the unit is mandated to routinely collect and disseminate information to all stakeholders at national and international levels.

Reporting on the progress of all PPAF financed field operations and activities is critical for efficient and timely decision making within the organization. The design of unambiguous and attributable monitoring and evaluation indicators that are reliable and cost effective are fundamental to all assessment frameworks. As part of its routine duties, the unit collected large amounts of technical, financial and socio-economic data during the year from

partner organizations, third party evaluators and in-house assessment exercises. Following comprehensive analyses, the gathered information was disseminated through a series of ongoing and periodic reporting formats including quarterly progress reports, annual report(), case studies, thematic reports, baseline reports and impact assessment studies. In addition to this, ERD compiled bi-annual progress reports for Microfinance Innovation and Outreach Program (MIOP) and the Program for Increasing Sustainable Microfinance (PRISM). The unit played an important part in the preparation and implementation of performance indicators for the IFAD funded MIOP and PRISM projects.

With a view to further streamline the process of data collection and analysis, ERD prepared a short concept paper on an integrated MIS for PPAF, which will enable various unit level databases to be brought together for integrated and consolidated reports, better planning and implementation and

transparent sharing of information within the organization and with partner organizations. Further work on the MIS is planned for the coming year.

ERD also worked closely with World Bank to develop and further refine PPAF's MIS (Management Information System), revise and update quarterly progress reporting formats, enhance monitoring arrangements, and refine methodologies for evaluation surveys. Similarly, a mission from IFAD collaborated with the unit to develop a portal for knowledge sharing.

ERD is central to PPAF's commitment towards the implementation of an objective results based framework measuring intervention impact at the grassroots. During the year, ERD unit successfully prepared a cohort-based impact evaluation design to gauge impact of development objectives under PPAF III. A baseline survey under Cohort-I has already been conducted in the Punjab province. Additionally, PPAF III has been selected by World Bank's Development Impact Evaluation Initiative for technical assistance and joint conduct of impact evaluation exercises.

In its role as PPAF's primary reporting section, the unit drafted numerous studies on a number of well designed field surveys including baseline and impact assessment survey reports: Drought Mitigation and Preparedness Projects (DMPP) in Loralai

(Baluchistan), Soon Valley (Punjab), and Khipro (Sindh), Community Physical Infrastructure (CPI) projects in Punjab, School Milk Program and 'Mahfooz Pakistan' rural hand wash hygiene initiative conducted in collaboration with Unilever Pakistan.

During the reporting period, ERD finalized and disseminated the results of third impact survey of PPAF's microcredit beneficiaries (Gallup III). Two dissemination workshops were organized to share results of the study with partner organizations. Similarly, the unit commissioned and finalized two Results and Impact Management System (RIMS) baseline surveys for microfinance beneficiaries under the MIOP.

In addition to baseline and impact assessment survey reports for a large number of PPAF projects, the unit successfully completed a number of informative, evaluative and diagnostic case studies over the reporting period (Box 11.1).

ERD also plays a key role in building capacity of partner organizations for effective monitoring and evaluation of program activities. During the year, the unit held a workshop for MIOP partners on use of poverty scorecard and RIMS indicators, in collaboration with Credit and Enterprise Development (CED) unit.

Responsibility for implementing the poverty scorecard was transferred to the unit at year commencement. As a measure to ascertain poverty status of households for prospective distribution of financial resources, effective implementation of the scorecard is vital for better targeting of any future social safety nets programs in Pakistan. The poverty score card will be administered through credible third parties in 12 districts. The unit has made extensive preparations for holding a series of training and orientation workshops on the subject.

ERD has established strong credentials for policy relevant research on various facets of participatory development. It continues to enhance PPAF's decision making procedures through timely feedback in a



host of relevant areas including social mobilization, community infrastructure, financial services for the poor, social safety nets, livelihoods and capacity building for better monitoring and evaluation at the grassroots.

Box 11.1: Case Studies and Reports

- 'Assessing the Quality of Social Mobilization' in Litra village, District Dera Ghazi Khan
- Documentation on "Village Banking" product under MIOP
- Documentation of transaction among Kashf Foundation, Standard Chartered Bank and PPAF as part of PRISM, to promote provision of private sector finance for poverty alleviation
- Educating Pakistan's Children: Choices, Alternatives and Tradeoffs
- Cost Effective, Quality Healthcare: Unravelling the Paradox
- Client Attrition in Microfinance: Experience and Practice
- Women Weaving Wicker
- A Decade of Accomplishment: Ten Years of PPAF
- Catalyst for Change
- Input to Tenth Five Year Plan, Government of Pakistan
- Renewable Energy – Biogas
- Renewable Energy – Solar

12 – Media and Communication



Media and Communication (M&C) unit seeks to disseminate PPAF's vision through multi channels and tools of communication with an aim of engaging national and international stakeholders in private and public sectors, as well as the public at large.

Asides from accumulating support for PPAF's larger objective of poverty alleviation in the country M&C unit's efforts have also simultaneously helped influence public debate and discourse on the efficacy of participatory grassroots development paradigm as an effective mean for transforming lives of the poor and marginalized.

Print and electronic media, which constitutes the most effective means for educating and sensitizing public opinion, forms an important component of this unit's multi-faceted strategy to accessing public domain. For instance, the unit has successfully engaged public opinion through a radio program – "*Roshan Raaheini*" – that has grown in popularity

over time and attracted listenership from all over Pakistan.

This program regularly broadcasts PPAF's experience in participatory development through transmitting stories on the organization's multi-sectoral interventions from across Pakistan. Additionally, the program has routinely relayed useful information on ways in which the general public and aspiring organizations can access PPAF and its network of partner organizations. It has also played an important role in educating people on how best to organize themselves for the common good of their communities and begin to participate in the process of development.

M&C facilitates core PPAF staff to represent the organization on television channels by arranging their participation in talk shows that attract large viewership. Such occasional appearances have nonetheless had an asymmetrically large impact in terms of communicating PPAF's message

to a broader audience. Also, such efforts are complemented by more frequent instances of detailed news items and write-ups on PPAF activities in mainstream national newspapers and periodicals.

These measures and achievements need to be viewed in the context of a highly politicized public arena where political and security issues continue to dominate debate on mainstream media. Creating greater media space for participatory grassroots development also requires champions from within print and electronic media, who are deeply sensitized to its importance and validity.

For this purpose, the unit has been actively engaged in arranging immersion visits for journalists to PPAF project areas. These visits have been designed to sensitize journalists to the needs of poor communities through direct contact at the grassroots. Additionally, the visits also serve as an opportunity to test PPAF's performance by allowing journalists open access to report from the field.

M&C unit acts as PPAF's publisher. In coordination with PPAF's other units, M&C regularly publishes and disseminates a whole range of reports, case studies, brochures, manuals, flyers and fact sheets for stakeholder benefit. It also seeks to effectively compliment the work of other units within PPAF by providing media



coverage and preparing support materials for seminars, workshops and ceremonies.

Additionally, the unit has produced well researched documentaries about selected PPAF interventions in various program areas including pilot projects on Targeting Ultra Poor (TUP) and School Milk Project as well as on PPAF's work with Internally Displaced Persons (IDPs) and victims of the October 2005 earthquake.

Development of real life case studies is another focus area of the unit covering lives of individuals under various PPAF programs. To date, the unit has successfully published six case studies in coordination with different operational units. M&C staff has been actively following the progress of these men and women through numerous field visits in remote areas to collect qualitative data as a means of verifying impact of PPAF interventions within poor communities.

Through its diverse activities, Media and Communication unit has played an effective role in building long term synergies with stakeholders in print and electronic media as a means to

disseminating PPAF's vision and mission at national and international level. In its role as the organization's external face, the unit has won acclaim for PPAF and its work with poor communities in the country.

Box 12.1: Video Documentaries

The Radiant Trails

The video documents PPAF's efforts in ameliorating the lives of the poorest of the poor under its Social Safety Net-Targeting Ultra Poor (SSN-TUP) pilot project in coastal areas of Sindh.

When Hope Rekindles

The documentary narrates the story of PPAF's efforts to revitalize the lives of Internally Displaced Persons (IDPs) in seven camps across Mardan, Swabi and Peshawar following large scale migrations from the upper mountains and valleys of KpK. PPAF's timely interventions in basic infrastructure, water, sanitation, health and education, counseling and skill development played an important role in lessening impact of the crisis.

Vitality for Life

This video documentary is about PPAF's pilot school milk project under which over 6,000 school children were provided milk on daily basis in 50 schools for six months in District Rahim Yar Khan. The project has contributed to improving child nutrition as well as enrollments and attendance in project schools

From Hope to Reality

A story of Courage and Resilience: PPAF has successfully completed the largest private sector relief, reconstruction and rehabilitation operation in earthquake affected areas spanning 34 union councils in 5 districts and involving reconstruction of 122,000 housing units, 660 water supply and infrastructure schemes and 19 state-of-the-art health and education facilities. The documentary relives PPAF's struggle to deliver under testing conditions in some of the country's most remote areas.



13 –

Human Resources, Procurement and Administration

Human Resource, Procurement and Administration units provide an integrated solution to promoting operational efficiency in the management of PPAF's human and physical resources. Their role is vital in sustaining a vibrant and conducive work environment for PPAF management and support staff, as well as for facilitating routine activities including management of human resources, procurement of goods and services, provision of logistical support and the upgradation and maintenance of facilities.

The Human Resources unit is primarily responsible for recruiting new staff and building their capacities. HR ensures a high degree of transparency in all staff recruitments by strictly following standard procedures in selecting individuals with relevant knowledge, qualification and skills consistent with clearly laid out job descriptions through a competitive process. Also, the unit has put in place an effective incentive structure to optimize employee potential. In addition to providing

employees with numerous training opportunities, the unit has developed a comprehensive promotion and salary adjustment criteria with clear performance indicators judiciously applied at all levels of the management hierarchy.

During the year, HR unit provided PPAF staff with a large number of training opportunities to facilitate their professional growth, allowing them to efficiently meet job requirements. A total of 60 support and regular staff attended training sessions/courses in relevant subjects including management, monitoring and evaluation, finance and accounts, development communication, and leadership skills through prestigious training bodies such as Lahore University of Management Sciences, Amigos Management, NUST, Hamdard University, CASE, NIMS, and Pakistan Institute of Management Sciences.

Additionally, 53 staff members were sent abroad on exposure visits, training events

and conferences to various countries including Bangladesh, Sri Lanka, Netherland, India, Nepal, Kenya, and Singapore. Staff members availed training opportunities in several renowned institutions including the Amsterdam Institute of Finance, Spanish Impact, Thailand International Development, IFAD, BRAC, MDF-Netherland, Asian Media Information and Communication and Hanson wade.

Procurement unit manages the acquisition of goods and services in conformity with PPAF requirements and donor guidelines. In the procurement of services for time-bound activities, the unit follows a clearly laid out set of procedures including a well designed rating scale to obtain the best human and technical resources available. During the year, procurement unit acquired the services of 71 consulting firms and individuals for various assignments including training and capacity building, baseline and assessment studies and the Poverty Score Card surveys. The latter involved enumeration of hundreds of thousands of households spread across several districts. In addition to successfully managing the procurement of services, the unit expedited 207 cases of goods procured during this review period while strictly adhering to set procedures.

In addition to maintaining high standards in procurement procedures within PPAF, the unit utilizes its expertise to guide partner organizations in adopting prudent

procurement practices through training and monitoring of techniques and procedures.

The Administration unit is central to managing PPAF's daily activities and provides crucial technical support for the maintenance of PPAF offices and physical resources. The unit performs numerous routine activities including maintaining travel logs and attendance records, provisioning logistical support to staff on field visits and managing the successful conduct of routine meetings and conferences. During the year, Procurement unit finalized close to 1400 travel arrangements for PPAF staff including 63 foreign visits, in addition to successfully holding a large number of meetings both inside and outside PPAF premises.

PPAF's Human Resource, Administration and Procurement units have received acclaim from donor agencies and auditors for effective service delivery to all PPAF units as internal clients, while partner organizations have benefitted from their advice in terms of establishing transparent procurement and recruitment mechanisms.



14 – Internal Audit

Internal Audit (IA) unit assists PPAF management in the achievement of company objectives through ensuring compliance with existing rules, regulations and procedures. In its advisory role, the unit acts as an independent source of information on state of administrative and financial efficiency within PPAF and its POs. This is achieved through timely reviews encompassing a wide range of audit categories including among others, the reliability of financial reporting, verification of procured assets and adherence with standard operating procedures pertaining to disclosure and transparency.

The existence of effective systems for risk management and internal control are necessary conditions for steady institutional growth. Within PPAF, Internal Audit unit is entrusted with the important responsibility of ensuring compliance with laid out rules and procedures, while simultaneously seeking to analyze and redress gaps through carefully planned reviews of all operational and support units.

During the year, comprehensive reviews of all operational units – Credit and Enterprise development (CED), Community and Physical Infrastructure (CPI), Water Management Centre (WMC), Social Mobilization (SM), Health and Education (H&E) and Human and Institutional Development (HID) – were conducted to measure compliance against agreed rules and procedures. Similarly, support units – Evaluation, Research and Development (ERD) unit and Human Resource, Procurement and Administration units – were also subjected to quarterly reviews incorporating, among other things, a scrutiny of existing fixed assets management systems, documentation, as well as adherence to procedural and policy standards.

The presence of provisioned physical assets was verified for all units, while needs in procedural and record keeping arrangements were identified and suggestions were put forward for redressal. Since PPAF's success is inextricably linked

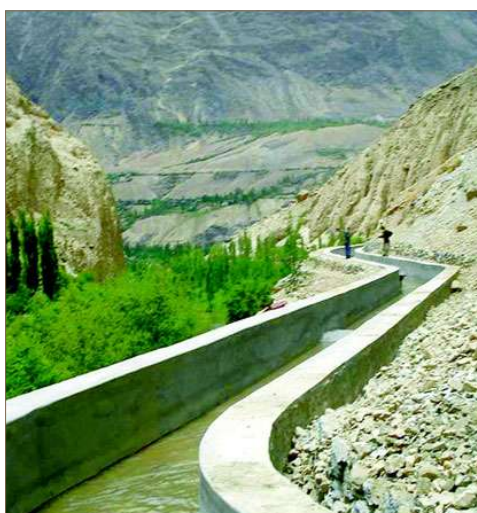
to the performance of its implementing partners, the unit carefully plans an annual schedule for auditing a maximum number of partner organizations. During the year, IA carried out reviews of 45 POs accounting for 98% of PPAF's portfolio. In each case, the unit focused on verifying adequacy of organizational governance, compliance with financing agreements and reliability of financial reporting, as well as confirming the presence of necessary risk management systems for effective operations at the grassroots. In addition to conducting regular audits of POs, the unit further provides them with necessary support in building efficient risk management systems for continued growth.

The unit reports to the audit committee of the Board of Directors. The committee is mandated to approve the unit's annual plan, which is obliged to regularly present its performance for committee review. During the year, the committee held three meetings to review unit performance against set targets. In view of the importance of the committee's role, its membership was increased to five members in the current financial year.

During the reporting period, IA unit successfully submitted 35 in-house audit reports to the Chief Executive Officer, 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.

The unit continues to act as an independent source of information with complete freedom in the exercise of its responsibilities. While critically assessing the degree of compliance and transparency within PPAF and its POs, the unit has played an effective role in strengthening institutions for effectively delivering the fruits of participatory development to poor communities.



15 – Finance and Accounts

As a custodian of public funds, PPAF is conscious of the need for prudent and appropriate financial control and management. In pursuit of this objective, the Finance and Accounts (F&A) unit is mandated to execute and record all financial transactions in a systematic and transparent manner. In the conduct of its routine business, Finance & Accounts strives to maintain the highest standards of financial management, while strictly following standard operating procedures laid out in PPAF's comprehensive and highly standardized Operational Manual.

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

As part of its responsibilities, F&A works closely with operational and support units to facilitate funding and ensure adherence to stipulated processes. Its activities are carried out in an automated computerized environment through customized software adapted to PPAF requirements, while all work processes and procedures are attuned to a comprehensive manual for financial management developed specifically for the unit. Similarly, books of accounts are kept in accordance with statutory requirements and agreements with GoP and donors.

The F&A unit has implemented a system of accounting control which is sound in design and has effectively been implemented and monitored, with an ongoing effort to improve it further. Accounting controls comprise of plans, procedures and records that are concerned with safeguarding assets as well as checking accuracy and reliability of financial data, promoting operational efficiency and encouraging adherence to prescribed managerial policies. The system provides

assurance that transactions are executed in accordance with management authorization and record keeping is done in a way to permit preparation of financial statements in conformity with generally accepted accounting principles.

F&A's Standard Operating Procedures Manual (SOPM) documents in detail the internal control framework and accounting policies and procedures. The use of work flows and an authorization matrix provide for effective segregation of duties while job descriptions for all approved unit positions form part of the SOPM. The financial management system has been set-up to handle extensive reporting requirements in a flexible manner. Since PPAF's existing portfolio consists of multi-donor funded projects, its Management Information System is equipped to handle a multitude of donor specific reporting requirements.

Transparency of financial information for different stakeholders is a prime consideration of the unit. In order to ensure this, F & A has put in place an accurate and reliable financial and other reporting framework, effective internal control principles including risk management, setting of targets, planning and monitoring of company operations and performance under direct and indirect supervision through delegated authorities. The SOPM lists internal and external reports prepared by the F&A unit. Mechanisms are in place to ensure that the reporting requirements

related to all donor funded projects and regulatory agencies are met and checklists are used to monitor compliance.

F&A Unit uses an SQL-based financial management information system. It comprises of integrated modules for General Ledger, Fixed Assets and Payroll. The system is regularly updated and has been functioning effectively for maintenance of comprehensive books of account. PPAF is using a detailed chart of accounts. Sufficient data is captured to enable all external and internal reporting requirements to be met in a timely fashion. In addition, two stand-alone modules are also in use to monitor loan and grant based operations. These modules produce a number of reports allowing analysis and monitoring of the micro-credit portfolio as well as grant interventions. Mark-up schedules of POs are system generated ensuring accuracy and completeness.

The F&A Unit consciously strives to encourage and facilitate all processes and procedures aimed at strengthening the level of accountability within the organization. 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.

At the same time, F&A unit is particularly mindful of maintaining transparency and prompt handling of reporting requirements at all times and at all levels. These principles are applied for both internal reporting in the form of monthly financial updates, and external reports important to stakeholders in the form of quarterly, half yearly and nine monthly un-audited financial statements, Management Reviews, annual audited financial statements and the Directors' Report.

PPAF operations for the year ended June 30, 2010 were audited by its external auditors the M/s A. F. Ferguson & Co., Chartered Accountants. In the latter's unqualified opinion, PPAF's financial business was being conducted in accordance with approved accounting standards as applicable in Pakistan and according to the requirements of Companies Ordinance 1984, while management developed financial statements presented a true and fair view of the company's affairs. These opinions were based on the inspection and review of company records and details of 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, 2010; b) KfW Project for the half year ended December 31, 2009 and June 30, 2010. The above financial statements

were audited by external auditors. In conformity with best practices, quarterly, half yearly and nine monthly condensed interim un-audited financial statements along with management reviews were also prepared.

Subsequently, the annual audited financial statements along with Directors' Report and donor specific audited financial statements and interim un-audited financial statements were submitted to the Audit Committee of the Board for review. On the recommendations of the Committee, the Board of Directors and General Body approved these financial statements along with the Directors' Report and Management Reviews. The General Body approved the audited financial statements of the company for the financial year ended June 30, 2010 together with Auditors' and Directors' Reports within four months of the financial year. Annual audited financial statements along with Directors' Report, as well as quarterly and half yearly un-audited financial statements and Management Reviews are published and circulated to stakeholders. These statements are also made available on the PPAF website.

Disbursements to PPAF under the World Bank 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 donors and found to be eligible for reimbursement or replenishment.

Similarly, all information and data submitted were in compliance with disclosure requirements and formats. The findings of the WB Supervision Mission are testimony to robustness and efficacy of PPAF's Financial Management system as well as to the unit's strict adherence to all procedures, processes and requirements (Box 13.1). During the reporting period, F&A played a critical role in effectively operationalizing World Bank financed US\$ 250 million PPAF III project effective on July 09, 2009 in a record time of one month. After the signing of this agreement as well as opening of US\$ Special bank account for the project. The unit was involved in review of legal and financing agreements for EUR 32 million KfW (Development Bank of Germany) Project for 'Livelihood Support and Promotion of Small Community Infrastructure'. Thereafter, financing agreements were signed between Government of Pakistan, KfW and PPAF in June 2010.

F&A Unit also actively participated in negotiations for EUR 40 million Italian Government project on "Poverty Reduction through Development Activities" to be implemented in Balochistan, Khyber-Pakhtunkwa and Federally Administered



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

On the request of USAID Pakistan, M/s KPMG Taseer Hadi and Co., Chartered Accountants, carried out pre-award assessment of PPAF in October 2009. They reviewed and evaluated the managerial capacity and internal control systems of PPAF and also visited selected PPAF Partner Organizations and their communities. They also held meetings with World Bank team and discussed progress of WB as well as IFAD's MIOP and REACH projects that are being supervised by WB.

Based on their extensive review and evaluation, M/s KPMG Taseer Hadi and Co.,

Chartered Accountants, concluded that PPAF capacities and procedures fully satisfy minimum requirements and are sufficient for USAID/Pakistan's purposes. Overall assessment of PPAF was Low Risk. The assessment of legal and finance related function was as follows:

- Legal status and regulatory compliance
Low Risk (exceeds the minimum requirements)
- Sustainability and funding
Low Risk (exceeds the minimum requirements)
- Accounting and finance
Low Risk (exceeds the minimum requirements)
- Audit Arrangements
Low Risk (fully satisfy minimum requirements)
- Financial statements
Low Risk (exceeds the minimum requirements)

During the reporting year, the unit continued to actively participate in monitoring of financial flows to POs, ensuring complete adherence to all legal covenants and also ensured swift receipt of audited financial statements from all POs within six months of financial year close, in addition to submission of management letters issued by their respective external auditors. These were subsequently reviewed and necessary actions were taken accordingly. Not only has the above steps infused financial discipline within POs, the unit's consistent emphasis on the submission of periodic statements of expenditures and all necessary documents in support of grant related

expenditure has further prompted POs to maintain proper financial and operational records.

Simultaneously, it continued to conduct regular field visits to review financial management systems of POs and suggest improvements wherever weaknesses and constraints were observed. Realizing the importance of its contributions in the development of POs, the unit plans to continue efforts in strengthening the latter's systems and procedures, with particular focus on small and medium organizations.

During the year, the head of F & A Unit continued to fulfill his responsibilities as Company Secretary by ensuring full compliance with mandatory secretarial responsibilities as envisaged by the Companies Ordinance, 1984. Additionally, PPAF complies with the best practices as set out in the code of corporate governance. Adequate records evidencing statutory meetings and other formal requirements were thoroughly maintained, while reports to the Securities and Exchange Commission of Pakistan were submitted well in time.

F&A unit remains fully committed to international best practices in management of its affairs and responsibilities as is reflected in all its activities, systems, and procedures. While resolutely committed to continually build on its strengths, the unit will strive for further innovations to strengthen its financial management and

procedural efficiency in the next financial year. Thus far, it has achieved its results thanks to its well-coordinated operational structure and clearly defined spheres of responsibility, equitably distributed amongst a qualified and dedicated staff. The latter have successfully maintained high standards

in the effective management of funds and timely dissemination of information: with the aid of their aggregate competence and skills, F & A Unit looks forward to achieving similar standards of professional excellence in the future.

Box 15.1: Findings of the World Bank Supervision Mission

“The financial reporting requirements are promptly and satisfactorily fulfilled. Both the Finance & Accounts Unit (F&A) and Internal Audit Department (IAD) are adequately staffed. The IAD is successfully executing a comprehensive work plan. Audit Committee is meeting regularly. The PO monitoring system is functional. 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. The financial Management rating for World Bank and IFAD funded projects being implemented by PPAF remains satisfactory and the overall risk rating Low”.

16 –

Directors’ Report

The Board of Directors of Pakistan Poverty Alleviation Fund (PPAF) is pleased to present the tenth Annual Report along with audited financial statements of the Company for the year ended June 30, 2010.

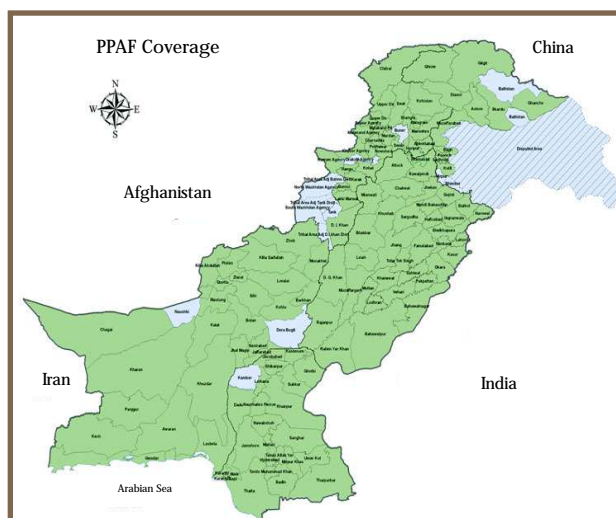
The year 2009-10 was yet another year of sustained progress as the Company made steady advancement in pursuit of its objectives of poverty alleviation. Despite national challenges of growth and development, Company’s performance witnessed positive trends with results consolidating a strong financial position. PPAF interventions continued to make a qualitative difference in the lives of poor people across Pakistan. The needs of the poor were served by following an integrated approach focusing on social mobilization followed by credit, infrastructure, health, education, and skill development. This approach helped in addressing the many facets of poverty and worked towards reducing vulnerability, especially for women. In addition, it also contributed significantly in rebuilding lives, fostering resilience and

restoring assets of those poor who had suffered from natural disasters. 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.

Over the last decade, PPAF has emerged as the largest initiative in the country for wholesaling development support to civil society organizations and is the lead agency for poverty reduction and grass root development. As an apex, it has positioned itself as a professional and credible institution with a strong and efficient corporate culture. The partner organizations perceive PPAF as a catalyst which has led to exponential growth in the microfinance sector, enabled a more integrated approach to rural development and allowed a long-term perspective to social mobilization and community empowerment. PPAF has transformed them from a charity driven

organization, dependent on donor financing, to the one with clear business plans for becoming sustainable development partners. PPAF is thus helping to demonstrate how the double bottom line can be achieved for sustained poverty reduction effort. It has effectively enhanced retail capacity in the country where the poor have had very limited access to resources and has raised the standards of civil society sector to higher levels effectiveness in terms of social responsibility, financial discipline and institutional management.

PPAF uses its interventions as an opportunity to respond to government programs and national priorities. This includes working with the internally displaced people resulting from the security operations in the border areas, strategic engagement with Government of Pakistan at various levels. PPAF is also engaged with Government in the national policy and institutional framework. It is a lead advisor to the Ministry of Finance in terms of the national microfinance strategy and has also worked pro-actively with the State Bank of Pakistan in drafting the Microfinance Ordinance and Prudential Regulations for Microfinance Banks. In addition, it is member of Special Committee/Task force of Planning Commission, partner of Earthquake Reconstruction and Rehabilitation Authority and Member of Poverty Reduction Strategy Paper.



These linkages allow PPAF to effectively leverage its own resources and pursue convergence of programs at the community and household level.

By the end of June 2010, PPAF funding had been disbursed in urban and rural areas of 127 districts of the country (to about 200,000 community organizations / groups) through 87 partner organizations of which 12 were focusing exclusively on women. On cumulative basis, PPAF financed 3,600,000 microcredit loans, of which 1,700,000 were to women. 21,000 infrastructure projects were initiated and 445,000 staff and community members were trained. In earthquake affected areas, PPAF provided financing to 122,000 households to build earthquake resistant homes and, in addition, provided training to over 108,000 individuals in seismic construction and related skills.

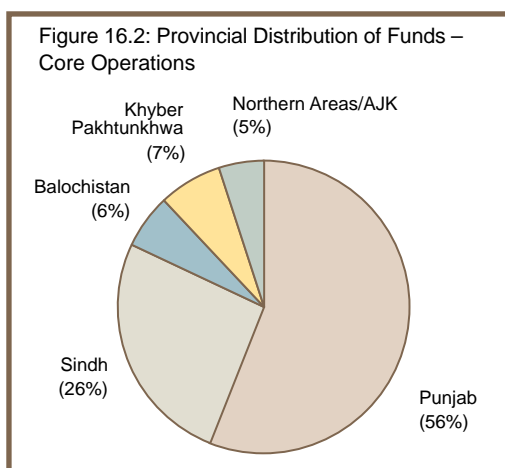
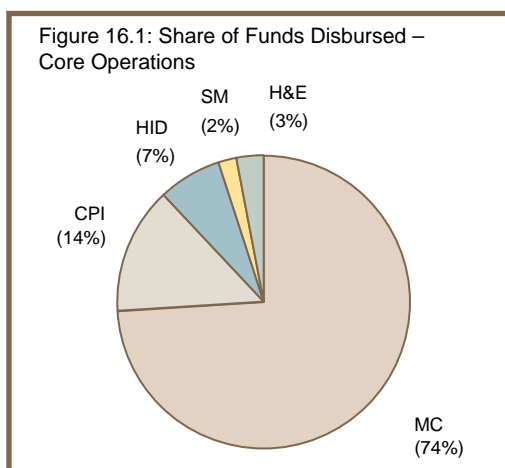
PPAF financial and non-financial services are estimated to have, on a cumulative basis, benefited (directly or indirectly) over 23 million individuals from its credit programme and over 13 million individuals from infrastructure, health and education interventions, across the country. The benefits of PPAF interventions have been observed to be well distributed across all regions of the country.

Operational and Financial Overview

During the year under review, the Company exhibited impressive growth. The operational results achieved during the year allowed the Company to maintain strong financial position which is a key to its sustainability. PPAF maintained steady progress in all aspects of its operations.

Total disbursements for core operations during the year were Rs 13,398 million as compared to Rs. 9,083 million in FY 2009, indicating an increase of 48%. Disbursements of loan (microcredit and enterprise development facilities) were Rs 9,048 million as compared to Rs 6,949 million; water and infrastructure were Rs 1,800 million as compared to Rs 979 million; capacity building were Rs 463 million against Rs 370 million; social mobilization were Rs 999 million as against Rs 712 million, and education and health were Rs 1,088 million as against Rs 73 million during the preceding year [Fig.16.2].

	Rs. million		%
	2010	2009	Variance
Credit and Enterprise	9,048	6,949	+ 30
Water and Infrastructure	1,800	979	+ 84
Capacity Building	463	370	+ 25
Social Mobilization	999	712	+ 40
Health and Education	1,088	73	+ 1,390
Total	13,398	9,083	+ 48



During the year disbursement for relief, rehabilitation and reconstruction operations in earthquake affected areas was Rs 448 million as against Rs 5,671 million in the preceding year.

By the end of FY 2010, cumulative disbursements for core operations stood at Rs 56,442 million. Credit and enterprise development, the largest component of PPAF, accounted for 74% of cumulative disbursements followed by community physical infrastructure (14%); capacity building assistance (7%); health & education (3%); and social mobilization grants had a share of 2% [Fig.16.3]. In addition, cumulative disbursements for relief, rehabilitation and reconstruction activities were Rs 19,364 million.

PPAF resources and funds have been deployed equitably across urban/rural settlements, provinces, regions and areas. About 56% of the resources have been deployed in Punjab; 26% in Sindh; 7% in Kyber Pakhtunkhwa; 6% Balochistan; and 5% in Northern Areas/AJK (Fig.6.3).

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 was repaid to the Government of Pakistan.

Having utilized the World Bank funds allocated for microcredit component under second project, PPAF is now meeting its obligations through its own reserves built up from repayments received from partner organizations. As of June 30, 2010, PPAF had disbursed Rs 29,320 million as loan from these resources.

Total assets of the Company on June 30, 2010 stood at Rs 23,629 million against Rs 18,509 million as at June 30, 2009. Amount of loans receivable from partner organizations as on June 30, 2010 were Rs 11,202 million as against Rs 9,696 million as at June 30, 2009. PPAF continued to maintain 100% recovery rate in respect of its lending operations. In order to mitigate and manage risk as well as provide sufficient capital adequacy, with effect from July 01, 2009, an amount equivalent to 20% of total loan receivable from partner organizations are being held in investments.

35% of the surplus funds of the Company, in excess of these investments, are being held for lending activities (micro credit and enterprise development facility) and the balance 65% are held in investments, the income of which would be used for grant based health, education, infrastructure, emergency and any other activity that falls within the overall strategic purview of PPAF objectives.

The trend of consistent growth in income continued this year also. Total income

generated during the year increased by 23% to Rs 2,061 million from Rs 1,669 million in FY 2009. The service charges (profit) on loan to partner organizations increased by 29% due to high volume of amount of credit outstanding and introduction of market based rates for large partner organizations. Overall income on investments and saving accounts increased by 13% due to increase in level of investments and reserve. This includes net income of Rs 161 million that was generated on investments specific to grant based activities. During the year, capacity building grant increased by 55% due to the availability of financing from Government of Pakistan and donor agencies for PPAF operational support [Fig.16.5].

In order to support enhanced operational activities, general and administrative expenses for the year increased by 31%. However, the ratio of general and administrative expenses to total income was 17% (2009: 16%). The main increases were in salaries/benefits and travel expenses. The salaries, wages and other benefits increased due to annual increments to existing employees to provide relief against higher cost of living and recognition of their work performance; as well as hiring of additional staff for managing expansion in core operations and new activities under different projects. Local travel expense increased due to extensive appraisal and monitoring visits

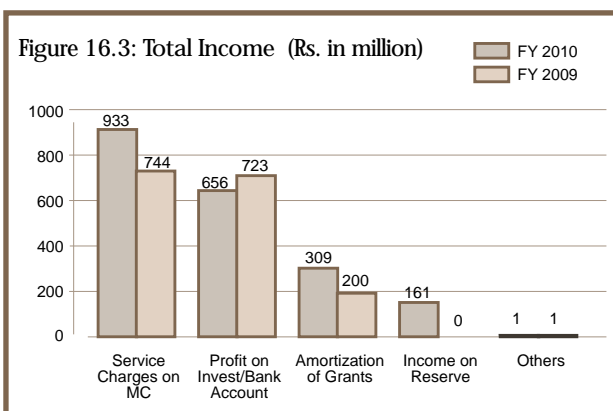


Table 16.4: Financial Results

	(Rs. million)	
	2010	2009
Service charges on loans	934	745
Amortization of deferred grant	309	200
Income on investments/saving accounts	656	732
Income on grant fund	161	-
Other income	1	1
Total income	2,061	1,669
General and administrative expenses	358	274
Seminar, workshops and trainings	47	10
Consultancy charges	176	38
Loan loss provision	76	236
Financial charges	75	81
Total expenditure	732	639
Surplus for the year	1,329	1,030

in view of high cumulative disbursements and enhanced activities. Seminar, workshops and training expenses of Rs 47 million included Rs 2.31 million spent on the workshop to launch World Bank PPAF III project and Rs 15.84 million incurred on the event to mark ten years of PPAF operations. Total consultancy charges of Rs 176 million included Rs 118 million in respect of poverty scorecard survey that has been made mandatory by the donors for subsequent disbursement of funds for operational activities.

The general loan loss provision was made at 5% of the gross outstanding balances of loans to partner organizations. In addition, specific provision for loan losses was also made against loans which were considered doubtful.

The financial charges include commitment and service charges on long term loan and bank charges. Net surplus of Rs 1,329 million improved by 29% as compared to 2009 (Rs 1,030 million).

PPAF commemorated ten years of its operations in August 2009. The Chief Guest on the occasion, Mr. Shaukat Tarin, Minister of Finance, Revenue, Economic Affairs and Statistics, lauded the role of PPAF in poverty alleviation and paid rich tributes to its work. The Chairman and Members of PPAF General Body and Board of Directors as well as delegates from multilateral,

bilateral and private institutions; partner organizations; and representatives from leading civil society organizations, corporate and public sectors attended the events. The high points of the ceremony were a cultural exhibition and a thought provoking theatrical performance by representatives of community organizations highlighting the dynamics of poverty and social change.

The event was followed by the workshop to launch the third PPAF Project. Mr. Humayun Aziz Kurd, Minister for Livestock and Dairy Development inaugurated the workshop. The project involves total World Bank funding of US\$ 250 million (loan US\$ 33 million and grant US\$ 217 million) over a period of five years. The objective of the proposed project is to empower the poor with increased incomes, improved productive capacity and access to services to achieve sustainable livelihood.

Sectoral and Programme Overview

PPAF is the largest provider of financial and technical assistance to the private sector development organizations all over Pakistan. Its core activities include debt financing for microcredit/enterprise development and grant financing for small scale infrastructure, water, health, education, training and social mobilization as well as for human and institutional capacity building for delivery of services. Apart from these core activities, PPAF works with communities suffering from natural calamities and disasters such

as earthquakes, droughts, cyclones and floods and also responds to special needs of various groups of poor. There is an increased emphasis to ensure that livelihood services are designed to cater to the needs of sub-groups of poor through integrated approaches to infrastructure, social services and credit provision.

As an apex organization, the role of PPAF is to act as a wholesale intermediary and sector developer, while its partner organizations undertake implementation of projects at the retail level. PPAF adopts a participatory development model with a holistic approach using social mobilization, skill development and capital accumulation as guiding principles.

The model is community based and involves formation of groups at the grass roots. It focuses on social organization, creates awareness and builds capacity. Under the model, communities organize themselves for establishing new groups and also to consolidate existing ones. The approach is demand driven based on projects identified by the communities.

Responsibility for operations and maintenance also falls on these groups. PPAF selects partner organizations that have demonstrated commitment to community driven development. Potential partner organizations are required to undergo a rigorous selection process with both desk and field appraisals. Compliance with

implementation plans and adherence to contractual obligations is mandatory. Partner organizations that meet PPAF's eligibility criteria have well established outreach programs and track records of poverty reduction.

One of the key challenges facing any poverty alleviation effort is the provision of financial services to poor households at the lower end of the poverty scale. In Pakistan, the challenge is met by PPAF which provides financial services at the grassroots/retail levels and invests in and capacitates civil society organizations to develop into effective providers of microfinance services in the country.

These efforts have been so successful that Pakistan is now internationally recognized as the emerging market for microfinance ranked in the top quartile globally and has sustained healthy rates of growth and outreach. Repayments have been strong and portfolio quality has remained high. As the largest source of microfinance in the country, PPAF has been instrumental in driving the sector in Pakistan with a current market share of almost 40%. Its partner organizations account for bulk of the current retail outreach in the sector.

PPAF has helped in building physical, financial and human capital. It continues to develop and implement innovative strategies to enable sustainable delivery of financial resources at the grassroots. Among

the strategies are offering attractive terms to commercial sector entities for long term investments in the sector, promoting innovative models of outreach and delivery of financial services to the poor, building capacities of promising new partners, and preparing current partners to excel in an increasingly competitive market.

The water and infrastructure interventions have proven to be one of the most productive investments providing high economic returns. Interventions in sanitation and drinking water supply and communications sectors have improved the quality of life especially in the isolated rural communities.

PPAF is now progressively moving towards a more holistic approach based on the simultaneous development of logically interlinked schemes in the same project area so as to address the many facets of poverty. The new initiatives are aimed at integrated development; dissemination of low cost, appropriate, innovative and emerging technologies such as micro/mini-hydro projects, windmills and solar projects; and toward reducing poverty in drought areas through focus on mitigation and preparedness projects.

For instance, the drought mitigation and preparedness program covers large drought affected/water deficient areas with each project spanning over one to three union councils and comprising approximately a

hundred infrastructure sub-projects on the average. Similarly, the Sindh Coastal Areas Development program takes this integrated approach one step forward by complementing infrastructure interventions with appropriately sequenced interventions in healthcare, education, livelihood support and conditional cash transfers followed by provision of financial services.

Additionally, Integrated Water Efficient Irrigation projects are implemented at the village level for better management of community water resources by combining three sequential interventions including sprinkler/drip irrigation, water channels, water course lining, and conduits. The poorest segments living in isolated tracts and backward rural areas are the main beneficiaries of PPAF's infrastructure interventions.

PPAF pursues an inclusive development strategy prioritizing community needs within an inclusive framework of community mobilization under which it seeks to mainstream the poor, vulnerable and the marginalized into the overall development process, sensitivity to suit the peculiarities of socio-cultural environment, terrain and type of intervention.

Through effective social mobilization at the grassroots level, poor people have found a strong voice in affairs that directly concern them. Programs for special target groups

of the vulnerable, destitute and disabled have rekindled hopes and recuperated lost energies that cannot be captured effectively by neatly crafted quantitative measure alone. Similarly, the degree of empowerment associated with greater decision making power at the household level for female clientele of PPAF loans cannot be captured merely through quantitative measures alone. Social mobilization has helped create peace and harmony among communities by promoting inclusion, equity, and accountability. These achievements have long term implications for meaningful change in the living standards at the grassroots.

PPAF continues to invest substantially in building capacities for sustainable service delivery through focused programs for participating communities and their organizations. These efforts are designed to remove supply and demand side constraints emanating from a lack of adequate human and institutional absorption capacity at the grassroots. In addition to providing funds for meeting recurring and non recurring costs of delivery of civil society organizations, financial allocations are made for building human capital of participating communities and staff of partner organizations.

Appropriately identified quality training to staff and beneficiary communities is provided covering a diverse set of interdisciplinary modules and formats.

PPAF's social sector development interventions (health and education) are part of an integrated and holistic poverty focused strategy for affecting meaningful change at the grassroots, which have expanded manifold over the last few years. While new facilities continue to be established in relatively less developed rural areas, many underperforming institutions have been revitalized in terms of staff and facilities following their adoption from the public sector.

PPAF supported interventions prioritize strict quality control, long term sustainability and durable linkages with communities. Quality of service delivery is ensured through regular training, provision of modern technologies and a rigorous monitoring and feedback framework. The latter involves substantial community input through health and education management committees, which are mandated to function in a supervisory role and hold the administration of these institutions accountable to standards of service delivery.

Under PPAF III, a new component on sustainable livelihoods has been included to recognize the importance of relief and job creation in the current scenario. The approach under this component involves group level savings and internal lending; formation of Common Interest Groups that are supported by partner organizations to engage in a wider range of opportunities, through development of their existing

livelihood activities and assets; value chain analysis to identify inefficiencies and knowledge gaps; and the provision of technical knowledge that can enhance their access and participation in local markets. The component also funds asset transfers to the poorest as well as grants to community organization and member common interest groups for livelihood specific activities. PPAF will use objective measures to target those poor and ultra poor that need assistance in increasing their incomes and productivity.

PPAF successfully completed its operations in the earthquake affected areas with distinction and a level of professionalism acknowledged by all stakeholders. The success has reinforced PPAF's stature as an efficient institution of emergency response for disadvantaged and isolated communities.

Although PPAF and its partners had prior experience of working in areas hit by natural calamities like droughts and floods, their human resources and institutional capacities had never been tested as seriously as in the aftermath of the October 2005 earthquake. Never before had civil society organizations accomplished a project so complex in scope in extremely difficult terrain and within a very tight timeframe. It turned out to be a unique learning experience, capacitating grassroots organizations and field staff with invaluable human and institutional skills in dealing with adverse circumstances.

In order to ensure that all PPAF supported interventions take place in a socially inclusive and environmental friendly manner, PPAF has in place an environmental and social management framework. A fully dedicated group of professionals is responsible for regular dissemination of the framework among all its partner organizations. The group is also responsible for ensuring compliance with stringent social and environmental safeguards by all partner organizations through regular monitoring and periodic environmental and social audits. Task of the group is facilitated by a specifically constituted PPAF Panel on Social and Environmental Management.

PPAF is developing linkages with private and corporate sector with the aim to work jointly for establishing social sector partnerships to fighting poverty in the country. By involving business and corporate sectors, PPAF plans to further increase its country wide activities through bilateral relationships. This would enable the poor to access, and benefit from wider private sector markets and opportunities for value addition.

PPAF in collaboration with Tetra Pak, Shakarganj Foods and National Rural Support Programme executed a pilot 'School Milk Program' under which some 6,000 poor school children were being provided milk on daily basis in more than 40 schools of district Rahimyar Khan

(Punjab). The idea being to make milk available to school children free of cost on a daily basis with the aim of improving their mental and physical growth, enhance school enrollment and attendance as well as educational performance.

PPAF and Engro Foundation formed an alliance to complement each other's efforts/activities and jointly fund a Rs. 250 million project for provision of water, basic infrastructure, education, health and social sector services as identified by local stakeholders in districts Ghotki and Sukkur of Sindh province over a four year period commencing January 2010.

Risk Management Policies

The Company uses a structured approach in identifying, assessing and controlling risks to support better decision making for effective and efficient use of resources. The Company has exposure to the following risks:

Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted. The Company's credit risk is primarily attributable to loans to partner organizations; investments and bank balances. Credit risk on loans is controlled through extensive credit appraisals of partner organizations, assessing their creditworthiness, requiring compulsory

savings from borrowers and creating lien on the assets of partner organizations. The credit risk on investments and bank balances is limited because the counter parties are banks/financial institutions with high credit ratings; and Government of Pakistan.

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\$ 3,878.

Interest / mark-up rate risk

The interest/mark-up rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest/mark-up rates. The Company is not exposed to this risk as all its interest bearing financial assets and liabilities are at fixed interest/mark-up rates.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to ensure availability of adequate amount of funding to meet the commitments. The Company maintains flexibility in funding and follows an effective cash management and planning policy to ensure availability of adequate funds to

meet its financial commitments in time. Moreover, the Company's financial position is satisfactory and it does not have any liquidity problems.

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 amortized cost.

Treasury Management

The Company follows a pro-active approach of managing its cash and liquidity whereby cash inflows and outflows are projected on regular basis. Repayments of all long term and short term loans due in 2010 and/or onwards have been accounted for. Working capital requirements have been planned to be financed through internal cash generations. Excess cash is invested and the investment portfolio of the Company is fairly diversified. Investment of surplus funds are made after thorough financial evaluation. At present, the Company sees no immediate pressure on its short term and long term financing needs. There are sufficient reserves with the banks to meet any contingency in liquidity.

Reporting and Disclosure

Transparency of information for stakeholders is a prime consideration. This means accuracy and reliability of financial and

other reporting framework, effective internal control principles including risk management, planning and monitoring of Company operations and performance under direct and indirect supervision through delegated authorities.

The Management places high priority on 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 in line with statutory requirements, the Company also prepares separate financial statements for different donors' projects which are duly audited by its external auditors.

The annual audited financial statements alongwith Directors' Report as well as quarterly and half yearly un-audited financial statements alongwith Management Reviews are published and circulated to stakeholders. These statements are also made available on the Company website.

Board of Directors

Structure of the Board

The present Board comprises of eleven Members including the Chairman and the Chief Executive/Managing Director of the Company with distinct responsibilities. The Chief Executive/Managing Director is the only Executive Member on the Board while all other Members including the Chairman represent the non-executive directorship of

the Company. Of eleven Board Members, three were nominated by the Government; seven elected by the General Body; and the Chief Executive/Managing Director appointed by the Board.

Responsibilities of the Board

The Board acknowledges the significance of efficient discharge of duties imposed by corporate law and stands firmly committed in its objective to add value through effective participation and contribution towards achievement of Company's objectives. The Board further recognizes its responsibilities for protection and efficient utilization of Company resources for business objectives and compliance with laws and regulations at all levels. A formal schedule of responsibilities has been specifically ordained for the Board by virtue of provisions of the Articles of Association of the Company, the Companies Ordinance 1984, the Code of Corporate Governance and other applicable regulations.

The Board has devised formal policies related to operational policies and procedures, procurement of goods and services; loan loss provisioning; loans and advances; investment of funds; delegation of financial powers; human resource management including performance evaluation of Management etc.

As part of its duties, the Board reviews and approves operational policies and procedures; projects of different donors

and sponsors; minutes of Board Committee meetings, financial assistance for partner organizations; quarterly progress; annual work plans, targets and budgets; un-audited financial statements along with Management Reviews; audited financial statements along with Directors' and Auditors' Reports.

Meetings of the Board

The Board held five meetings during the year. The minutes of meetings were appropriately recorded and circulated within ten days thereof.

The quorum for meetings stipulated by the Articles of Association provides for four Directors. The Directors did not have any interest in contracts involving the Company. The Chief Financial Officer/Company Secretary attended the meetings of the Board in the capacity of non director without voting entitlements as required by the Code of Corporate Governance.

Appointment of Directors:

All Members of the Board, except Government nominees, are appointed for a term of three years on completion of which they are eligible for re-election under the Articles of Association of the Company through a formal election process. However, no Member of the Board of Directors shall serve for more than two consecutive terms of three years each. Consent to act as Director is obtained from each Director prior to election. They are not involved in

external audit or have had no relationship with the external auditors of the Company. The Members do not share any relationship other than that of fellow colleagues on the Board. Election of Directors was held on December 7, 2009 and seven Directors were elected unopposed, for a term of three years.

Change of Directors:

The Board places on record its appreciation for the valuable contributions made by the outgoing Directors, Mr. Mueen Afzal, Mr. Aijaz Ahmed Qureshi, Syed Ayub Qutub and Dr. Fareeha Zafar, towards progress of the Company. The Board also welcomes the new Directors, Mr. Shahid Ahmad, Dr. Nuzhat Ahmad, Dr. Rajab Ali Memon, Dr. Aisha Ghaus Pasha and Mr. Asif Qadir. We look forward to working in partnership with them to benefit from their vision and valued experience which we are confident will go a long way in the future growth and prosperity of the Company.

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 Board Compensation committees.

Board Audit Committee

The Committee comprises five non-executive members of the Board. The Chairman is an independent non-executive Director. The head of Internal Audit Unit acts as Secretary. The composition of the Committee changed after the election of Directors in December 2009. The terms of reference of the Audit Committee have been drawn up by the Board in conformity with the code of corporate governance and the Board acts in accordance with the recommendations of the Committee on matters forming part of Committee responsibilities.

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 and external auditors.

During the year, three meetings of the Committee were held. The Committee reviewed system of internal controls, internal audit reports, 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; policy for loan losses and write-off; un-audited condensed interim financial statements along with Management Review; audited financial statements along

with Auditors' and Directors' Reports of the company; and project specific audited financial statements as per the requirements of the donors.

The Committee held separate meetings with the Chief Financial Officer and the External Auditors to discuss issues of concern. Minutes of meetings were drawn up expeditiously and circulated for the information and consideration of the Board in the immediately succeeding Board meeting.

Board Compensation Committee

The Committee comprises five members of the Board including the Chairman who is appointed by the Board from the non-executive Directors. The Head of Human Resource Unit acts as Secretary. The composition of the Committee changed after the election of Directors in December 2009.

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 three meetings. The Committee reviewed and recommended for Board's approval, employees benefit plans; good performance

awards; annual increment for the employees; regularization of services of senior executives; promotion to senior management positions; revised organogram keeping in view expansion in operations; and revised vehicle maintenance policy. The Chief Executive/Managing Director and other management employees were invited to attend meetings for discussion and suggestions. Minutes of meetings were drawn up expeditiously and circulated for the information and consideration of the Board in the immediately succeeding Board meeting.

Roles and Responsibilities of the Chairman and Chief Executive

The roles of the Chairman and the Chief Executive/Managing Director are segregated and they have distinct responsibilities. Chairman has responsibilities and powers vested in him by law and the Articles of Association of the Company, as well as duties assigned to him by the Board. In particular, the Chairman coordinates the activities of the Directors and various committees of the Board, and presides over the meetings of the Board and General Body.

The Company Management is supervised by the Chief Executive/Managing Director who is responsible for the operations of the Company and conduct of its business, in accordance with the powers vested in him by law, the Articles of Association of the Company and authorities delegated to him through a General Power of Attorney

and Board resolutions from time to time. The Chief Executive/Managing Director recommends policy and strategic direction and annual business plans for Board approval and is responsible for exercising the overall control, discretion, administration and supervision for sound and efficient management and conduct of the business of the Company. The Board sets financial, non-financial goals and objectives for the Company in line with the short, medium and long term plans of PPAF and has delegated appropriate authority to the Management to implement strategic objectives of the Company.

Management

The Company Management comprises heads of various functions who operate under the powers and limits delegated by the Chief Executive/Managing Director and the Board for ensuring seamless operations and achieving objectives under strategies adopted 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

Going forward, PPAF plans to assign pivotal role to mobilization and capacity building of communities of least developed areas, laying the foundation for future expansion of poverty reduction activities. Many of these will go on to take microfinance loans or productive and social infrastructure from the PPAF, through the existing partner organization network, while others will federate into local institutions of the poor.

Based on needs of the target group, interventions will be made as integrated as possible, responding to identified priorities and the participatory spirit of the program will be maintained and social mobilisation will remain the primary activity. The interventions will be based on needs assessment as a continuous and participatory process. This need assessment will be fed to the PPAF system so that, as much as possible, an integrated approach to development is adhered to by bringing infrastructure, health and education, skills development and other such complimentary interventions to the livelihood grants. This integrated approach will facilitate improvement and sustainability in livelihoods interventions.

The legal and financing agreements for EUR 32 million KfW (Development Bank of Germany) Project for “Livelihood Support and Promotion of Small Community Infrastructure” were executed between Government of Pakistan, KfW and PPAF in June 2010. The four year project will be implemented in poor communities in the districts of Haripur, Swabi and Buner in Kyber-Pakhtunkhwa province. The purpose of the Project are (a) increased access to and sustainable utilization of social and economic infrastructure by the population of the project region, (b) increased employment and income opportunities, for the poor, (c) strengthening local civil society and enhanced participation of the population in the decision making at the local level. This is to contribute to the improvement of the general living conditions and quality of life of the poor population in the project region.

The Italian Government Mission appraised PPAF for EUR 40 million project on “Poverty Reduction through Development Activities” to be implemented in Balochistan, Khyber-Pakhtunkhwa and Federally Administered Tribal Areas. The objective of the project is the provision of a social and productive infrastructure and establishment of an effective and sustainable social safety nets. The legal and financing agreements to be executed between GoP, Italian Government and PPAF are in the process of finalization.

PPAF envisages funding from USAID

Pakistan for carrying out poverty reduction interventions that fall within its strategic framework. USAID Pakistan has shown interest to become partner of PPAF and as a pre-requisite for awarding contract, it engaged a leading firm of Chartered Accountants to carry out assessment of PPAF. The assessment concluded that PPAF capacities and procedures fully satisfy minimum requirements and are sufficient for USAID/Pakistan’s purposes. Overall assessment of PPAF was Low Risk. Since then USAID Pakistan and PPAF have held series of meetings and dialogues to explore the areas of collaboration.

Auditors

The present auditors of the Company, Messer’s A. F. Ferguson and Company, Chartered Accountants, have completed their assignment for the financial year ended June 30, 2010 and shall retire at the conclusion of 14th Annual General Meeting. Being eligible, they offered themselves for re-appointment. The Audit Committee considered and recommended their reappointment for the financial year ending June 30, 2011 and the Board also endorsed the recommendations of the Audit Committee.

Conclusion

As a model of public private partnership, PPAF has been able to bring private sector efficiencies, corporate sector rigor, planning and managerial skills in support of public policy and the development sector. PPAF is

focused on delivery of resources and services at the household level aimed at the poor and excluded. Today PPAF is one of the largest sources of pro-poor spending outside the Federal Budget and Public Sector Development Program. Several features of its design have ensured effectiveness of the PPAF. Major among these was creation of a credible institution which enjoys support of all stakeholders and is a role model for an effective delivery mechanism at the grass root level. With the passage of time the identity of the organization has merged with dreams of the poor.

Of equal importance have been successful transition of civil society organizations, who in partnership with the PPAF, are now major players on the development scene. A grant driven outlook has been replaced by a professional approach leading to an unprecedented increase in outreach and understanding of the fundamentals of sustainable development. Additionally, a climate which permitted a free and open debate has led to a strong relationship of trust with partner organizations and their communities. This in turn has paved the way for looking at development as a shared experience rather than diktat from the top.

Acknowledgement

The success seen over the years is product of the Board's vision and commitment towards poverty alleviation. I would like to thank my fellow Directors for their contribution, assistance and commitment

throughout the year. Their consistent effort and guidance in directing the Company's affairs contributed significantly in achieving healthy operational and financial results.

The Board is grateful for the trust and faith reposed by the Members of the 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 excellent performance and ownership of the programs that made possible to overcome the most difficult of challenges.

The growth of PPAF has been the result of sustained support received from all stakeholders. The Government of Pakistan ranks foremost for its exemplary facilitation and support, equally important was the role of the donor agencies, particularly the World Bank for its clear conceptual framework and result based monitoring missions.

We take this opportunity to express our deep gratitude to Government of Pakistan and our donor agencies – World Bank, 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

reposing their faith in our abilities to serve the poor in these challenging times and also express resolve that their confidence will be rewarded in the years to come.

We are proud of our employees who individually and collectively, through a well coordinated effort, contributed to the success and achievement of excellence during the year. We are confident of our employees' abilities and hard work to attain ambitious corporate objectives.

PPAF will no doubt continue to be a dynamic 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.

A handwritten signature in black ink, appearing to read 'Hussain Dawood', with a stylized flourish extending to the left.

Hussain Dawood
Chairman

Islamabad
August 03, 2010

Financial Highlights

	2010	2009	2008	2007	2006
Outreach - Numbers (Cumulative)					
Partner Organizations	87	77	74	70	68
Districts	127	124	117	111	108
Villages	56,985	51,280	31,752	27,578	23,354
Loans ('000)	3,600	3,000	2,300	1,513	947
Water & Infrastructure Projects	21,000	18,500	17,000	14,900	11,700
Disbursements - Rs. in million					
Total disbursements	13,846	13,066	16,697	15,806	6,246
Microcredit/enterprise development loans	9,048	6,949	9,075	6,228	3,705
Grants - Core Operations	4,350	2,134	1,951	1,654	1,372
Grants - Earthquake Rehabilitation & Reconstruction	448	3,983	5,671	7,924	1,169
Balance Sheet - Rs. in million					
Total assets	23,629	18,509	18,923	18,702	13,201
Micro credit/enterprise development loans receivable	10,572	9,141	7,982	5,642	3,996
Investments in Pakistan Investment Bonds	1,000	1,000	1,000	1,000	800
Short term investments-specific to projects	600	530	1,050	1,050	-
Short term investments- specific to grant fund	1,763	-	-	-	-
Short term investments	4,058	5,225	5,442	6,712	6,296
Equity and reserves	6,114	4,785	3,755	2,817	1,788
Long term loans	12,246	11,031	10,770	10,777	10,513
Operational Results - Rs. in million					
Total income	2,061	1,669	1,314	1,255	763
General and admin expenses	358	274	218	161	98
Surplus before provisions for loan loss	1,404	1,266	947	965	572
Surplus after provisions for loan loss	1,329	1,030	802	914	501
Financial Ratios - Percentage					
Surplus after provision for loan loss / total income	64%	62%	61%	73%	66%
Return on equity	22%	22%	21%	32%	28%
Return on assets	6%	6%	4%	5%	4%
Repayment rate (microcredit & enterprise development loans)	100%	100%	100%	100%	100%
General and admin expenses / total disbursements	2.59%	2.10%	1.31%	1.02%	1.57%
General and admin expenses / total income	17%	16%	17%	13%	13%
Debt/equity	67:33	70:30	74:26	8:22	85:15
Current ratio	4:1	6:1	4:1	3:1	13:1

PAKISTAN POVERTY ALLEVIATION FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2010

AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Poverty Alleviation Fund (the Company) as at June 30, 2010 and the related income and expenditure account, cash flow statement and statement of changes in fund and reserves together with the notes forming part thereof for the year then ended, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of 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, 2010 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
Date: August 3, 2010

Engagement partner: Sohail M Khan

Balance Sheet
as at June 30, 2010

	Note	2010	2009
		(Rupees)	
FIXED ASSETS - TANGIBLE	5	64,972,215	54,380,063
INTANGIBLE ASSETS	6	7,723,804	10,167,986
LONG TERM INVESTMENTS	7	600,000,000	1,000,000,000
LONG TERM LOANS TO PARTNER ORGANIZATIONS	8	764,157,695	1,721,037,948
CURRENT ASSETS			
Current maturity of loans to Partner Organizations	8	9,807,922,669	7,419,925,938
Current maturity of long term investments	7	400,000,000	-
Short term investments-specific to projects	9	600,000,000	530,000,000
Short term investments-specific to grant fund	10	1,763,431,262	-
Short term investments-other	11	4,058,341,775	5,224,642,173
Advances, deposits, prepayments and other receivables	12	89,390,437	91,288,563
Profit/service charges receivable	13	410,936,898	451,863,074
Bank balances-specific to projects	14	5,013,641,706	1,959,485,918
Cash and bank balances	15	48,719,875	46,324,747
		22,192,384,622	15,723,530,413
		<u>23,629,238,336</u>	<u>18,509,116,410</u>
FUND AND RESERVES			
Endowment fund	16	1,000,000,000	1,000,000,000
Grant fund	4.7	1,763,431,262	-
Reserve for grant based activities	4.7	161,052,262	-
Accumulated surplus		3,189,977,882	3,785,358,163
		<u>6,114,461,406</u>	<u>4,785,358,163</u>
LONG TERM LOANS	17	12,246,272,031	11,030,865,907
CURRENT LIABILITIES			
Deferred liabilities - grant fund	18	5,040,205,728	2,451,222,148
Deferred income - grant fund	19	59,699,703	60,915,780
Current portion of long term loans	17	109,617,378	109,617,378
Service and commitment charges payable	20	39,210,528	62,496,823
Accrued and other liabilities	21	19,771,562	8,642,211
		5,268,504,899	2,692,894,340
CONTINGENCIES AND COMMITMENTS	23		
		<u>23,629,238,336</u>	<u>18,509,116,410</u>

The annexed notes 1 to 24 are an integral part of these financial statements.


Chairman


Chief Executive/Managing Director

Income and Expenditure Account
For the year ended June 30, 2010

	Note	2010	2009
		(Rupees)	
INCOME			
Service charges on loans to Partner Organizations	24	933,370,633	744,434,556
Amortization of deferred income - grant fund	19	309,216,434	199,743,670
Income on investments and saving accounts	25	656,312,742	723,183,285
Income on grant fund - net	26	161,052,262	-
Other income	27	829,003	1,320,838
		<u>2,060,781,074</u>	<u>1,668,682,349</u>
EXPENDITURE			
General and administrative expenses	28	358,379,078	274,094,234
Seminars, workshops and trainings	29	46,991,391	10,465,823
Consultancy charges	30	175,957,920	37,512,708
Loan loss provision	8	75,321,920	235,731,884
Financial charges	31	75,025,522	80,600,531
		<u>731,675,831</u>	<u>638,405,180</u>
SURPLUS FOR THE YEAR		<u><u>1,329,105,243</u></u>	<u><u>1,030,277,169</u></u>

The annexed notes 1 to 34 are an integral part of these financial statements.

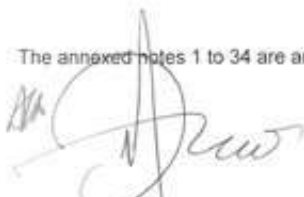

Chairman


Chief Executive/ Managing Director

Cash Flow Statement
For the year ended June 30, 2010

Note	2010	2009
	(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus for the year	1,329,105,243	1,030,277,169
Adjustment for non-cash items:		
Depreciation	25,501,823	21,566,925
Amortization of intangible assets	5,727,163	4,797,536
Amortization of deferred income	(309,216,434)	(199,743,670)
Loan loss provision	75,321,920	235,731,884
Gain on sale of fixed assets	(340,000)	-
Financial charges	75,025,522	80,600,531
	(127,980,006)	142,953,206
	1,201,125,237	1,173,230,375
Working capital changes		
(Increase) / decrease in current assets:		
Advances, deposits, prepayments and other receivables	1,898,126	(22,935,222)
Profit/service charges receivables	40,926,176	(189,362,978)
Increase / (decrease) in current liabilities:		
Accrued and other liabilities	11,129,351	4,841,000
	53,953,653	(207,457,200)
Cash generated from operations	1,255,078,890	965,773,175
Disbursements to partner organizations:		
Loans	(9,048,466,351)	(6,948,866,920)
Grants	(4,798,394,323)	(6,116,582,924)
Recoveries of loans from partner organizations	7,542,027,953	5,554,971,762
Financial charges paid	(98,311,817)	(78,500,692)
	(6,403,144,538)	(7,588,958,774)
Cash flows from operating activities	(5,148,065,648)	(6,623,185,599)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments - net purchases/(encashments)	(667,130,864)	737,141,992
Capital expenditure incurred	(40,098,484)	(28,356,164)
Proceeds from disposal of fixed assets	1,061,528	472,000
Cash flows from investing activities	(706,167,820)	709,257,828
CASH FLOWS FROM FINANCING ACTIVITIES		
Long term loans - received	1,325,023,502	370,588,422
Long term loans - repaid	(109,617,378)	(109,617,378)
Deferred liabilities - grant fund receipts	7,387,377,903	4,317,371,141
Deferred income - grant fund receipts	308,000,357	286,952,056
Cash flows from financing activities	8,910,784,384	4,865,294,241
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	3,056,550,916	(1,048,633,530)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	2,005,810,665	3,054,444,195
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	14&15 5,062,361,581	2,005,810,665

The annexed notes 1 to 34 are an integral part of these financial statements.


Chairman


Chief Executive/Managing Director

Statement of Changes in Fund and Reserves
For the year ended June 30, 2010

Note	Endowment Fund	Grant fund	Reserve for grant based activities (Rupees)	Accumulated Surplus	Total
	1,000,000,000			2,755,078,994	3,755,078,994
				1,030,277,169	1,030,277,169
	1,000,000,000			3,785,356,163	4,785,356,163
				1,329,105,243	1,329,105,243
		1,763,431,262		(1,763,431,262)	-
			161,052,262	(161,052,262)	-
	1,000,000,000	1,763,431,262	161,052,262	3,189,977,882	6,114,461,406

The annexed notes 1 to 34 are an integral part of these financial statements.


Chairman


Chief Executive/ Managing Director

1. STATUS, BACKGROUND AND NATURE OF OPERATIONS

Pakistan Poverty Alleviation Fund (the Company/PPAF) was registered in Pakistan on February 6, 1997 as a public company with liability limited by guarantee, licensed under section 42 of the Companies Ordinance, 1984. The registered office of the company is situated in Islamabad, Pakistan.

The primary object of the Company is to help the poor, the landless and the asset-less in order to enable them to gain access to the resources for their productive self employment and to encourage them to undertake activities of income generation, poverty alleviation and for enhancing their quality of life. In order to achieve its objectives, the Company is mandated to work through Partner organizations (POs), i.e., Non Government organizations (NGOs), Community Based organizations (CBOs), Rural Support Programmes (RSPs) and other private sector organizations.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards, as applicable in Pakistan. Approved accounting standards comprise of Accounting and Financial Reporting Standard for Medium-Sized Entities (MSEs) issued by the Institute of Chartered Accountants of Pakistan and 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 from 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 8) and staff gratuity scheme (note 22).

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 Actuarial valuation of the scheme was carried out as at June 30, 2010, 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 5.

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

These are held to maturity 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.

In order to safeguard against major default and provide sufficient capital adequacy, with effect from July 01, 2009, an amount of 20% of total loan receivable from Partner Organizations are held in investments. 35% of the surplus funds of the Company, in excess of above investments, are employed for lending activities (microcredit and enterprise development facility) and the balance 65% are held in investments, the income of which will be used for grant based health, education, infrastructure, emergency and any other activity that falls within the overall strategic framework of Company's objectives.

4.8 Loans to Partner Organisations

These are stated net of provision for loan losses.

General provision for loan losses at the rate of 5% (2009: 5%) of the gross outstanding balances of loans to POs is made at the year end.

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 and cash with banks on current and saving accounts.

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 using the effective yield method.

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 recorded 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 recorded 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 recorded 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 recorded 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 recorded on the basis of advance request raised on monthly basis. Receipts of EDF and grants specific to POs are recorded 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 recorded 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 translation

i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Pakistan Rupees, which is the Company's functional currency.

ii) Transactions and balances

Transactions in foreign currencies are translated in Pak Rupees at the monthly 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, social mobilization, disability and capacity building grant which 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 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. FIXED ASSETS - tangible

	Cost		Annual rate of depreciation	Depreciation		Book value as at	
	As at July 01, 2009	As at Additions/ (Deletions) June 30, 2010		As at July 01, 2009	Charge for the year / (On deletions)	As at June 30, 2010	As at June 30, 2009
	(Rupees)	(Rupees)	%	(Rupees)	(Rupees)	(Rupees)	(Rupees)
Furniture and fixtures	10,046,025	3,176,380	20	6,689,811	1,814,521	8,504,332	4,718,073
Vehicles	51,763,260	10,783,700	20	29,528,585	10,141,726	38,309,011	22,246,449
		(1,991,500)			(1,361,300)		
Office equipment	26,704,072	14,898,402	20	14,897,188	5,212,107	20,109,295	21,493,179
Computer equipment	43,768,037	7,957,021	25	26,785,747	8,333,469	34,485,934	16,514,514
		(724,610)			(633,282)		
2010	132,281,394	36,815,503		77,901,331	25,501,823	101,408,572	64,972,215
		(2,716,110)			(1,994,582)		
2009	109,518,657	23,352,737		56,452,406	21,566,925	77,901,331	54,380,063
		(590,000)			(118,000)		

6. INTANGIBLE ASSETS

	Cost		Annual rate of amortisation	Amortisation		Book value as at	
	As at July 01, 2009	As at Additions June 30, 2010		As at July 01, 2009	Charge for the year	As at June 30, 2010	As at June 30, 2009
	(Rupees)	(Rupees)	%	(Rupees)	(Rupees)	(Rupees)	(Rupees)
Satellite imageries	15,545,449	3,002,127	25	6,994,517	4,636,894	11,631,411	8,550,932
Other softwares	4,295,738	280,854	25	2,678,684	1,090,269	3,766,953	807,639
2010	19,841,187	3,282,981		9,673,201	5,727,163	15,400,364	7,723,804
2009	14,837,760	5,003,427		4,875,665	4,797,536	9,673,201	10,167,986

	Note	2010	2009
(Rupees)			
7. LONG TERM INVESTMENTS - held to maturity			
Pakistan Investment Bonds (PIBs)	7.1	1,000,000,000	1,000,000,000
Less: PIBs maturing within next twelve months shown as current asset		(400,000,000)	-
		<u>600,000,000</u>	<u>1,000,000,000</u>

7.1 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	19-05-2006	19-05-2011	9.30	Semi annually
200 million	22-08-2001	22-08-2011	13.00	Semi annually
400 million	29-04-2004	29-04-2014	8.00	Semi annually

	2010	2009
(Rupees)		
8. LOANS TO PARTNER ORGANIZATIONS - secured, considered good		

National Rural Support Programme	4,293,386,563	3,562,630,808
Punjab Rural Support Programme	339,870,720	253,913,980
Kashf Foundation	2,351,649,999	2,514,249,999
Sarhad Rural Support Programme	15,333,333	85,333,333
Thardeep Rural Development Programme	398,155,000	463,500,000
Development Action for Mobilization and Emancipation	609,474,166	473,700,325
Sindh Agricultural & Forestry Workers Coordinating Organization	206,663,266	222,618,832
Sindh Rural Support Programme	200,000	475,000
Jinnah Welfare Society	216,717,850	139,336,230
Centre for Women Cooperative Development	254,361,242	256,264,020
Rural Community Development Society	221,386,668	181,802,469
Young Pioneers Society	8,250,000	10,250,000
Women Social Organization	10,516,000	4,520,000
Anjuman-e- Falah-o-Behbood	-	352,500
Community Support Concern	244,452,862	284,152,581
Poverty Eradication Network	2,787,000	2,800,000
Baanhn Beli	-	1,200,000
Bunyard Literacy Community Council	13,250,000	3,590,000
Indus Resource Centre	6,456,999	12,885,697
Network Leasing Corporation Limited	59,125,000	85,625,000
Organization for Participatory Development	75,121,667	74,512,500
Swabi Women Welfare Society	8,437,498	11,749,998
Orangi Charitable Trust	273,392,641	180,575,000
Community Development Concern	-	245,000
Karwan Community Development Organization	5,575,000	4,510,000
Kiran Welfare Organization	2,350,001	6,025,001
Narowal Rural Development Programme	26,061,250	18,833,333
Soon Valley Development Programme	10,060,000	6,110,000
Asasah	359,775,000	258,784,818
Baidarie	5,412,334	2,206,045
Orix Leasing Pakistan Limited	158,650,047	181,883,631
Save The Poor	22,666,667	9,747,466
Marvi Rural Development Organization	18,596,151	10,521,153
Sindh Rural Support Organization	188,030,000	85,617,225
BRAC Pakistan	715,202,000	259,863,000
Farmers Friend Organization	20,667,189	9,862,847
Khajji Cooperative Society	9,500,000	1,576,168
Balances continued - carried forward	11,153,534,113	9,683,843,959

	Note	2010	2009
		(Rupees)	
Balances continued - brought forward		11,153,534,113	9,683,843,959
Al Mehran Rural Development and Welfare Organization		25,259,077	-
Balochistan Rural Development & Research Society		1,207,500	427,500
Buksh Foundation		2,800,000	7,000,000
Mojaz Foundation		12,710,000	3,980,000
Badbaan Enterprise Development Forum		600,000	500,000
Khwendo Kor Women and Children Development Programme		645,834	-
Villagers Development Organization		1,408,333	-
SAATH Development Society		3,675,000	-
Mashal Development Organization		350,000	-
	8.1	11,202,189,857	9,695,751,459
Less: Loan loss provision	8.2	(630,109,493)	(554,787,573)
		10,572,080,364	9,140,963,886
Less: Amount receivable within next twelve months shown as current asset		(9,807,922,669)	(7,419,925,938)
		784,157,695	1,721,037,948

- 8.1 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 Organizations, 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 of one year will be applicable. The proposed markup rate (service charge) will be applicable to all lending facilities with large POs signed on or after January 01, 2008. However, after May 06, 2009 all lending facilities (credit) will be charged annual markup rate (service charge) upto 2% below the relevant KIBOR prevailing on last working day prior to the execution of Financing Agreements. The KIBOR will correspond with agreement period i.e. for one year Financing Agreement, KIBOR of one year will be applicable.

	2010	2009
	(Rupees)	
8.2 Movement of loan loss provision		
Opening balance	554,787,573	319,055,689
Provision during the year	75,321,920	235,731,884
	630,109,493	554,787,573
8.3 Movement of loans to Partner Organizations		
Opening balance	9,695,751,459	8,301,856,301
Disbursements during the period	9,048,466,351	6,948,866,920
	18,744,217,810	15,250,723,221
Recoveries during the period	(7,542,027,953)	(5,554,971,762)
	11,202,189,857	9,695,751,459
Less: Loan loss provision	(630,109,493)	(554,787,573)
	10,572,080,364	9,140,963,886

	Note	2010	2009
(Rupees)			
9. SHORT TERM INVESTMENTS - specific to projects			
Term deposit receipts - PRISM	9.1	600,000,000	-
Term deposit receipts - USDA	9.2	-	530,000,000
		<u>600,000,000</u>	<u>530,000,000</u>

9.1 These represents investments in respect of Programme for Increasing Sustainable Microfinance (PRISM) activities, maturing within one year from the date of investment at annual markup rates ranging from 10.50% p.a. to 11.50% p.a. As agreed in the Subsidiary Financing Agreement, these funds are placed with commercial banks as cash collaterals for providing a partial guarantee to the Banks to facilitate lending to following Microfinance Institutions:

Microfinance institutions	Investment amount	Running finance facility amount
Kashf Foundation	250 million	350 million
National Rural Support Programme	250 million	350 million
Sindh Agricultural & Forestry Workers Coordinating Organization	50 million	60 million
Asasah	50 million	55 million

9.2 These represent 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 of 10.50% p.a to 12% p.a.

10. SHORT TERM INVESTMENTS - specific to grant fund

These investments include term deposit receipts of various commercial and investment banks, maturing within one year from the date of investment at annual markup rates ranging from 11.10% p.a. to 12.04% p.a.

11. SHORT TERM INVESTMENTS - other

These represent investments of Rs 2,240,437,971 (equivalent to 20% of the loan receivable from Partner Organizations) to safeguard against major default and provide capital adequacy and Rs 1,817,903,804 as funds available for lending activities. These funds are invested in term deposit receipts of various commercial banks, maturing within one year from the date of investment, at annual mark up rates ranging from 10.70% p.a to 12.40% p.a (June 2009: 11.00% p.a.to 15.40% p.a.).

	Note	2010	2009
(Rupees)			
12. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Loans and advances - considered good			
Employees	12.1	3,390,947	1,869,528
Suppliers		<u>3,165,720</u>	<u>254,183</u>
		6,556,667	2,123,711
Deposits		2,200,400	2,070,400
Prepayments		28,998,989	37,582,229
Income tax refundable		49,384,426	49,384,426
Other receivables - considered good		<u>2,249,955</u>	<u>127,797</u>
		<u>89,390,437</u>	<u>91,288,563</u>

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. (2009: 3% p.a.) and 8% p.a (2009: 8% p.a.) respectively. The principal amount is repayable in 18 equal monthly instalments.

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	2010	2009
	(Rupees)	
13. PROFIT / SERVICE CHARGES RECEIVABLE		
Profit receivable on		
Pakistan Investment Bonds (PIBs)	16,737,534	16,737,534
Term deposit receipts / saving accounts	74,750,080	257,066,120
Short term investments specific to grant based activities	67,956,021	-
Project bank accounts / investments	25,228,767	5,100,685
	<u>184,672,402</u>	<u>278,904,339</u>
Service charge receivable on loans to POs	226,264,496	172,958,735
	<u>410,936,898</u>	<u>451,863,074</u>
14. BANK BALANCES - SPECIFIC TO PROJECTS		
Cash at banks - current accounts		
Specific to IDA II	2,154,794,650	1,400,003,901
Specific to IDA III	2,280,293,514	-
Specific to IDA Disability Project	-	212,312,453
Specific to IFAD-MIOP	61,591,831	2,577,628
Specific to IFAD-REACH	-	99,540,804
Specific to IFAD-PRISM	232,279,785	133,561,734
Specific to KfW	-	3,508,935
Specific to CECF grant	74,329,170	105,379,479
	<u>4,803,288,950</u>	<u>1,956,884,934</u>
Cash at banks - deposit accounts		
Specific to USDA grant	210,330,754	2,580,373
Specific to CECF	22,002	20,611
	<u>210,352,756</u>	<u>2,600,984</u>
	<u>5,013,641,706</u>	<u>1,959,485,918</u>
15. CASH AND BANK BALANCES		
Cash in hand		
in head office	3,363	40,237
in centers	-	100,000
in field coordination offices	85,000	113,110
	<u>88,363</u>	<u>253,347</u>
Cash at banks - current accounts	26,692,700	14,947,783
Cash at banks - deposit accounts	21,938,812	31,123,617
	<u>48,631,512</u>	<u>46,071,400</u>
	<u>48,719,875</u>	<u>46,324,747</u>

The balances in deposit accounts carry average mark up of 6.50 % p.a. (2009: 5.00% p.a.). These include foreign currency balances aggregating to US\$ 3,878 (2009: US\$ 3,878).

	2010	2009
	(Rupees)	
16. ENDOWMENT FUND		
PPAF - I	500,000,000	500,000,000
PPAF - II	500,000,000	500,000,000
	<u>1,000,000,000</u>	<u>1,000,000,000</u>

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.

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	Note	2010	2009
17. LONG TERM LOANS - Unsecured			
		(Rupees)	
Government of Pakistan - PPAF - I (IDA financing)	17.1	2,234,166,588	2,343,783,966
Government of Pakistan- PPAF - II (IDA financing)	17.2	8,321,429,227	8,321,429,227
Government of Pakistan - (IFAD financing-MIOP)	17.3	813,980,000	281,910,990
Government of Pakistan - (IFAD financing-PRISM)	17.4	609,174,649	83,741,724
Government of Pakistan- PPAF - III (IDA financing)	17.5	267,521,567	-
		<u>12,246,272,031</u>	<u>11,030,865,907</u>

17.1 Government of Pakistan - PPAF - I (IDA financing)

Opening balance	2,453,401,344	2,563,018,722
Amount repaid	<u>(109,617,378)</u>	<u>(109,617,378)</u>
	2,343,783,966	2,453,401,344
Amount payable within next twelve months shown as current liability	<u>(109,617,378)</u>	<u>(109,617,378)</u>
	<u>2,234,166,588</u>	<u>2,343,783,966</u>

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.

	2010	2009
	(Rupees)	
17.2 Government of Pakistan- PPAF - II (IDA financing)		
Opening balance	8,321,429,227	8,197,837,189
Amount received	-	<u>123,592,038</u>
	<u>8,321,429,227</u>	<u>8,321,429,227</u>

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.

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	<u>2010</u>	<u>2009</u>
	(Rupees)	
17.3 Government of Pakistan - (IFAD financing MIOP)		
Opening balance	281,910,990	118,656,330
Amount received	<u>532,069,010</u>	<u>163,254,660</u>
	<u>813,980,000</u>	<u>281,910,990</u>

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

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

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

	<u>2010</u>	<u>2009</u>
	(Rupees)	
17.4 Government of Pakistan - (IFAD financing PRISM)		
Opening balance	83,741,724	-
Amount received	<u>525,432,925</u>	<u>83,741,724</u>
	<u>609,174,649</u>	<u>83,741,724</u>

Programme Loan Agreement was signed between International Fund for Agricultural Development (IFAD) and GOP on November 22, 2007, in respect of Programme for Increasing Sustainable Microfinance (PRISM). As per agreement IFAD shall make available to GOP a sum of SDR of 22.85 million over a period of five years to be utilized by GOP through the Company.

Under Subsidiary Financing Agreement (SFA) dated January 12, 2008 executed between GOP and the Company, the GOP agreed to provide 65% 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 December 01, 2015 and ending on June 01, 2030.

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. The service charge is payable on June 01 and December 01 each year.

	<u>2010</u>	<u>2009</u>
	(Rupees)	
17.5 Government of Pakistan- PPAF - III (IDA financing)		
Amount received	<u>267,521,567</u>	-

The Financing Agreement was signed between IDA and the GOP on June 9, 2009, in respect of PPAF III. As per agreement IDA shall make available to GOP a sum of Special Drawing Rights (SDR) of 187.2 million over a period of five years to be utilized by GOP through the Company.

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Under Subsidiary Loan Agreement (SLA) dated June 15, 2009 executed between GOP and the Company, the GOP agreed to provide 13% 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 June 15, and December 15 commencing from June 15, 2017 and ending on December 15, 2031. Each installment upto and including the installment payable on December 15, 2022 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 SLA 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 loan not withdrawn from time to time as of June 30 of each year, but not to exceed the rate of 0.50% per annum. The service and commitment charges are payable on June 15 and December 15 each year.

	Note	2010	2009
		(Rupees)	
18. DEFERRED LIABILITIES - GRANT FUND			
Government of Pakistan - IDA	18.1	2,085,857,191	1,539,410,346
Government of Pakistan - IDA III	18.2	2,278,885,827	-
US Agency for International Development/Pakistan	18.3	115,984,115	115,984,115
Government of Pakistan - USDA	18.4	206,226,457	552,702,419
Government of Pakistan - KfW	18.5	-	3,508,935
Government of Pakistan - IFAD (MIOP)	18.6	61,294,380	(14,986,003)
Government of Pakistan - IFAD (REACH)	18.7	-	99,540,804
Government of Pakistan - IFAD (PRISM)	18.8	217,126,810	45,444,080
Committee Encouraging Corporate Philanthropy (CECP)	18.9	74,830,948	109,617,452
		5,040,205,728	2,451,222,148

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

	Note	2010	2009
		(Rupees)	
18.1 Grants from Government of Pakistan - IDA			
Opening balance		1,539,410,346	2,151,989,364
Amount received		4,037,510,753	3,733,391,858
		5,576,921,099	5,885,381,222
Less: Disbursements for			
Community physical infrastructure		1,400,000	370,020,894
Social sector development		18,097,320	72,883,739
Capacity building - POs		143,984,672	319,980,987
Emergency relief		-	34,310,000
Rehabilitation & reconstruction	18.1.1	-	2,745,729,872
Social mobilization project	18.1.2	3,137,118,276	711,911,865
Disability project		190,463,640	91,133,519
		3,491,063,908	4,345,970,876
		2,085,857,191	1,539,410,346

	2010	2009
	(Rupees)	
Disbursements to POs		
Aga Khan Rural Support Programme	37,260	25,986,036
AKPBS-Water and Sanitation Extension Programme	112,007,438	20,668,819
AL Mehran Rural Development and Welfare Organization	2,593,900	-
Anjuman-e- Falah-o-Behbood	-	318,790
Asasah	-	30,025,440
Awaz Foundation Pakistan - Centre for Development Services	23,696,906	-
AZAT Foundation	7,374,820	-
Baanhn Beli	17,198,000	7,344,325
Badin Rural Development Society	68,784,697	5,280,268
Baidarie	-	4,812,745
Balochistan Environmental and Educational Journey	68,547,404	13,998,994
Balochistan Rural Development & Research Society	88,954,343	9,096,345
Balochistan Rural Support Programme	174,016,284	61,810,780
BRAC - Pakistan	-	51,241,780
Bunyah Literacy Community Council	2,430,734	1,379,860
Centre for Women Cooperative Development	527,050	12,262,858
Community Development Concern	2,316,300	331,400
Community Mobilisation and Development Organization	113,729,054	13,153,858
Community Support Concern	4,625,600	3,861,310
Community Uplift Programme	76,612,141	6,745,105
Development Action for Mobilization and Emancipation	1,810,360	772,264
Disability devices to POs	77,642,835	-
Family Planning Association of Pakistan	57,009,209	5,272,124
Farmers Development Organization	63,246,707	-
Farmers Friend Organization	8,280	5,863,350
Hazara Development and Advocacy Foundation	-	15,196,604
Health and Nutrition Development Society	109,719,569	667,874
Human Development Foundation	-	3,200,000
Indus Earth Trust	(432,000)	1,812,395
Indus Resource Centre	47,480,360	15,644,365
Islamic Relief	(56,002,118)	343,205,486
Jinnah Welfare Society	-	6,017,680
Karwan Community Development Organization	817,181	1,107,736
Kashf Foundation	-	4,458,336
Khwendo Kor Women and Children Development Programme	41,961,160	-
Kiran Welfare Organization	2,247,700	2,188,944
Marvi Rural Development Organization	12,415	12,584,035
Mountain and Glacier Protection Organization	-	8,404,044
Mountain Institute of Educational Development	22,181,150	-
Narowal Rural Development Programme	-	5,080,353
National Rural Support Programme	286,415,200	1,515,899,907
Omar Asghar Khan Development Foundation	-	109,630,838
Orangi Charitable Trust	-	8,114,327
Organization for Participatory Development	144,351	4,281,756
Orix Leasing Pakistan Limited	-	3,921,288
Participatory Integrated Development Society	130,965,861	15,239,447
Poverty Eradication Network	-	590,318
Punjab Rural Support Programme	150,185,490	90,607,800
Rural Community Development Society	-	36,544,188
Salik Development Foundation	62,606,700	-
Sarhad Rural Support Programme	543,084,768	1,405,762,047
Save The Poor	2,272,285	4,201,659
Seminars, workshops and media projection	89,979,019	20,539,614
Sindh Agricultural & Forestry Workers Coordinating Organization	259,665,858	61,227,255
Disbursements continued - carried forward	2,656,474,291	3,976,364,747

	2010	2009
	(Rupees)	
Disbursements continued - brought forward	2,656,474,291	3,976,364,747
Sindh Rural Support Organization	158,518,498	81,602,131
Sindh Rural Support Programme	30,796,030	626,972
Social Action Bureau for Assistance in Welfare and Organisation Network	-	75,465
Society for Conservation and Protection of Environment	23,364,657	299,376
Society for Human Empowerment and Rural Development	-	1,430,000
Soon Valley Development Programme	-	569,884
SOS Children's Village	968,820	17,732,552
South Asia Partnership Pakistan	96,908,544	16,000,000
Strengthening Participatory Organization	99,365,544	1,988,600
Sungi Development Foundation	4,216,007	145,918,066
Swabi Women Welfare Society	90,561,461	-
Taraqee Foundation	125,604,366	3,188,395
Thardeep Rural Development Programme	203,835,690	81,020,033
Village Friends Organization	-	7,099,198
Women Social Organisation	-	2,807,750
Women Welfare Organization Poonch	450,000	6,158,754
Young Pioneers Society	-	3,088,953
	<u>3,491,063,908</u>	<u>4,345,970,876</u>

- 18.1.1 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 17.1.4 to these financial statements, and to make available to GOP an additional sum of SDR of 68.90 million under Phase II to GOP.

Second 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.

	2010	2009
	(Rupees)	
18.1.2 Disbursements for social mobilization project include		
Social Mobilization	965,168,920	711,911,865
Community Physical Infrastructure	1,257,186,010	-
Social Sector Development	914,763,346	-
	<u>3,137,118,276</u>	<u>711,911,865</u>

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. The GOP & IDA through amendment in the Financing Agreement included the components of Small Scale Infrastructure Development Projects (SSIP) and Social Sector Development Projects (SSDP-Health & Education) under this project.

MA

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	2010	2009
18.2 Grants from Government of Pakistan - IDA III			(Rupees)
Amount received		2,734,571,810	-
Less: Disbursements			
Social mobilization		34,748,310	-
Institutional building		74,908,511	-
Livelihood enhancement and protection		4,891,919	-
Health and education		155,681,808	-
Water and infrastructure		185,455,435	-
		<u>455,685,983</u>	
		<u>2,278,885,827</u>	<u>-</u>
Disbursements to POs			
Aga Khan Rural Support Programme		61,119,659	-
AKPBS-Water and Sanitation Extension Programme		30,387,334	-
Baidarie		913,488	-
BRAC - Pakistan		5,846,750	-
Bunyad Literacy Community Council		1,578,936	-
Community Support Concern		430,000	-
Development in Literacy		1,769,700	-
Direct expenses by PPAF on seminars, workshops and trainings		384,280	-
Environment Protection Society		5,072,805	-
Family Planning Association of Pakistan		24,354,200	-
Farmers Development Organization		2,719,296	-
Farmers Friend Organization		125,291	-
Hazara Development and Advocacy Foundation		42,257,308	-
Health and Nutrition Development Society		2,897,700	-
Human Resource Development Society		3,880,675	-
Indus Resource Centre		22,325,042	-
Karwan Community Development Organization		3,677,500	-
Khwendo Kor Women and Children Development Programme		826,308	-
Marvi Rural Development Organization		13,139,070	-
Mashal Development Organization		3,556,208	-
Mountain Institute of Educational Development		17,689,023	-
Narowal Rural Development Programme		9,689,650	-
National Rural Support Programme		51,415,898	-
Rural Community Development Society		37,858,801	-
Salik Development Foundation		22,101,000	-
Sarhad Rural Support Programme		1,464,703	-
Save The Poor		838,733	-
Sindh Rural Support Organization		22,568,255	-
Society for Human Empowerment and Rural Development		1,317,000	-
Soon Valley Development Programme		5,883,158	-
SOS Children's Village		18,964,424	-
Swabi Women Welfare Society		37,412,538	-
Women Social Organisation		1,131,250	-
Young Pioneers Society		90,000	-
		<u>455,685,983</u>	<u>-</u>
18.3 Grants from USAID/Pakistan			
Capacity building - POs	18.3.1	-	-
Enterprise development loans	18.3.2	115,984,115	115,984,115
		<u>115,984,115</u>	<u>115,984,115</u>

	2010	2009
	(Rupees)	
18.3.1 Capacity building - POs		
Opening balance	-	(1,479,621)
Amount received	-	1,479,621
	-	-
18.3.2 Enterprise development loans		
Opening balance	115,984,115	127,585,729
Amount transferred to deferred income	-	(1,479,621)
Amount transferred to capacity building - POs	-	(10,176,856)
	115,984,115	115,929,252
Service charges earned	-	54,863
	115,984,115	115,984,115

18.3.2.1 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.

18.3.2.2 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.

	2010	2009
	(Rupees)	
18.4 Grants from Government of Pakistan - USDA		
Opening balance	552,702,419	1,117,938,769
Amount transferred to deferred income	(41,648,179)	(19,145,427)
Profit on project bank account	51,171,073	63,382,172
	562,225,313	1,162,175,514
Less: Disbursements to POs		
Aga Khan Rural Support Programme	90,595,248	221,882,183
AKPBS-Water and Sanitation Extension Programme	6,467,621	6,351,657
Badin Rural Development Society	7,500,000	-
Balochistan Environmental and Educational Journey	7,600,550	1,899,450
Balochistan Rural Development & Research Society	-	2,038,000
Balochistan Rural Support Programme	25,267,429	21,626,083
Community Mobilisation and Development Organization	19,998,811	6,030,908
Direct expenses by PPAF on seminar	51,425	-
Ghazi Brotha Taraqiati Idara	13,790,322	3,928,845
Health and Nutrition Development Society	2,716,618	2,234,698
Human Resource Development Society	-	40,616,286
Indus Earth Trust	22,694,912	24,343,773
National Rural Support Programme	14,011,782	11,953,818
Participatory Integrated Development Society	17,265,132	14,249,870
Rural Community Development Society	-	16,968,000
Sarhad Rural Support Programme	11,892,000	-
Sindh Agricultural & Forestry Workers Coordinating Organization	1,815,303	8,677,774
Sindh Rural Support Organisation	-	16,023,326
Sindh Rural Support Program	1,679,067	2,820,933
Social Action Bureau for Assistance in Welfare and Organizational Networking	3,896,498	23,133,566
Society for Conservation and Protection of Environment	2,147,752	2,350,717
Soon Valley Development Programme	22,312,739	7,797,008
Disbursements continued - carried forward	271,703,209	434,926,895

BM

	2010	2009
	(Rupees)	
Disbursements continued - brought forward	271,703,209	434,926,895
South Asia Partnership Pakistan	892,238	60,339,737
Strengthening Participatory Organization	3,274,572	3,725,428
Taraqee Foundation	37,343,126	64,071,168
Thardeep Rural Development Programme	41,671,578	33,909,000
Village Friends Organization	1,114,133	12,500,867
	355,998,856	609,473,095
	206,226,457	552,702,419

- 18.4.1 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.

	Note	2010	2009
		(Rupees)	
18.5 Grants from Government of Pakistan - KfW			
Housing reconstruction and community buildings	18.5.1	-	(39,933,690)
Revitalization of affected communities / rehabilitation of CPI schemes	18.5.2	-	43,442,625
		-	3,508,935
18.5.1 Housing reconstruction and community buildings			
Opening balance		(39,933,690)	58,918,857
Amount received		-	190,172,453
Amount transferred from revitalization of affected communities / rehabilitation of CPI schemes		39,933,690	-
		-	249,091,310
Less: Disbursements to PO			
Sarhad Rural Support Programme		-	289,025,000
		-	(39,933,690)
18.5.2 Revitalization of affected communities / rehabilitation			
Opening balance		43,442,625	48,274,043
Amount received		-	82,446,756
Amount transferred to housing reconstruction and community buildings		(39,933,690)	-
		3,508,935	130,720,799
Less: Disbursements to PO			
Sarhad Rural Support Programme		3,508,935	87,278,174
		-	43,442,625

- 18.5.3 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 three years, starting from the date of signing i.e. June 09, 2006 through June 08, 2009. 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.

PAF

18.6	Grants from Government of Pakistan - IFAD (MIOP)	Note	2010	2009
			(Rupees)	
	Opening balance		(14,986,003)	8,863,170
	Amount received		313,227,460	25,871,697
			<u>298,241,457</u>	<u>34,734,867</u>
	Less: Disbursements to POs			
	AGAHEE		1,880,250	-
	AKPBS-Water and Sanitation Extension Programme		2,128,764	3,851,402
	AL Mehran Rural Development and Welfare Organization		6,050,891	608,006
	Badbaan Enterprise Development Forum		582,888	1,310,748
	Badin Rural Development Society		2,812,835	4,748,288
	Balochistan Rural Development & Research Society		3,231,480	895,400
	BRAC - Pakistan		72,619,630	-
	Buksh Foundation		2,147,128	2,085,750
	Bunyad Literacy Community Council		200,000	-
	Centre for Women Cooperative Development		31,051,469	517,410
	Community Support Concern		9,134,255	11,789,123
	Direct expenses by PPAF on seminars, workshops and trainings		1,017,962	-
	Farmers Friend Organization		4,278,271	-
	Indus Earth Trust		(156,540)	4,007,179
	Jinnah Welfare Society		6,530,756	-
	Karwan Community Development Organization		1,129,850	-
	Khajji Cooperative Society		2,113,330	502,539
	Marvi Rural Development Organization		794,126	-
	Mashal Development Organization		496,100	-
	Mojaz Foundation		3,875,503	4,250,234
	National Rural Support Programme		826,500	6,160,460
	Orangi Charitable Trust		40,110,957	285,851
	Rural Community Development Society		7,240,005	-
	Saath Development Society		2,956,750	-
	Sarhad Rural Support Programme		5,918,400	3,609,000
	Save The Poor		805,750	-
	Sindh Agricultural & Forestry Workers Coordinating Organization		24,216,017	5,099,480
	Villagers Development Organization		2,853,750	-
	Women Social Organisation		100,000	-
			<u>236,947,077</u>	<u>49,720,870</u>
			<u>61,294,380</u>	<u>(14,986,003)</u>
18.7	Grants from Government of Pakistan - IFAD (REACH)			
	Housing reconstruction and community buildings	18.7.1	-	108,438,552
	Revitalization of affected communities / livestock	18.7.2	-	(8,897,748)
			-	<u>99,540,804</u>
18.7.1	Housing reconstruction and community buildings			
	Opening balance		108,438,552	456,088,552
	Amount received		143,628,959	-
	Amount transferred to revitalization of affected communities / livestock		(143,197,581)	-
			<u>108,869,930</u>	<u>456,088,552</u>
	Less: Disbursements to PO			
	Sarhad Rural Support Programme		108,869,930	347,650,000
			-	<u>108,438,552</u>

RM

	2010	2009
18.7.2 Revitalization of affected communities / livestock	(Rupees)	
Opening balance	(8,897,748)	489,574
Amount transferred to deferred income	(21,280,508)	-
Amount transferred from housing reconstruction and community buildings	143,197,581	-
	<u>113,019,325</u>	<u>489,574</u>
Less: Disbursements to POs		
National Rural support Programme	87,370,000	-
Sarhad Rural Support Programme	25,649,325	9,387,322
	<u>113,019,325</u>	<u>9,387,322</u>
	<u>-</u>	<u>(8,897,748)</u>

18.7.3 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 livestock (d) costs of trainings for the affected communities and staff of the POs (e) operating costs and cost of equipments to POs engaged in these activities. The period of this agreement is of three years from the effective date i.e. August 01, 2006.

Under SFA dated September 19, 2006 executed between GoP and PPAF, GOP agreed to provide SDR 18.350 million to the company as grant on non reimbursable basis.

	2010	2009
18.8 Grants from Government of Pakistan - IFAD (PRISM)	(Rupees)	
Opening balance	45,444,080	-
Amount received	173,932,730	45,444,080
	<u>219,376,810</u>	<u>45,444,080</u>
Less: Disbursements to PO		
Kashf Foundation	2,250,000	-
	<u>217,126,810</u>	<u>45,444,080</u>

	2010	2009
18.9 Grants from Committee Encouraging Corporate Philanthropy		
Opening balance	109,617,452	281,745,494
Amount received	-	193,355,114
Foreign exchange translation differences - Net	-	12,574,431
Amount transferred to deferred income	(3,736,195)	-
	<u>105,881,257</u>	<u>487,675,039</u>
Less: Disbursements to POs		
Community Uplift Programme	19,243,237	112,467,156
Mountain and Glacier Protection Organization	1,913,523	146,570,184
National Rural Support Programme	9,893,549	119,020,267
	<u>31,050,309</u>	<u>378,057,587</u>
	<u>74,830,948</u>	<u>109,617,452</u>

18.9.1 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.

The CECP, through grant agreement amendment, allowed disbursement of funds for operation and maintenance of facilities till December 31, 2010.

19. DEFERRED INCOME - GRANT FUND

	As at July 01, 2009	Amount Received	Utilization against expenditure recognized as income	As at June 30, 2010
(Rupees)				
Government of Pakistan (GoP)				
Capacity Building - IDA	19,219,594	4,222,125	10,360,791	13,080,928
Capacity Building - IDA III	-	29,608,189	29,608,189	-
Capacity Building - IDA (RNR)	16,890,855	8,440,125	12,519,997	12,810,983
Capacity Building - IDA (Social mobilization)	3,495,885	155,546,578	151,037,081	8,005,382
Capacity Building - IDA (Disability)	2,358,369	21,512,989	19,107,620	4,763,738
Capacity Building - IFAD (MIOP)	(2,823,242)	16,486,802	13,316,957	346,603
Capacity Building - IFAD (REACH)	-	21,280,508	21,280,508	-
Capacity Building - IFAD (PRISM)	4,375,930	5,517,276	3,914,880	5,978,326
Capacity Building - USDA	9,189,171	41,648,179	44,286,523	6,550,827
	<u>52,706,562</u>	<u>304,262,771</u>	<u>305,432,546</u>	<u>51,536,787</u>
Capacity building - USAID/Pakistan	8,209,218	-	47,693	8,161,525
Capacity building - CECF	-	3,737,586	3,736,195	1,391
2010	<u>60,915,780</u>	<u>308,000,357</u>	<u>309,216,434</u>	<u>59,699,703</u>
2009	<u>(26,292,607)</u>	<u>286,952,057</u>	<u>199,743,670</u>	<u>60,915,780</u>

Note **2010** **2009**
(Rupees)

20. SERVICE AND COMMITMENT CHARGES PAYABLE

Service charges payable	20.1	36,299,771	62,403,852
Commitment charges payable	20.2	2,910,757	92,971
		<u>39,210,528</u>	<u>62,496,823</u>

20.1 These represent service charges payable to GOP at the rate of 0.75% per annum (2009: 0.75% per annum) on the principal amount of long term loan outstanding withdrawn from time to time.

20.2 These represent commitment charges payable to GOP at the rate to be set by the Association as of June 30 of each year, but not to exceed 0.50 % per annum (2009: 0.10% to 0.20% per annum) on the principal amount of long term loan not withdrawn from time to time.

2010 **2009**
(Rupees)

21. ACCRUED AND OTHER LIABILITIES

Accrued expenses	19,614,882	8,570,942
Other liabilities	156,680	71,269
	<u>19,771,562</u>	<u>8,642,211</u>

22. DETAILS OF ACTUARIAL VALUATION OF STAFF GRATUITY SCHEME

22.1 Reconciliation of payable to/(receivable from) Defined Benefit Plan

Present value of defined benefit obligation	37,697,395	25,232,750
Fair value of plan assets	(28,049,224)	(17,654,858)
Unrecognised transitional liability	-	-
Unrecognised actuarial gains / (losses)	<u>(9,648,171)</u>	<u>(7,577,892)</u>
Closing balance	<u>-</u>	<u>-</u>

BM

	2010	2009
	(Rupees)	
22.2 Movement in net liability/(asset) recognised		
Opening net liability	-	-
Expense for the year	(11,736,994)	6,290,774
Contribution for the year	11,736,994	(6,290,774)
Closing net liability	-	-
22.3 (Prepaid cost)/charge for the Defined Benefit Plan		
Current service cost	9,719,526	5,564,930
Interest cost	3,857,321	1,585,218
Expected return on plan assets	(2,471,880)	(1,255,416)
Transitional liability not yet recognized	-	249,736
Net actuarial loss recognised	631,827	146,306
	11,736,994	6,290,774

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

	2010	2009
Valuation discount rate	14% per annum	14% per annum
Salary increase rate	14% per annum	14% per annum
Expected return on plan assets	14% per annum	14% per annum

23. CONTINGENCIES AND COMMITMENTS

(Rupees)

Aggregate commitments under Financing Agreements with

Partner Organisations for:

Loans	9,701,857,420	4,824,000,000
Grants		
Rehabilitation and reconstruction	-	157,480,529
Community physical infrastructure	762,206,919	94,344,492
Capacity building	552,144,433	316,012,384
Social sector development	901,781,164	92,255,246
Social mobilization	515,806,695	1,202,746,275
Livelihood enhancement and protection	667,456,500	-
	3,399,375,711	1,862,838,926
	13,101,233,131	6,686,838,926

24. SERVICE CHARGES ON LOANS TO PARTNER ORGANISATIONS

These represent service charges on loans to POs under respective Financing Agreements at rates given in note 8.1.

	2010	2009
	(Rupees)	
25. INCOME ON INVESTMENTS AND SAVING ACCOUNTS		
Profit on long term investments (Pakistan Investment Bonds)	104,600,000	104,530,547
Profit on term deposit receipts/saving accounts	551,712,742	618,652,738
	656,312,742	723,183,285

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

	Note	2010	2009
(Rupees)			
26. INCOME ON GRANT FUND - net			
Income earned during the period	26.1	170,303,347	-
Less: Disbursements			
National Rural Support Program - School Milk Project		7,250,907	-
Relief for Internally Displaced Persons		2,000,178	-
		9,251,085	-
		<u>161,052,262</u>	<u>-</u>

26.1 Represents profit/ mark up earned on Grant Fund.

27. OTHER INCOME

Income from training		460,145	1,120,000
Gain on sale of fixed assets		340,000	-
Markup on loans to employees		27,158	4,742
Others		1,700	196,096
		<u>829,003</u>	<u>1,320,838</u>

28. GENERAL AND ADMINISTRATIVE EXPENSES

Salaries, wages and other benefits	28.1	188,125,765	137,211,191
Rent		27,544,744	24,185,077
Repairs and maintenance		7,063,913	6,610,159
Traveling, lodging and conveyance		58,255,888	42,930,167
Communication		3,335,865	2,789,362
Printing and stationery		6,336,522	5,174,923
Insurance		1,994,903	2,263,623
Vehicles running and maintenance		13,539,617	8,202,782
Utilities		3,272,402	2,637,249
Legal and professional charges:		3,248,500	2,494,600
Auditor's remuneration	28.3	3,146,000	2,860,000
Advertisement		2,876,925	3,437,230
Media projection		2,626,084	1,464,605
Newspapers, books and periodicals		485,334	701,825
Depreciation		25,501,823	21,566,925
Amortization		5,727,163	4,797,536
Security services		1,997,158	1,667,000
Others		3,300,472	3,099,980
	28.4	<u>358,379,078</u>	<u>274,094,234</u>

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

Managerial remuneration		10,974,018	8,601,600
Other allowances		120,000	120,000
		<u>11,094,018</u>	<u>8,721,600</u>

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

28.2 No remuneration was paid to the directors during the year except reimbursement of expenditure for attending meetings etc. at actual.

PA

	<u>2010</u>	<u>2009</u>
	(Rupees)	
28.3 Auditor's remuneration		
Statutory and projects' audit	1,150,000	1,045,000
Audit of POs	1,996,000	1,815,000
	<u>3,146,000</u>	<u>2,860,000</u>

28.4 General and administration expenses include Rs 155,838,157 (2009: Rs 166,269,061) incurred on different programme activities as disclosed in note 19.

	<u>2010</u>	<u>2009</u>
	(Rupees)	
29. SEMINARS, WORKSHOPS AND TRAININGS		
Training	14,667,484	6,030,935
Seminar and workshops	16,484,495	4,434,888
PPAF ten years events	15,839,412	-
	<u>46,991,391</u>	<u>10,465,823</u>

Seminars, workshops and training expenses include Rs 12,069,804 (2009: Rs 5,435,095) incurred on different programme activities as disclosed in note 19.

	<u>2010</u>	<u>2009</u>
	(Rupees)	
30. CONSULTANCY CHARGES		
Poverty score card	118,450,461	-
Reconstruction & rehabilitation	9,647,164	4,257,585
General	47,860,295	33,255,123
	<u>175,957,920</u>	<u>37,512,708</u>

Consultancy charges include Rs 141,308,473 (2009: Rs 28,039,514) incurred on different programme activities as disclosed in note 19.

	<u>2010</u>	<u>2009</u>
	(Rupees)	
31. FINANCIAL CHARGES		
On long term loans	73,967,738	79,914,140
Bank charges	1,057,784	686,391
	<u>75,025,522</u>	<u>80,600,531</u>

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32. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

32.1 Financial assets and liabilities

Note	June 30, 2010		June 30, 2009		Total
	Interest Bearing	Non-interest Bearing	Interest Bearing	Non-interest Bearing	
	(Rupees)				
Financial Assets:					
Maturity upto one year					
Current maturity of loans to Partner Organisations	8	9,807,922,669	9,807,922,669	7,419,925,938	7,419,925,938
Current maturity of long term investments	7	400,000,000	400,000,000	-	-
Short term investments - specific to projects	9	600,000,000	600,000,000	530,000,000	530,000,000
Short term investments-specific to grant fund	10	1,763,431,262	1,763,431,262	-	-
Short term investments-others	11	4,058,341,775	4,058,341,775	5,224,642,173	5,224,642,173
Advances, deposits and other receivables	12	3,390,947	4,450,355	1,869,528	2,198,197
Profit/service charges receivable	13		410,936,898	451,863,074	451,863,074
Bank balances - specific to projects	14	210,352,756	4,803,288,950	2,600,984	1,959,485,918
Cash and bank balances	15	21,938,812	26,781,063	31,123,617	46,324,747
Maturity after one year but before five years					
Long term investments	7	600,000,000	600,000,000	1,000,000,000	1,000,000,000
Loans to Partner Organizations	8	764,157,695	764,157,695	1,721,037,948	1,721,037,948
		<u>18,229,535,916</u>	<u>5,245,457,266</u>	<u>23,474,993,182</u>	<u>15,931,200,188</u>
					<u>2,426,147,335</u>
					<u>18,357,347,523</u>
Financial Liabilities:					
Maturity upto one year					
Deferred liabilities - grant fund	18		5,040,205,728	2,451,222,148	2,451,222,148
Current portion of long term loans	17	109,617,378	109,617,378	109,617,378	109,617,378
Service and commitment charges payable	20	39,210,528	39,210,528	62,496,823	62,496,823
Accrued and other liabilities	21	19,771,562	19,771,562	8,642,211	8,642,211
Maturity after one year but before five years					
Long term loans	17	1,952,555,916	1,952,555,916	1,424,213,403	1,424,213,403
Maturity after five years					
Long term loans	17	10,293,716,115	10,293,716,115	9,606,652,504	9,606,652,504
		<u>12,355,859,409</u>	<u>5,069,187,818</u>	<u>17,455,077,227</u>	<u>2,522,361,182</u>
					<u>13,662,844,467</u>
Off balance sheet items:					
Commitments	23	9,701,857,420	3,399,375,711	13,101,233,131	4,824,000,000
					<u>1,862,838,926</u>
					<u>6,686,838,926</u>

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32.2 Credit quality of financial assets

The credit quality of Company's financial assets has been assessed below by reference to external credit ratings of counterparties. The counterparties for which external credit ratings were not available have been assessed by reference to their historical information for any defaults in meeting obligations.

	Name of Credit rating Agency	Short term rating	2010 Balance Rs	2009 Balance Rs
Investments				
Counterparties with external credit rating				
	PACRA	A1+	2,876,868,550	2,473,084,383
	JCR-VIS	A-1+	1,475,463,916	1,280,070,119
	Moody's	P-1	869,137,281	974,278,182
	PACRA	A2	250,000,000	-
	JCR-VIS	A-3	950,303,290	1,027,209,489
Securities issued/supported by Government of Pakistan				
		-	1,000,000,000	1,000,000,000
			<u>7,421,773,037</u>	<u>6,754,642,173</u>
Bank balances				
Counterparties with external credit rating				
	PACRA	A1+	20,719,432	30,044,833
	JCR-VIS	A-1+	4,959,684,353	1,869,151,012
	Moody's	P-1	80,646,306	106,350,475
	PACRA	A1	43,949	-
	PACRA	A2	10,000	-
	JCR-VIS	A-3	1,158,180	-
Balance with National Saving Centre				
		-	10,998	10,998
			<u>5,082,273,218</u>	<u>2,005,557,318</u>
Loans to Partner Organizations				
Counterparties without external credit rating				
		*	<u>10,572,080,364</u>	<u>9,140,963,886</u>
Profit/service charges receivable				
Counterparties with external credit rating				
	PACRA	A 1+	60,833,701	174,932,307
	JCR-VIS	A-1+	29,399,820	22,668,083
	Moody's	P-1	36,707,914	44,944,809
	PACRA	A2	24,811,644	-
	JCR-VIS	A-3	16,181,789	19,621,606
Counterparties without external credit rating				
		*	<u>243,002,030</u>	<u>189,696,269</u>
			<u>410,936,898</u>	<u>451,863,074</u>

* Counterparties with no defaults in the past.

32.3 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 10.80 billion (2009: Rs 9.31 billion) (including loans to two major POs of Rs 6.77 billion (2009: Rs 6.19 billion)). The Company controls the credit risk through credit appraisals, assessing the credit-worthiness of POs and creating charge on the assets of POs. The credit risk on investments and bank balances is limited because the counter parties are banks 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\$ 3,878 (2009: US\$ 3,878).

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.

33. NUMBER OF EMPLOYEES

The Company had 204 employees as at June 30, 2010 (June 30, 2009: 197).

34. DATE OF AUTHORISATION

These financial statements have been authorised for issue by the Board of Directors of the Company on 03 AUG 2010


Chairman


Chief Executive / Managing Director



Inverting the Income Pyramid

The larger outer triangle shows the traditional distribution of income, which counts the number of people at different income levels with the top of the pyramid being high income bands and the bottom being low income bands.

Since there are very few people at the top and a great many people at the bottom, hence a broad big base converging into a narrow peak. The two together translate into a pyramid shape. The inner triangle represents PPAF goal: inverting the pyramid, so that there are fewer people at the lower levels of income, and a much greater number of people at the higher income level.

Window of Opportunity

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

Pakistan Poverty Alleviation Fund

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